

NBIM Policy - Approval of Instruments

Issued by: Chief Executive Officer, Norges Bank Investment Management
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1. Purpose

This policy provides principles for approving instruments within NBIM. The objective is to ensure that changes to the instrument universe (including new instruments, countries, market places, currencies or supporting infrastructure) are thoroughly considered and documented throughout the organisation, prior to trading the instrument. This policy applies to all instruments where significant changes to the operational risk profile may occur.

2. Policy

NBIM invests in a broad range of instruments and countries in order to achieve its investment objectives. These instruments and countries constitute the NBIM Instrument Universe. NBIM shall have in place an effective change management process relating to the approved instrument universe, covering the investment rationale, the identification of new risks during an operational risk assessment exercise and culminating in the implementation to support the commencement of trading.

2.1 Main steps in the approval process

The process for the approval of instruments shall consist of the following:

- Business case to the Chief Executive Officer (CEO) including confirmation that the instrument is permitted according to applicable guidelines;
- Risk assessment to identify and assess operational risks, including a proposal of risk mitigating actions. The results of the risk assessment shall be presented to the CEO in the instrument universe committee;
- Formal implementation process.

2.2 Business case

The applicable investment Chief shall seek prior consent from the CEO to extend the instrument universe by submitting a business case. This submission shall conform to the prevailing guidelines, and as a minimum shall contain:

- Description of the instrument together with general market characteristics (e.g. market size, instrument liquidity);
- Scope of use (fund, portfolios, countries, currencies and market places involved);
- Description of the business rationale behind the request. Confirmation that the change to the instrument universe will not adversely impact compliance with applicable fund owner guidelines or other applicable governing documents.

The acceptance of the business case shall be evidenced prior to the commencement of the risk assessment process.

2.3 Risk assessment and CEO approval

Following the CEO acceptance of the business case, a risk assessment shall be completed in order to identify new processes and operational risks associated with the change to the instrument universe. A shorter supplementary risk assessment may be carried out where an existing approved instrument, or one with a similar operational risk profile, is subject to a broadening of the investment arena through, for example, the addition of a country or marketplace. This assessment process shall conform to the prevailing guidelines and templates and shall as a minimum include:

- Systematic review of processes required to support the changes to the instrument universe;
- Identification of applicable operational risks along with an assessment of their criticality, presented using the NBIM standard operational risk matrix;
- Details of recommended risk mitigation actions necessary to support the changes to the instrument universe;
- Brief plan providing to the Instrument universe Committee details of the intended implementation process and the associated risks;
- Presentation of the risk assessment process and results to the Instrument Universe Committee.

The decision made within the Instrument Universe Committee (including any limitations) shall be documented in the committee minutes.

2.4 Implementation and publication

Following the CEO approval, implementation may commence based on the presented plan and in accordance with the prevailing guidelines and templates, and as a minimum the process shall ensure that;

- All CEO decisions and conditions related to the approval, documented in the Committee minutes, are fulfilled;
- Routines, processes and documentation are updated to ensure adequate risk management and monitoring of risks associated with the changes to the instrument universe;
- Risk factors which have not been mitigated prior to implementation are properly recorded;
- Where applicable, an appropriate number of test transactions have been performed in the market place;
- Changes to the instrument universe are reflected in NBIM's Business Continuity Planning where applicable.

A list of NBIM approved instruments, currencies and markets shall be made available to the organisation, along with templates for approval documentation.

3. Liquidation

In cases where the CEO decides to exclude instruments from the investment universe, a liquidation plan for the instrument shall be established. As a minimum, such plans shall give details of the instrument classification, funds and/or portfolios affected by the decision, timeline and exemptions for the liquidation period.

4. Reporting to Norges Banks Executive Board

Information on the approval of new instruments or markets and subsequent implementation shall be reported to the Executive Board in the next quarterly report.