



TERM OF REFERENCE

RISK COMMITTEE

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1. Preamble

These Terms of Reference (TOR) for Risk Committee (the Committee) of Pakistan Mercantile Exchange Limited (PMEX) have been prepared to comply with the requirements of Clause 13 and 14 of Futures Exchange (Licensing & Operations) Regulations, 2017.

2. Purpose

The purpose of the Committee is to assist the Exchange to develop risk management system and policies.

The Committee shall review and re-assess these TOR as and when deemed necessary and recommend any changes or modifications to the Board for its consideration and approval.

3. Composition

The Committee shall comprise of at least two independent directors, the Chief Executive Officer, the Chief Regulatory Officer and industry experts. The Committee shall be chaired by an independent director.

4. Meetings and Quorum

The Committee shall meet at least once every quarter. The quorum of meeting will be two members including at least one independent director.

In situations where member(s) of the Committee are not available, such member(s) can attend the meeting through tele/video conferencing or subject to fulfillment of requisite of quorum via circular resolution.

The Chief Risk Officer shall act as Secretary of the Committee, who shall be responsible for keeping attendance records and recordings of minutes of meetings. The Secretary of the Committee shall circulate minutes to members of the Committee within fourteen days after its confirmation in the next meeting.

All decisions in a meeting of the Committee shall be made by majority vote and in case of equality of votes, the Chairman of the meeting shall have a casting vote.

5. Responsibilities of Risk Committee

The Committee will carry out following responsibilities:

- framing of risk management policies and procedures for the clearinghouse functions performed by the exchange in line with international standards and best practices;
- ensuring that the risk management function has tools to identify and manage all relevant risks including legal, credit, liquidity, general business and operational risks

including control measures and safeguards with respect to large exposures by clearing members and matters connected thereto;

- monitoring and reviewing of material controls (financial, operational and compliance);
- ensuring that the margin requirements are commensurate with the risks, address pro-cyclicality, avoid concentration, and provide adequate coverage in conformity with international benchmarks;
- ensuring that the risk management function has the capacity to obtain timely information necessary to apply risk management policies and procedures which allow for accurate and timely measurement and aggregation of risk exposures;
- conducting or arranging to conduct studies, research or analyses with respect of any or all components of risk management systems of clearing function;
- formulating policies and procedures to ensure continuous adequacy of risk management models and its adherence to international standard including policies for regular back testing, stress testing, reverse stress testing and sensitivity analysis;
- formulating policies for ensuring that all validation of risk management model is performed at least annually;
- review adequacy of risk management systems, policies, procedures and matters connected thereto at least once every quarter;
- ensure integrity of financial information and risk mitigation measures are robust
- to submit its recommendation(s) to the board of directors together with explanation of their purpose and likely effect, including effect on the clearing function, clearing members, and investor in sufficient details; and
- ensure appropriate extent of disclosure of company's risk framework and internal control system in Director's report.

6. Responsibilities of Chief Risk Officer

The Chief Risk officer will carry out following responsibilities

- Lead Risk management of the Exchange
- Ensure implementation of Risk management policies and procedures in effective manner
- Assist Committee in performing its functions including submission of periodic reports and information
- To communicate Committee about any exceptional or urgent matter concerning or affecting the Risk management system
- Perform any other functions as assigned by the PMEX, Committee and SECP

7. Oversight

The appointment and termination of services of Chief Risk Officer shall be made by the Board of directors in consultation with the Committee. The Committee shall additionally review the remuneration and adequacy of resources of Risk Management function.

Term of reference – Risk Committee

The CRO shall report directly to the Chief Executive Officer and additionally to the Chairman of the Committee.