

HONG KONG EXCHANGES AND CLEARING LIMITED
TERMS OF REFERENCE AND MODUS OPERANDI
OF
THE RISK COMMITTEE

1. Status

The Risk Committee (the “**Committee**”) is a sub-committee of the board (the “**Board**”) of Hong Kong Exchanges and Clearing Limited (the “**Company**”) to which the Board has delegated consideration of the matters set out in paragraph 4 below.

2. Purpose

The Committee is to assist the Board in:

- (a) assessing and making recommendations on the risk appetite, profile and tolerance of the Company and its subsidiaries (the “**Group**”); and
- (b) the oversight of matters concerning the Group’s risk management framework, policies and systems (other than financial policies, systems and controls within the remit of the Audit Committee), bringing any issues to the attention of the Board.

3. Administrative Structure

(a) **Composition**

The Committee shall consist of at least four non-executive directors appointed by the Board after considering the recommendations of the Nomination and Governance Committee. Members of the Committee normally include the chairman of the Audit Committee and non-executive directors who are also members of the Risk Management Committee established under section 65 of the Securities and Futures Ordinance. Only members of the Committee have the right to attend meetings; however, other members of the Board or senior management¹ may be invited by the chairman of the Committee to attend, as appropriate. External advisers may also be invited to attend Committee meetings.

(b) **Chairman**

The Board shall appoint the chairman of the Committee who should normally be the chairman of the Board. In the absence of the chairman and/or an appointed deputy at any meeting, the Committee will elect one of the members present to act as chairman. The chairman of the Committee should attend the annual general meeting to answer shareholder questions on the Committee’s activities.

(c) **Reporting Procedures and Frequency of Meetings**

- (i) Minutes will be taken for all meetings and kept by the secretary of the Committee and, when the Committee chairman deems appropriate, tabled at meetings of the Board. Draft and final versions of minutes of the meetings

¹ References to “senior management” have the same meaning as “senior management staff” as defined in HKEX’s Human Resources Manual. Paragraph 2.1 of the Human Resources Manual currently defines “senior management staff” as follows: “Senior Management staff herein refers to all members of the Management Committee, Managing Directors who are direct reports to the Chief Executive and/or Board, the Company Secretary and the Group Head of Audit”.

should be sent to all Committee members for their comment and records within a reasonable time after the meeting.

- (ii) The Committee shall meet at least four times every year. Additional meetings shall be held at the request of the chairman. Meetings shall be summoned by the secretary of the Committee.
- (iii) The Group Risk Officer or his/her nominee shall be the secretary of the Committee.
- (iv) The Committee chairman shall report regularly and formally to the Board at the next meeting of the Board following a meeting of the Committee, on matters within its remit.

(d) **Quorum**

Three members shall constitute a quorum. Decisions shall be determined by simple majority and, in the event of a tie, the chairman of the Committee shall have the casting vote. Proceedings of meetings of the Committee shall be governed by the provisions of Article 105 of the Articles of Association of the Company.

4. Areas of Responsibility

4.1 The Committee's responsibilities shall include the following:

Risk appetite and tolerance

- (a) advise the Board on the Group's risk appetite, profile and tolerance, having due regard to the current and prospective macroeconomic and financial environment, financial stability assessments and the guidelines, rules and requirements of regulatory bodies and other authoritative sources that are relevant to the Company and its principal operating subsidiaries;
- (b) review and recommend the Group's risk appetite statement to the Board for approval at least once annually, and satisfy itself that the Group's strategy and business plans reflect an appropriate consideration of risk appetite;

Risk management framework, tools and policies

- (c) oversee and review the development and effectiveness of the Group's risk management framework and systems with a view to identifying and managing the risks faced by the Group, including financial, operational, legal, regulatory, technology, reputational, information security and cyber risks, and risks associated with the strategic direction or initiatives of the Group;
- (d) review and assess the effectiveness of the Group's risk control and mitigation tools, approach and methodology, including (but not limited to) the enterprise risk management programme, the internal audit function relating to risk management, the stress testing framework, and the Group's business continuity and contingency plans;
- (e) review and advise the Board on risk policies, including making recommendations on the matters referred to in paragraphs (c) and (d) above;

Risk assessment and monitoring

- (f) consider and advise the Board on the current and emerging risks and risk exposures relating to the Group's business and strategies, and review the Group's capability to identify, measure and manage emerging risks effectively;
- (g) monitor the scenario and stress testing results of the Group's key risk exposures and review risk management reports;
- (h) review the Group's capital adequacy and insolvency levels;
- (i) advise the Board on the risks associated with proposed strategic transactions or initiatives such as mergers, acquisitions, disposals and the establishment of new ventures, focusing in particular on the risk aspects and implications for the risk appetite and tolerance of the Group;
- (j) review reports from Internal Audit that pertain to the objectives and responsibilities of the Committee, and consider other internal audit matters referred to it by the Audit Committee;
- (k) ensure that a proper monitoring process is in place for risk policy and risk appetite compliance, review breaches concerning the same and the steps taken or proposed by management to remedy any breach;
- (l) consider any material findings with respect to the Company or any of its principal operating subsidiaries from regulators relating to risk management or assessment, and review steps taken or proposed by management to address the same;

Risk management function

- (m) monitor and review annually the effectiveness of the Group's risk management function to ensure that it has adequate resources, budget, access to information and staff with appropriate qualifications, experience and training to enable it to perform its role effectively;
- (n) ensure that the risk management function has adequate independence and appropriate standing within the Group, and the Group Risk Officer has direct access to the Committee and the chairman of the Board;
- (o) review and approve the annual work plan of the risk management function, discuss with the Group Risk Officer any significant findings and recommendations arising from work undertaken, and review and monitor management's responsiveness to such findings and recommendations;
- (p) be consulted on decisions regarding the appointment or removal of the Group Risk Officer and his/her remuneration and evaluate his/her performance annually, working and liaising as necessary with the Nomination and Governance Committee and the Remuneration Committee;
- (q) meet with the Group Risk Officer on a regular basis without management being present, to discuss the remit of the risk management function and any issues arising from risk reviews, work undertaken or feedback from regulators;

Other responsibilities

- (r) review the Risk Committee Report in the Company's annual report for the Board's approval;
- (s) review and evaluate the performance of the Committee and these terms of reference to ensure that it is operating in maximum effectiveness and recommend any changes it considers appropriate for the Board's approval; and
- (t) advise the Board and/or the Remuneration Committee on the alignment of remuneration with risk appetite; and
- (u) do any such things as are necessary to enable the Committee to discharge its responsibilities.

4.2 In carrying out its responsibilities, the Committee shall work and liaise as necessary with all other Board committees, and give due consideration to all relevant laws, rules, regulations and regulatory requirements and guidance applicable to the Group.

5. Authority and Powers

- (a) The Committee may:
 - (i) delegate certain of its responsibilities to sub-committees comprising one or more of its members with such powers as are necessary to discharge the relevant responsibilities;
 - (ii) delegate specific tasks to be performed by committees of the management subject to such terms of delegated mandate, governance structure and reporting or approval requirements as the Committee considers appropriate;
 - (iii) delegate to the chairman of the Committee authority to make decisions on matters which may need attention between Committee meetings, with such decisions to be reported or ratified in the next meeting of the Committee;
 - (iv) require reports, analyses and third-party independent reviews to be prepared to enable it to discharge its duties, including reports on technology operations, information security controls and other matters within its remit; and
 - (v) review or consider matters outside these terms of reference if required to do so by the Board.
- (b) The Committee is authorised to:
 - (i) have access to such training and resources (including employees) in order to carry out its duties as it may consider appropriate;
 - (ii) obtain, at the Company's expense, any advice or support from external advisers or experts including legal advisers; and
 - (iii) have access to any information, record or report from any Group employee in order to perform its duties and request any employee to attend Committee meetings and answer questions as and when required.

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