POLICY

COUNTERPARTY RISK MANAGEMENT

Issued by	Chief Executive Officer
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1. Purpose

The purpose of this policy is to outline the framework for counterparty risk management which shall include identification, approval, measurement, management and reporting of counterparty risk. Norges Bank Investment Management (NBIM) shall control and mitigate counterparty risk to the extent possible given the investment strategy.

This policy also outlines principles to ensure securities lending is carried out in a prudent, secure and consistent manner and that major risks relating to securities lending are identified and assessed.

2. Policy

Counterparty risk shall be managed through policies, guidelines, counterparty risk limits and investment mandates. All counterparties that NBIM trade with shall be approved through a well-defined approval process and the credit quality of counterparties shall be monitored on a daily basis.

NBIM shall select and use counterparties with the aim of achieving cost efficient execution over time and shall use a number of counterparties to reduce concentration risk. In preparation for a potential counterparty default, NBIM shall have procedures in place to manage the default and recovery of assets.

Risks arising from security lending shall be subject to appropriate measurement and monitoring. Risk exposure relating to securities on loan is retained by NBIM.

2.1 Definitions

- Counterparty credit risk is the risk of financial loss if a counterparty to a transaction defaults before final settlement. Counterparty credit risk may arise through different transactions for instance deposits, security financing transactions, futures and OTC and listed derivatives trades and outright security transactions.
- Settlement risk is the risk of loss if a counterparty defaults and NBIM has fulfilled its trade obligations while the counterparty has not delivered the corresponding cash or security.
- Custodian risk is the risk of loss related to the default of an NBIM custodian or its sub-custodians.
- Real estate joint venture partner counterparty risk is the risk of loss related to the default of a joint venture partner in a real estate investment.
- Security lending is defined to be lending of securities to third parties in order to make excess return on NBIM holdings.

- Counterparty is a financial institution NBIM has approved for trading in instruments such as OTC derivatives, securities financing transactions, deposits, futures, outright or FX. NBIM counterparties are typically banking entities, broker dealers and clearing houses. NBIM custodians and real estate joint venture partners are also defined as NBIM counterparties.
- Collateral is defined here as cash and assets received, posted or reinvested, as security for an exposure.

2.2 Selection and approval of counterparties

- Internally in NBIM there shall be segregation of duties to ensure requests for new counterparties and the ultimate approval are independently managed.
- NBIM shall select counterparties based on expected execution capabilities in the relevant market/instrument to achieve cost efficient execution, also taking counterparty risk into account.
- The risk management function is responsible for approval of counterparties.
- The relationship with any counterparty shall be governed by relevant agreements.

2.3 Security lending

- Security lending shall only be carried out where NBIM has entered into a written agreement.
- Collateral shall take the form of cash or securities and shall provide adequate security for the loan. Collateral and re-investment of collateral shall be in accordance with the restrictions applicable for the relevant fund and subject to risk measurement.

2.4 Counterparty list

- NBIM shall maintain a counterparty list. This shall list all approved counterparties per legal entity and per instrument.

2.5 Risk measurement, monitoring and reporting

- NBIM shall have a risk management function which is independent from the trading function, to assess and monitor NBIM's counterparty risk.
- NBIM shall set minimum collateral requirements. All re-investment of collateral shall be captured by established systems for risk measurement, performance measurement and compliance monitoring.
- The measurement systems for counterparty credit risk shall be in line with internationally acknowledged methods and shall run on a robust system platform.
- Counterparty risk limits are laid down through guidelines or investment mandates. Counterparty exposure limit utilisation shall be measured and reported daily.
- The independent risk management function shall report counterparty risk through standardised reporting in a prompt, accurate and consistent way.

2.6 Counterparty default

- NBIM shall have procedures for handling of counterparty default. The Chief Risk Officer (CRO) is responsible for taking such instances to the LG investment meeting to inform and seek advice for further action.

- When time does not allow for assembling the LG investment meeting, the CRO shall call a task force. The task force will be responsible for setting up ad-hoc groups that will manage the default with the aim of achieving the highest possible recovery.