

# TERMS OF REFERENCE

## Risk Management Committee

February 2020

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## 1 Version Control

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<b>Version</b>	<b>Date</b>	<b>Summary of changes</b>	<b>Author</b>
1.0	December 2014	Creation of policy	JSE Clear Governance and Compliance
1.1	January 2020	Updates to accommodate new regulatory requirements following changes to Financial Markets Act	JSE Clear Governance and Compliance

## 2 Objective of Committee

- 2.1 The Risk Management Committee (“the Committee”) is a formal sub-Committee of the Board of JSE Clear (“the Board”).
- 2.2 The total process of risk management in JSE Clear, which includes the related system of internal control, is the responsibility of the Board.
- 2.3 The Committee is constituted to assist the Board in the discharge of its duties and responsibilities in this regard.
- 2.4 The duties and responsibilities of the members of the Committee are in addition to those as a member of the Board of Directors.

## 3 Terms of Reference

- 3.1 To assist the Board in the execution of its responsibility for the governance of risk, the Committee shall be charged with the following general responsibilities:
  - 3.1.1 to assist the Board in setting risk strategy policies, including annually agreeing risk tolerance and appetite levels, in liaison with management;
  - 3.1.2 to ensure that an appropriate policy and plan for a system of risk management is developed by management, approved by the Board and distributed throughout JSE Clear;
  - 3.1.3 to annually review and assess the quality, integrity and effectiveness of the risk management framework and systems; to ensure that the risk policies and strategies are effectively managed by management and that risks taken are within the agreed tolerance and appetite levels;
  - 3.1.4 to advise on the nature, role, responsibility and authority of the risk management function within JSE Clear, as well as the scope of risk management work;
  - 3.1.5 to ensure that a systematic, documented assessment of the processes and outcomes surrounding key risks is undertaken at least annually. This assessment should as a minimum cover risks affecting the financial health of JSE Clear, IT risks, the critical dependencies of the business, and any other risks identified as part of the clearing house’s enterprise risk profile;
  - 3.1.6 to oversee formal reviews of activities associated with the effectiveness of risk management and of internal systems of control.
  - 3.1.7 to provide an independent and objective oversight of the information presented by management, and taking account of reports by management and the JSE Clear Audit Committee to the Board on all categories of identified risks facing JSE Clear; and
  - 3.1.8 to provide insights on any developments impacting the risk management of the CCP in a crisis situation.
- 3.2 The Committee shall review and recommend to the board proposals including:
  - 3.2.1 risk management and measurement methodologies for the products cleared by JSE Clear;
  - 3.2.2 stress-testing of the positions underwritten by clearing members;

- 3.2.3 valuation of collateral for margining purposes;
- 3.2.4 market risk matters arising from the business operations of JSE Clear;
- 3.2.5 proposed amendments to the relevant legislation, rules and directives governing risk management;
- 3.2.6 investment of margin and default fund contributions; new model developments and model changes in accordance with the JSE Clear Model Governance Framework; and
- 3.2.7 the roles and responsibilities involved in the risk mitigation process.
- 3.3 The Committee shall in particular be charged with the following responsibilities:
  - 3.3.1 to review the risk philosophy, strategy, policies and risk tolerance and appetite recommended by management. The Committee will ensure compliance with such policies in accordance with the overall risk profile of JSE Clear;
  - 3.3.2 to review management reports detailing the adequacy and overall effectiveness of risk management, its implementation by management, reports on internal systems of control and any recommendations and confirm that appropriate action has been taken;
  - 3.3.3 to review key risk areas and key performance indicators of JSE Clear, and monitor these factors as part of a regular review of processes and procedures to ensure overall effectiveness of risk management;
  - 3.3.4 to review the risk bearing capacity of JSE Clear against the reserves it holds; and
  - 3.3.5 to assist the Board in its responsibility for disclosure in relation to risk management in the annual report, and acknowledgement that it is accountable for the risk management function;

#### 4 Authority of the Committee

- 4.1 The Committee is authorised by the Board to obtain inside or outside professional advice and to secure the attendance of insiders or outsiders with relevant experience and expertise, if it considers this necessary.
- 4.2 In obtaining outside professional service, the Committee shall comply with the policies of JSE Clear.
- 4.3 The Committee is authorised by the Board to appoint sub-Committees.
- 4.4 The functions and responsibilities of the above-mentioned Committees shall be an expansion of and aligned and integrated with that of the Committee, and such functions and responsibilities shall be indicated in their respective charters.

**5 Operation of the Committee**

5.1. Appointment and Tenure

- 5.1.1. The Committee members shall be appointed by the JSE Clear Board.
- 5.1.2. The Chairperson of the Committee shall be appointed by the JSE Clear Board from the members serving on the Committee and shall be an independent non-executive director. In the absence of the Chairperson the members present may nominate and elect one of the attending members to Chair the meeting.
- 5.1.3. The Board may at any time remove a member of the Committee and shall periodically review and, where appropriate, revise the composition of the Committee, taking into account the need for an adequate combination of skills and knowledge.
- 5.1.4. The maximum tenure for committee members is three terms of three years each. Any term beyond this must be formally approved by the JSE Clear Board on an annual basis.

5.2. Composition and quorum

- 5.2.1. The Committee shall consist of an equal number of Independent Non-executive Directors of the JSEC Board, JSE representatives and Clearing Member representatives, all of whom shall have full voting rights. Industry experts may be invited to become voting members of the Risk Committee. None of these groups should hold a majority on the committee.
- 5.2.2. Members of the Risk Committee are not required to be Directors of JSE Clear.
- 5.2.3. The minimum size of the committee will be six (6) members.
- 5.2.4. In addition to the formal members of the Risk Committee, the Clearing Members may nominate additional Invitees to attend the Risk Committee meetings, who may contribute to the discussions in a non-voting capacity. Each Clearing Member will be limited to one attendee from their respective organisation, acting as either a formal Risk Committee member or as an invitee, and such invitee should display adequate CCP risk management expertise. Invitees are to be approved by the Risk Committee. The Committee may invite additional JSE management representatives and external independent experts to attend Committee meetings in a non-voting capacity.

- 5.2.5. The Internal Auditors, as well as representatives of External Auditors, may be invited to attend the meetings to assist the Committee by providing assurance input for the Committee to make effective decisions.
- 5.2.6. JSE Clear Company Secretary shall provide the relevant governance administration to the Committee.
- 5.2.7. The quorum of the Committee shall be at least one (1) Independent Non-executive Director, one (1) JSE representative and one (1) Clearing Member representative.
- 5.3. Frequency of Meetings
  - 5.3.1. Meetings shall be held quarterly. Additional meetings may be convened at the request of any one of the members of the Committee, with the agreement of the Committee
  - 5.3.2. The schedule of meetings of the Committee shall be aligned with the schedule of meetings of the Board in such a way that the meetings of the Committee shall be scheduled before the meetings of the Board, for effective reporting.
- 5.4. Committee members' qualifications and experience:

Committee members should possess the following competencies and/or qualifications and experience:



- 5.4.1. Deep experience in the South African derivatives markets; or
- 5.4.2. Financial or business knowledge of a financial services firm involved in trading or clearing derivatives; and
- 5.4.3. Strong understanding of the principles of Risk Management:
  - 5.4.3.1. Good understanding of the technical aspects of Risk Management.
  - 5.4.3.2. Understanding of operational, market, counterparty credit and liquidity risk mitigation and measurement tools.
  - 5.4.3.3. Broad application of Risk Management principles in the local environment.
  - 5.4.3.4. Knowledge of financial market instruments.
  - 5.4.3.5. Understanding of the adoption of Risk Management principles in other markets.
- 5.5. Evaluation
  - 5.5.1. The Committee should endeavour to evaluate its performance from time to time and to benchmark its performance against international best practice.
  - 5.5.2. The Board must perform an evaluation of the effectiveness of the Committee every second year.

## 6 Reporting lines

- 6.1. The JSE Clear Risk Committee reports directly to the controlling body, the JSE Clear Board. The Chairperson of the Risk Management Committee shall report from time to time to the Board on the deliberations of the Committee.
- 6.2. The chairman of the JSE Clear Risk Committee is required to provide reporting on the performance of JSE Clear to the JSE's Group Risk Management Committee (GRMC).

## 7 Validity and termination

- 7.1 The authority and terms of reference of the Risk Management Committee may be terminated or amended by the JSEC Board.
- 7.2 The Committee shall review these terms of reference annually for continued relevance and applicability.

**8 Conflicts of Interest**

- 8.1 Committee members are obliged to disclose to the Committee in writing, any actual or potential conflicts of interests that may interfere or conflict with the performance of their duties as members of the Committee.
- 8.2 Committee members should recuse themselves from discussions or decisions on matters in which they have a conflict of interest.
- 8.3 Any committee member with an actual or potential conflict of interest may be refused permission to vote on that matter by the other committee members.

Adopted by the Board on \_\_\_\_\_