

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

1. There shall be established a committee to be called the Risk Management Committee ("RMC") by HKEx under Article 104 of its Articles of Association in compliance with section 65 of the Securities and Futures Ordinance ("the SFO") to formulate policies on risk management matters relating to the activities of HKEx, the Stock Exchange of Hong Kong ("SEHK"), the Hong Kong Futures Exchange ("HKFE"), the Hong Kong Securities Clearing Company ("HKSCC"), the HKFE Clearing Corporation ("HKCC"), and the SEHK Options Clearing House ("SECH") and to submit such policies to the Board of Directors of HKEx for consideration.

2. More specifically, the RMC shall be responsible for –
 - a. Reviewing and assessing policies and methodologies employed by HKEx Executives, and proposed changes thereto, to identify, measure, manage and/or control risks, including legal risks, credit risks, market risks, concentration risks, operational risks, environmental risks, behavioral risks and systemic risks that may have an impact on the securities and derivatives market and the trading, clearing and settlement functions operated by HKEx and its subsidiary exchange companies and clearing houses;

 - b. Reviewing and assessing policies made by HKEx pertaining to significant risk areas, including but not limited to clearing house risk management measures, clearing house reserve/guarantee funds policies and third party clearing issues;

 - c. Overseeing, on the basis of market reports compiled by HKEx Executives, the cross-market surveillance functions in relation to the securities and derivatives market, and assessing the possible implications of market trends and developments, both local and overseas, on the securities and derivatives market of Hong Kong;

 - d. Reviewing and advising on the market contingency plan developed by HKEx and its subsidiary exchanges and clearing houses including those in relation to trading and clearing systems;

- e. Considering and advising on matters raised by members or referred to it by HKEx Executives or its Board of Directors that may have an impact on the stability and integrity of the securities and derivatives market of Hong Kong; and
 - f. Submitting its recommendations in relation to the above matters to the Board of Directors for consideration.
3. In discharging its duties and performing its functions, the RMC shall have regard to the duty of HKEx, as a recognized exchange controller under the SFO that –
- "it shall be the duty of a recognized exchange controller which is a controller of a recognized exchange company or recognized clearing house to ensure so far as reasonably practicable (a) an orderly, informed and fair market in securities or futures contracts traded on the stock market or futures market operated by the recognized exchange company or through the facilities of the company; (b) that there are orderly, fair and expeditious clearing and settlement arrangements for any transactions in securities or futures contracts cleared or settled through the facilities of the recognized clearing house; (c) that risks associated with its business and operations are managed prudently; (d) that the recognized exchange company or recognized clearing house (as the case may be) complies with any lawful requirement placed on it under any enactment or rule of law and with any other legal requirement placed on it."*;

and that

a recognized exchange controller shall *"(a) act in the interest of the public, having particular regard to the interest of the investing public; and (b) ensure that the interest of the public prevails where it conflicts with the interest of the recognized exchange controller."*

Ends.