RBNZ risk management

Policy statement | Te ito o te kaupapa-here

At Te Pūtea Matua, the Reserve Bank of New Zealand, we are kaitiaki (guardians) of New Zealand's financial system, working to enable economic wellbeing and prosperity for all New Zealanders – Toitū te Ōhanga, Toitū te Oranga. This policy sets out the principles for how we will effectively manage risk to deliver on this purpose.

At Te Pūtea Matua this is achieved by:

- Fostering a risk aware culture where we speak up and identify risks and opportunities on an ongoing basis, looking inward, outward and forward
- Assessing risk in line with our risk assessment methodology and managing risks through the application of effective internal controls
- Making well informed, risk-based decisions in line with our Risk Appetite Statement
- Actively monitoring risks and any changes in our risk/control environment
- Reporting risks and the status of risk management in an open and transparent manner so that we are informed
- Operating the Three Lines Model, which helps us identify structures and processes that best assist the achievement of objectives and facilitate strong governance and risk management.

The RBNZ is committed to keeping its risk management framework relevant and applicable to all areas of operation by using the ISO 31000:2018 Risk Management Standard as its basis. The framework will be updated periodically to reflect expected practice and can incorporate other frameworks, tools and practices.

Purpose

The purpose of this risk management policy is to establish a consistent and systematic approach to identifying, assessing, and managing risks within Te Pūtea Matua. The policy helps to ensure that risks are identified and dealt with in a timely and effective manner, and that potential negative impacts are minimised or avoided.

This policy also helps to establish a clear and transparent process for identifying and managing risks, which improves stakeholder confidence and trust in us.

Overall, the policy helps to protect our organisation from potential losses and to ensure that it is able to achieve its goals and objectives.

This policy recognises that risks exist, and it is everyone's responsibility to ensure risks are managed in accordance with our Risk Appetite Statement. Risk management is about understanding and proactively managing our risks, enabling us to seek opportunities without taking undue risk.

Application | Te whakamahinga

This policy applies to all people employed or engaged by RBNZ.

Contents| Te kiko

Policy statement | Te ito o te kaupapa-here 1
Purpose 1
Application | Te whakamahinga 2
Contents| Te kiko 2
1. **Principles | Mātāpono** 2
2. **Definitions | Tautuhi** 3
3. **Policy Objectives** 3
4. **Approach to Risk Management** 4
5. **Risk Management Process** 5
6. **Compliance Framework** 6
7. **Roles & Responsibilities** 6

1. Principles | Mātāpono

In relation to the RBNZ's approach to risk management, the following principles apply:

- We will seek to identify and manage undesired impacts from a reputational, operational, financial and legal perspective.
- Prioritise assisting our people to make risk aware decisions, supported by fit for purpose risk management processes and systems.
- Empower risk aware decisions and be accountable for the outcomes.
- Maintain a fit for purpose Risk Management Framework for our changing needs, risk profile, and risk appetite.
- Proactively identify and manage risk and opportunities to facilitate innovation and the achievement of our objectives.
- If we fail, we are quick to speak up, correct, improve and learn.
- Residual risks should be within Risk Appetite and accepted by the relevant business owners.

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2. Definitions | Tautuhi

Control: A process that assists in the management of an identified risk. A control may reduce the likelihood and/or impact of a risk, assist in detecting an incident has occurred, and/or help recover from an incident.

Risk: The possibility of an event or circumstance that could have a negative impact on the achievement of our objectives.

Risk assessment: The process of identifying and analysing risks in order to determine their likelihood and potential impact.

Risk treatment: The actions taken to manage risks, such as avoiding the risk, transferring the risk, mitigating the risk, or accepting the risk.

Risk register: A document or database that is used to record and track risks identified by an organisation.

Risk appetite: The amount of risk that an organisation is willing to accept in pursuit of its objectives.

Risk appetite statement: The Board approves the organisation's overall risk appetite, which is documented in a Risk Appetite Statement (RAS). Management may construct group level or functional risk appetite statements, which provide more granular level detail to inform management decisions. Any such management level risk statements are sub-ordinate to the Board RAS.

Risk management process: The steps taken by an organisation to identify, assess, and manage risks.

Risk management framework: The totality of systems, structures, policies, processes and people within an institution that identify, measure, evaluate, monitor, report and control or mitigate all internal and external sources of material risk.

Risk owner: The person or group responsible for identifying, assessing, and managing a specific risk.

3. Policy Objectives

The RBNZ's risk management policy aims to allow the bank to exploit the opportunities and minimise the threats presented by the risks inherent in the RBNZ's activities.

The main objectives of the risk management policy are to:

- increase the likelihood of the RBNZ achieving its objectives
- safeguard people, assets, finances, the environment, and reputation
- improve performance and service delivery to maximise resource utilisation
- integrate risk management into the RBNZ's operations and processes, including through the use of a common language, to promote a risk aware culture across the organisation
- ensure the visibility of the RBNZ's risk management process

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- provide a timely response to escalated risks and actual events when they occur
- aid decision-making and encourage innovation
- maintain a flexible risk management framework which is aligned with ISO 31000:2018 and good practices generally

4. Approach to Risk Management

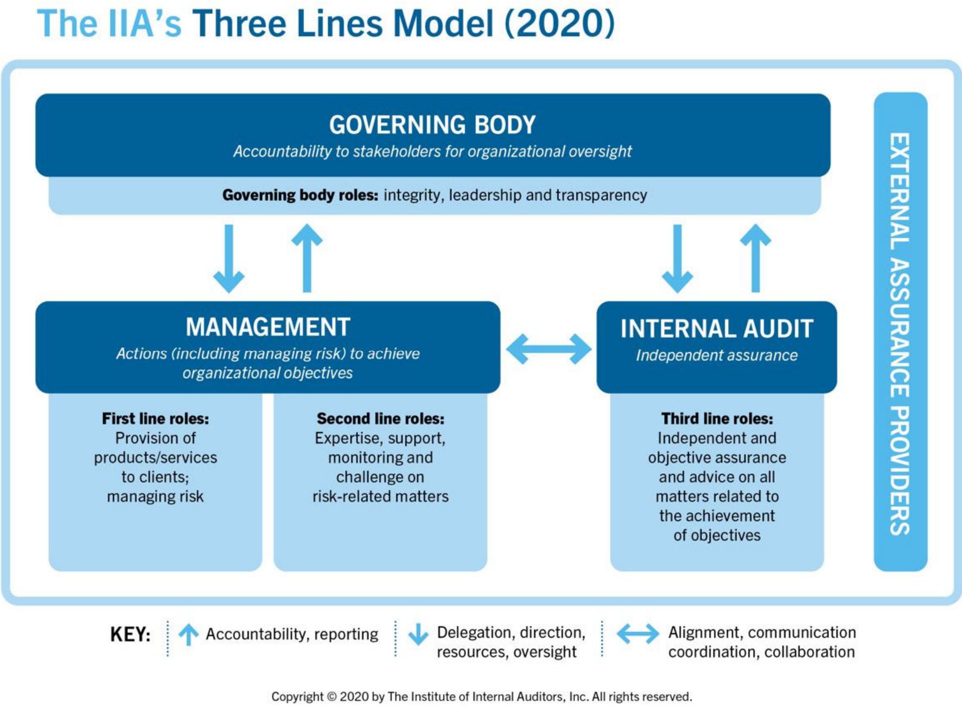
We will manage risks and opportunities likely to impact our ability to achieve our strategic objectives. There are three major sources for opportunities and risks, being Operational, Strategic and External.

Operational risks are preventable and arise from within an organisation and should be controlled, eliminated or avoided. This category is best managed through active prevention (i.e., monitoring operational procedures and processes and guiding people's behaviours and decisions towards desired norms).

Operational risks are managed through the 'Three Lines Model' (see diagram below) – the core of this model involves the delineation of the three 'lines' being business functions, enterprise risk management and compliance functions and independent assurance functions (e.g., internal and external audit). Each of these three 'lines' plays a distinct role:

- 1st Line = Functions that own and manage risk. Operational management has ownership, responsibility and accountability for directly identifying, assessing, controlling and mitigating key risks which prevent them from achieving business objectives.
- 2nd Line = Functions that oversee or specialise in risk and compliance management. Responsibilities include developing and implementing effective risk management processes, providing advisory support to the 1st Line and constructively challenging operational management and risk owners to enhance positive assurance.
- 3rd Line = Internal Audit providing independent assurance.

The Three Lines Model enhances the understanding of risk management and control by clarifying roles and duties. When the three 'lines' are appropriately structured with no gaps in coverage, RBNZ's risks have an increased likelihood of being effectively managed.



At RBNZ, financial risks relating to the RBNZ Balance Sheet (e.g. market, credit and liquidity risk) are managed by the Portfolio Risk Team within the Financial Markets Directorate. The Manager of Portfolio Risk has a dotted reporting line to the Director of Risk & Compliance to ensure the Director has oversight of these financial risk management activities from a 2nd line perspective.

For more detail on the Three Lines Model, please refer to the Office of the Auditor-General ('OAG') website: Three Lines Model — Office of the Auditor-General New Zealand (oag.parliament.nz)

Strategic opportunities are those where an organisation voluntarily accepts some form of risk to generate a benefit from its strategy. Management of these opportunities is not procedure based as they are managed through our Risk Management Framework and a pre-determined level of risk is accepted. Regular monitoring of the progress in achieving these objectives allows us to understand the level of risk, should it materialise, at a point in time and take appropriate action.

External events and/or activities are outside the RBNZ's control or beyond its influence. Examples include natural disasters, economic downturn and geopolitical instability. These risks require identification in the first instance and preparation to manage them should they occur.

5. Risk Management Process

At the core of a risk management framework is the Risk Management Process ('RMP'). RBNZ's RMP, based on the International Risk Management Standard 'ISO 31000', is a methodology for identifying and prioritising risks and management actions. The methodology includes defined categories for risk causes, called a risk taxonomy. Once a cause is identified, the likelihood rating is applied to the risk event. The risk is assessed against four impact categories, and an impact rating is assigned. These impact categories are as follows:

- Operational – This is people, systems, processes and compliance disruptions to the Bank's Core and Enabling Functions, which could impact on delivering planned objectives.
- Legal – The risk that the Bank acts unlawfully and we are subject to legal challenge.
- Financial – The possible or actual financial impact including all resulting costs for the Bank.
- Reputation – Potential loss of reputation or credibility due to failure to fulfil the Bank's mandate, resulting in a loss of Stakeholder trust or confidence in the Bank.

Each potential risk is rated for likelihood of occurrence and severity of impact, which informs its inherent risk rating. Considering the effects of existing mitigating controls on the likelihood and/or severity of each risk, a residual risk rating is derived. The purpose residual risk ratings are to rank and prioritise risks for further additional treatment rather than define them as absolute measures or expected outcomes. If further additional treatment is required, an estimated target risk rating can be derived, which is the expected residual risk rating after the treatment plan has been completed.

6. Compliance Framework

Our Compliance Framework aims to:

- Prevent, and where necessary, identify and respond to, breaches of laws, regulations, codes or organisational standards.
- Promote a culture of compliance within the RBNZ through training, education and awareness initiatives.
- Assist us in remaining a good corporate citizen.

To help achieve this we have processes in place for the identification, recording, evaluation, prioritisation and monitoring of RBNZ's compliance obligations. By doing so, we demonstrate our commitment to achieving compliance with relevant laws legislative requirements, industry codes, and organisational standards (i.e. internal policies and procedures), as well as standards of good corporate governance, ethics and community expectation.

7. Roles & Responsibilities

Risk management is not a stand-alone activity that is separate from the main activities and processes of the RBNZ. It is part of the responsibilities of all staff and an integral part of all processes, including strategic planning, project and change management processes.

Having said that, to ensure a consistent, efficient and effective approach to risk is adopted across the organisation the following roles and responsibilities are defined.

Board:

- The Board directs our organisation with all decisions relating to our strategy, purpose, objectives and delegations.
- The Board is ultimately responsible for the oversight of our risk management framework.

- Sets our risk appetite.
- Receives risk reports from management.

Executive Leadership Team (ELT):

- Sets 'the tone at the top' and is accountable for the implementation of our risk management framework.
- Ensure adequate resources for implementing monitoring and reporting on the effectiveness of the risk management framework.
- Encourage and support our team members who raise incidents and provide leadership for a transparent, mistake tolerant and 'no blame' culture.

Leadership Team (LT):

- Lead their teams in embedding risk management practices into the daily activities of their directorates and modelling our values and appropriate behaviours.
- Ensure their team maintain and monitor compliance with the relevant internal policies, the risk management policy and the risk management framework activities.
- Encourage and support employees who speak up, raise incidents / ideas and provide leadership for a transparent, mistake tolerant and 'no blame' culture.

Risk & Compliance Directorate:

The Director of Risk & Compliance leads the Risk & Compliance Directorate, which:

- Supports the Board to develop their Risk Appetite Statement
- Provides support, advice, education and challenge to the 1st Line in all risk management and compliance activities.
- Implements and continued maintenance of the risk management framework, including the tools, techniques and guidance to support the business in managing their risks.

Enterprise Risk Management Committee (ERMC):

- Provides scrutiny and focus on enterprise-wide risks. Ensure that all significant enterprise-wide emerging, disruptive and change risks are identified understood and acted upon.
- Oversee the implementation of a defined risk framework, including incident management and reporting.
- Monitor the performance of the RBNZ's enterprise-wide risk taking against the approved risk appetite and metrics.

Please refer to the ERMC Terms of Reference for more detail.

Internal Audit Team:

- Develop, execute and report on progress against the Internal Audit Plan.
- Facilitate the independent investigation of incidents as required.

Risk Owners:

- Identify, assess, monitor and report risks and incidents within their business areas.
- Oversight of the effectiveness of controls and processes to manage their key risks.

All Staff:

- Responsible for understanding and adhering to our policies, the risk management policy and the risk management framework.
- Required to understand the risks in their activities / processes and implement the necessary controls relating to their areas of responsibility.
- Encouraged to 'speak up' if they see something that is 'not right' and are responsible for escalating incidents, 'near misses', issues and risks.