

# Risk and Compliance Committee

## Terms of Reference

### 1. Purpose

The role of the Risk and Compliance Committee (**Committee**) is to assist the board of directors (**Board**) of AJ Bell plc (**Company**) in fulfilling its oversight responsibilities by reviewing and monitoring:

- The Company's attitude to and appetite for risk, risk tolerances and its future risk strategy.
- The Company's risk management framework.
- How risk is reported both internally and externally.
- The processes for compliance with non-financial laws, regulations and ethical codes of practice, and prevention of financial crime.

### 2. Authority

The Committee was constituted at a full meeting of the Board of the Company held on 26 June 2014 in accordance with the articles of association of the Company.

The Committee is a committee of the Board from which it derives its authority and to which it regularly reports.

The Committee may sub-delegate any or all of its powers and authority as it thinks fit to one or more of its members or the company secretary (Secretary), including, without limitation, the establishment of sub-committees which are to report back to the Committee.

The Board authorises the Committee to:

- Carry out all of the duties set out in these terms of reference, to have unrestricted access to the Company's documents and information and to obtain, at the Company's expense, appropriate professional advice on

any matter within its terms of reference as it considers necessary.

- Seek any information it requires from any employee of the Group to perform its duties.
- Secure the attendance of external advisers at its meetings if it considers this necessary, at the Company's expense.
- Have the right to publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the Board.
- Collectively and individually have direct access to the chief risk officer (**CRO**), the chief financial officer (**CFO**), the Company's external auditors and the head of internal audit.

### 3. Membership

The Committee shall comprise a minimum of at least three independent non-executive directors, and the Committee as a whole shall have competence relevant to the sector in which the Company operates. The Committee shall include at least one member of the audit committee. The chair of the Board may be a member, but not chair, of the Committee in addition to the independent non-executive directors provided he or she was considered independent on appointment as chair of the Board, as determined by the Board (in accordance with the principles of the UK Corporate Governance Code). If any non-executive director who is a member of the Committee is deemed not to be independent, then the Board shall provide an explanation as to why they consider it appropriate for such director to be a member of the Committee.

The Board shall appoint members of the Committee, on the recommendation of the nomination committee, in consultation with the

Committee chair. It is recognised that the number of independent non-executive directors may fall below three for temporary periods due to departures pending new appointments.

Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three-year periods, so long as Committee members continue to be independent.

The Board shall appoint the chair of the Committee from among the independent non-executive directors and shall determine the period for which the chair of the Committee will hold office. In the absence of the Committee chair and/or an appointed deputy, the remaining Committee members present at a Committee meeting shall elect one of the other independent non-executive directors present to chair the meeting.

The Committee chair shall review membership of the Committee annually, as part of the annual performance evaluation of the Committee.

Only Committee members have the right to attend and vote at Committee meetings. However, the CRO, chief executive officer and chief financial officer shall be invited to attend meetings of the Committee on a regular basis, and other non-members, including the head of internal audit and the external audit lead partner, may be invited to attend all or part of any meetings as and when appropriate and necessary, and with the Committee chair's agreement. The Committee chair shall have the discretion to decide who, other than the Committee members, shall attend and address Committee meetings. Non-executive directors who are not Committee members may be invited by the Committee chair to attend as observers.

#### **4. Secretary**

The Secretary, or their nominee, shall act as the Secretary of the Committee and provide all necessary support to the Committee, including the recording of Committee minutes and ensuring that the Committee receives information and papers in a timely manner to enable full and proper consideration of the relevant issues.

#### **5. Quorum and Meetings**

The quorum necessary for the transaction of business at a Committee meeting shall be two members (including, whenever possible, at least

one member with recent and relevant financial experience), present in person or by audio or video conference. If there is difficulty in achieving a quorum, independent non-executive directors, who are not Committee members, may be co-opted as members for individual meetings.

A duly convened Committee meeting at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

Each Committee member shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a Committee meeting (whether in person, by audio or video conference, or other electronic means).

If a matter that is considered by the Committee is one where a Committee member, either directly or indirectly has a personal interest, that member shall not be permitted to vote at the meeting.

Except where he or she has a personal interest, the Committee chair shall have a casting vote.

The Committee chair may ask any attendees of a Committee meeting to leave the meeting to allow discussions of matters relating to them.

A decision of the Committee may be taken by written resolution including electronic means. A decision in this instance will be valid only if taken by the quorum. Any written resolution shall be tabled and noted at the next meeting of the Committee.

#### **6. Frequency of Meetings**

The Committee shall meet at least four times a year, including at an appropriate time in the Company's financial reporting and audit cycle to consider risk disclosures in the annual report and accounts and, where relevant, in the half-yearly report.

Outside of the formal meeting programme, the Committee chair (and to a lesser extent, other Committee members) shall maintain a dialogue with key individuals involved in the Company's governance, including the chair of the Board, the chief executive officer, the chief financial officer, the CRO, the external audit lead partner and the head of internal audit.

## 7. Notice of Meetings

Meetings of the Committee shall be called by the Secretary at the request of any of its members or at the request of the CRO or CFO.

Unless the Committee otherwise agrees, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be made available to each Committee member, any other person required to attend, and all other non-executive directors, no later than five days before the date of the meeting. Supporting papers shall be made available to Committee members and to other attendees as appropriate, at the same time, but Committee papers may be forwarded at shorter notice with the approval of the Committee chair.

Ordinarily the Committee will only send notices, agendas and supporting papers in electronic form or make them available via a portal software platform.

## 8. Minutes of Meetings

The Secretary, or their nominee, shall minute the proceedings and decisions of all Committee meetings, including the names of those present and in attendance.

The Secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

Draft minutes of Committee meetings shall be agreed with the Committee chair and then circulated to all Committee members, unless in the Committee chair's opinion it would be inappropriate to do so. Once approved, minutes shall be circulated to all other Board members unless in the Committee chair's opinion it would be inappropriate to do so.

## 9. Duties

The Committee shall have oversight of the Group as a whole and (unless required otherwise by regulation) carry out the following duties for the Company and the Group (subject to overlap with the audit committee) and advise the Board appropriately.

### 9.1 General risk management

The Committee shall:

- (a) Establish procedures to manage risk and determine the nature and extent of the principal risks the Company is willing to take to achieve its strategic objectives.
- (b) Consider the appropriate risk appetite for the Company across all major activities, taking into account the overall strategy of the Company, its future plans and other internal information, as well as the external environment, including economic, political and industry information.
- (c) On an annual basis, as part of the ICARA, oversee and challenge the design and execution of stress and scenario testing, ensure that a robust assessment of the emerging and principal risks facing the Company has been undertaken (including those risks that would threaten its business model, future performance, solvency or liquidity and reputation), that procedures are in place to identify emerging risks, and provide advice on the management and mitigation of those risks.
- (d) Oversee the current and prospective risks faced by the Group and its strategy in relation to future risks.
- (e) Continuously review the Company's overall risk management framework and processes.
- (f) Oversee and challenge the day-to-day risk management and oversight arrangements of executive management;
- (g) Ensure that risk management is properly considered in Board decisions.
- (h) Provide advice, oversight and challenge where considered necessary in order to embed and maintain a supportive risk culture throughout the Group.
- (i) Review the methodology for reporting risk to the Board, including both quantitative and qualitative measures.
- (j) Set triggers for reporting and escalation of significant emerging risks which may be critical to the Company and assess the Company's ability to manage new risks.
- (k) Ensure the risk management function is properly resourced, with adequate information rights and sufficient

independence such that it is free from management interference.

- (l) Approve the terms of reference of the Company's executive risk committee (**ERC**).
- (m) Review promptly all risk related reports from the ERC.

## 9.2 Transactions and events

The Committee shall:

- (a) Consider whether risks have been properly considered in relation to all major transactions and strategic proposals (as defined by the Board) by the Company, including but not limited to mergers and acquisitions, disposals, joint ventures, significant expenditure on property, plant and equipment, and material multi-year service contracts. This should involve consideration of whether all due diligence and/or procurement processes have been carried out, oversight and challenge of due diligence on risk issues, including obtaining external advice, as well as an assessment of whether the transaction meets the Company's risk appetite criteria and the implications for future risk tolerance.
- (b) Review all material adverse crystallisation of risks, including those involving breaches of the Company's procedures, carrying out root cause analysis and introducing lessons learned into the risk management system.

## 9.3 Compliance and financial crime

The Committee shall:

- (a) Annually review the Company's procedures for detecting financial crime activities including fraud.
- (b) Review the Company's systems and controls for ethical behaviour, the prevention of bribery and modern slavery, and receive reports on non-compliance.
- (c) Review regular reports from the money laundering reporting officer, and the adequacy and effectiveness of the Company's anti-money laundering systems and controls.
- (d) Review regular risk and compliance reports from the CRO and keep under review the

adequacy and effectiveness of the Company's risk and compliance functions.

## 9.4 Working with other committees and auditors

The Committee shall:

- (a) Through the Secretary, work with all other committees of the Board where their work has risk management implications.
- (b) Specifically, consider the risks inherent in targets and criteria set for remuneration of the chief executive officer and other members of executive management in terms of potential impact on the long-term viability of the Company. Where appropriate, provide direct advice on any risk weightings that are to be applied to performance objectives in relation to executive remuneration.
- (c) Review the aspects of reports of internal and external auditors that have implications for risk management.

## 9.5 CRO

The Committee shall:

- (a) Review all reports from the CRO and monitor the response of executive management to all the CRO's findings and recommendations.
- (b) Ensure that the CRO is given all information rights necessary to fulfil the role, as well as free access to the chair of the Committee and the chair of the Board.
- (c) Procure the submission of an annual report to the Committee by the CRO on whether undue risk had been taken in order to achieve any of the strategic objectives, in order to inform input from the Committee to the remuneration committee in relation to the annual performance awards.
- (d) Ensure that the Committee meets with the CRO to discuss the effectiveness of the Company's risk management systems, without other members of management present, at least once per year.

## 9.6 Reporting and disclosures

The Committee shall:

- (a) Review the reporting of key risks in the annual report and accounts and the half-yearly

report, ensuring it is consistent with the internal reporting of key risks.

- (b) Provide advice on how, taking into account the Company's position and principal risks, the Company's prospects have been assessed, over what period and why the period is regarded as appropriate. The Committee shall also advise on whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary.
- (c) Consider any necessary disclosure implications of the process that has been applied by the Board to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts.
- (d) Consider the major findings of any relevant internal investigations into risk and control weaknesses, financial crime, or misconduct, and management's response, and also consider whether any such failings or weaknesses are significant and therefore require disclosure, the basis and accuracy of explanations given as to what actions are being taken to address them, and whether the level of disclosure of such actions is appropriate.
- (e) Review the assurance reports from management on the effectiveness of the internal control and risk management systems and others on the operational effectiveness of matters related to risk and control. The Committee should satisfy itself that these sources of assurance and information are sufficient and objective and are enough to enable the Board to satisfy itself that they are operating effectively.

## 10. Reporting Responsibilities

The Committee shall:

- (a) Report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and the minutes of all Committee meetings shall, unless in the Committee chair's opinion it would be inappropriate to do so, be included in the

Board papers for a subsequent Board meeting.

- (b) Prepare a formal report to shareholders on its activities to be included in the Company's annual report, which shall include:
  - (i) Details of the membership of the Committee, number of meetings held and attendance over the course of the year.
  - (ii) A summary of the role and work of the Committee.
  - (iii) How the Committee's performance evaluation has been conducted.
  - (iv) The significant issues that the Committee considered and how these have been addressed.
  - (v) Confirmation that the Board has carried out a robust assessment of the emerging and principal risks facing the Company, a description of those risks, what procedures are in place to identify emerging risks and an explanation as to how they are being mitigated.
  - (vi) All other information requirements set out in the UK Corporate Governance Code applicable to the Company on the date of the statement.
  - (vii) Any other issues on which the Board has requested the Committee's opinion.
- (c) Make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- (d) Where disagreements between the Committee and the Board cannot be resolved, report the issue to the shareholders as part of the report on the Committee's activities in the annual report.
- (e) Make available to shareholders these terms of reference by placing them on the Company's website.

## 11. Annual General Meeting

The Committee chair shall attend the annual general meeting to answer shareholder questions on the Committee's activities and areas of

responsibility. In addition, the Committee chair should seek engagement with shareholders on significant matters related to the Committee's areas of responsibility.

## 12. General Matters

The Committee shall:

- (a) Consider other duties determined by the Board from time to time.
- (b) Have access to sufficient resources to carry out its duties, including access to the Secretary as required.
- (c) Be provided with appropriate and timely training, both in the form of an induction programme for new Committee members, and on an on-going basis for all Committee members.
- (d) Give due consideration to all applicable laws and regulations, in particular the directors duties contained in the Companies Act 2006, the provisions of the UK Corporate Governance Code, the requirements of the Financial Conduct Authority's (**FCA**) Listing, Prospectus and Disclosure Guidance and

Transparency Rules, FCA Rules and Consumer Duty principles, the FRC Minimum Standard and any other applicable rules as appropriate.

- (e) Work and liaise as necessary with all other Board committees, taking particular account of any delegation of the impact of risk management and internal controls to different committees.
- (f) Arrange for periodic reviews of its own performance and, at least annually review its terms of reference to ensure it is operating at maximum effectiveness, and recommend any changes it considers necessary to the Board for approval.

## 13. Miscellaneous

Where there is an overlap of duties between the Committee and the audit committee (**AuditCo**), the respective Committee Chairs shall decide the most appropriate Committee to fulfil those duties. Such duties under the terms of reference of the Committee or the AuditCo will be considered to be fulfilled provided they are dealt with by either the Committee or the AuditCo.

Approved by	Board
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