



## **RISK MANAGEMENT DOCUMENT General Policies**

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### Introduction

1. This document contains arrangements with respect to general risks arising from the Bank's Market Operations, Domestic or Foreign. It contains the details about conduct and manner in which market operation should be conducted.
2. This document details the risk management for the following strategic objectives;
  - To avoid damage to the Bank's reputation
  - To avoid material risk of legal disputes
  - To maintain continuity of foreign currency intervention capacity
  - To avoid material risk of loss due to fraud, error or oversight
3. Asset and Liability Committee should review the Risk Management Document annually to ensure its relevance to current business activities.
4. The Head of Financial Stability and Chief Financial Officer should affirm, via Manager Attestations, on a quarterly basis that their respective departments have complied with the risk management arrangements contained in the Risk Management Documents.
5. Non-compliance with the Risk Management Documents shall be reported in accordance with the Bank's Proactive Problem Management Procedures.

**Change Control**

6. Changes to the risk management policies and limits contained in the RMD require prior approval of the Governor (with advice from Assets and Liabilities Committee).
7. Head of Risk Assessment and Assurance, Chief Financial Officer and other relevant people are to be advised of all changes to the documents prior to the changes being implemented.

**Acting outside the RMD**

8. In rare circumstances, Domestic Markets, Macro Financial Advice or Foreign Reserves Management can operate outside the requirements of the Risk Management Documents provided the:
  - Governor gives prior approval; and
  - Head of Risk Assessment and Assurance and Chief Financial Officer are advised, when approval is sought, to provide them with an opportunity to assess the proposal.

## Business Risk

1. Financial Markets Department can only transact:
  - a. in authorised markets (countries, instruments, currencies and futures exchanges)
  - b. with authorised counterparties and/or issuers
  - c. where prices are discoverable and there are agreed market standard valuation methods and accepted accounting practices.
  - d. if all relevant staff have an understanding of the appropriate processes in respect of the instrument.
2. Financial Markets Department can only enter into New Business in accordance with Procedures for the Assessment and Implementation of New Business.

## Ethical and Reputational Risks

3. Financial Markets Department shall have due regard for the reputation of the Bank and for investing in a responsible manner in deciding with whom to deal or invest, in what we deal or invest, and the manner in which the dealing / investment is undertaken.
4. Financial Markets Department investment and trading activities (and, in particular, choices of counterparties and issuers) shall be undertaken with the aim of avoiding prejudice to the Bank's reputation and to New Zealand's reputation as a responsible member of the world community.
5. Financial Markets Department may seek to divest from an issuer of sovereign securities if that issuer becomes the subject of international censure because of its record in human rights, arms trading or trans-national crime or terrorism.
6. Financial Markets Department must comply with Anti Money Laundering guidelines

## Conduct

7. Financial Markets Department shall comply with the Reserve Bank Code of Conduct and the Financial Stability Department's Dealing Code of Conduct.
8. Financial Markets Department shall act within documented Delegated Authorities.

## Legal Risks

9. All business is to be contracted under standard industry contracts (e.g. ISDA, MRAs). If there is no such standard contract, transactions are to be contracted under express bi-lateral contracts between the Bank and the counterparty. The only exception to this would be where it is not industry practice to have express written contracts but where there is a clear and well understood industry practice, documented within FMD, in which the rights of the parties are not in doubt.
10. Legal advice must be sought on new contracts and substantive changes to existing contracts, with external advice sought as necessary.

## **Operational Risks**

11. All instruments are accounted for and valued in accordance with Treasury Accounting Policies.
12. Key operational procedures are documented and reviewed by staff responsible for the operation.
13. Contracts and policies are reviewed regularly by the staff responsible for the operation.
14. Operational controls are in place and records of transactions should be kept, such as telephone logging
15. Adequate segregation of duties and appropriate security measures are in place
16. Review of operational risk controls, including
  - Review of Pro-active Problem Management reports
  - Reports to Operations Review Meetings.
17. Critical models are documented, tested and reviewed, prior to implementation. Performance of models is monitored on an ongoing basis by staff responsible for the operation.

## **Business Continuity**

18. Business continuity (disaster recovery) plans are regularly updated and tested by FSD & FSG staff responsible for the operation, consistent with the Bank's Business Continuity Plan procedures.
19. Systems, data and documents are backed-up and stored securely.
20. Backup is available for key personnel.