POLICY

MARKET RISK MANAGEMENT

Issued by	Chief Executive Officer
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1. Purpose

The purpose of this policy is to outline the framework for market risk management at Norges Bank Investment Management (NBIM), which shall include identification, assessment, measurement, management and internal reporting of market risk. The policy applies both to absolute and relative risk. The market risk framework shall support NBIM's overall objectives and investment strategy to ensure a proper balance between business goals and risk appetite.

2. Policy

NBIM shall ensure segregation of duties between a recipient of an investment mandate who shall ensure that market risk is taken and managed, and an independent risk management function, which shall identify, assess, measure, monitor, manage and report market risk. Market risk shall be measured along several dimensions using multiple solutions to avoid overreliance on a given measurement, system or process. Both the recipient of an investment mandate and the independent risk management function shall report relevant risk measures based on independent processes in a prompt and appropriate manner.

2.1 Definitions

- Market risk is defined as the risk of a change in market value of funds under management as a result of movements in financial market variables, including movements in credit spreads. Market risk is allocated through investment mandates. We use four dimensions of market risk:
- Concentration risk is absolute exposure to issuers, sectors and additional aggregation levels, as well as exposures relative to the benchmark in notional amounts. The main objective is to obtain a view of risk exposures without applying statistical assumptions.
- Volatility/correlation risk estimates the economic risk to all, or parts, of the funds under management. Risk measures within this category of risk include, but are not limited to, value-at-risk, tracking error, expected shortfall, sensitivities and stress tests to identify tail risk.
- Factor risk is any attribute of a financial asset that is important for the valuation of that asset. Systematic risk factors are risk factors that apply to broader groups of assets, and hence represent drivers of portfolio return. The main objective of factor risk assessment is to identify and monitor systematic risk factors in all, or parts, of the funds under management.
- Liquidity risk is the ability to efficiently rebalance funds under management given the assets held or to provide funds to the owner.

2.2 Risk measurement

- Risk measurement shall be performed using different risk approaches within each of the four dimensions of market risk (concentration, volatility/correlation, factor, liquidity).
- To ensure robust risk management processes, internal and externally provided solutions shall complement each other in order to mitigate reliance on a single measurement, process or system.
- Instruments or portfolios, which are not appropriately modelled shall be documented and shall be given due consideration in the ongoing risk assessment and monitoring.
- Stress testing to estimate losses under extraordinary market conditions shall be performed on a regular basis.

2.3 Risk monitoring

- The recipient of an investment mandate has ownership of and shall manage and monitor the market risk according to the investment mandate.
- The risk management function shall independently monitor and assess market risk and the risk characteristics of the funds under management at a combined fund level and individual mandate level.
- Adequate processes shall be in place to ensure timely and accurate market risk monitoring. These processes shall also ensure an active dialogue regarding risk and will be used to challenge the various investment areas.

2.4 Reporting

- The investment areas shall report market risk to the relevant levels in the organisation.
- Market risk shall independently be reported by the risk management function through standardised risk reporting in a prompt, accurate and consistent manner, based on the risk dimensions of market risk as defined in this policy.
- In addition to regular standardised reporting, pro-active risk analysis shall be facilitated and reported to NBIM management.