

**NATIONAL SUPERANNUATION FUND LIMITED**

**RISK MANAGEMENT FRAMEWORK**

# VERSION CONTROL

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**REVIEW AND SIGN OFF**

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# INTRODUCTION

National Superannuation Fund Limited (“NASFUND Ltd” or “Trustee”) is the Licensed Trustee for the National Superannuation Fund (“NASFUND” or ‘the Fund”) and was authorised by the Bank of Papua New Guinea (BPNG) under Section 11 and 12 of the *Superannuation (General Provisions) Act 2000* (the Act) to offer superannuation benefits (accumulation type fund) predominantly for employees in the private sectors in Papua New Guinea (PNG).

As a regulated fund in PNG, NASFUND is required to meet all relevant requirements of the Act including BPNG’s prudential standards. This Risk Management Framework (RMF) meets the requirements of *Superannuation Prudential Standard 8/2014* Risk *Management* (PS8/2014) issued by BPNG, which became effective 1 January 2015.

# RISK MANAGEMENT FRAMEWORK (RMF) OVERVIEW

The RMF is the totality of systems, structures, policies, processes and people within the Trustee’s business operations that identify, assess, manage, mitigate and monitor all internal and external sources of inherent risk that could have a material impact on its business operations or the interests of beneficiaries (material risks).

The RMF serves as a management tool to enable the Trustee to develop and implement different strategies, policies and controls to appropriately manage different types of material risks. By giving effect to the RMF, the Trustee ensures that each material risk to the Trustee’s business operations is being prudently managed, having regard to the size, business mix and complexity of its operations.

At NASFUND, the RMF practically covers:

* Approach to risk
* Responsibility of risk across the organisation
* Determination of Risk Appetite Statement (RAS)
* The Risk Management Strategy
* The Material Risk Register
* Risk management principles, policies and approach; and
* Management and monitoring arrangements in respect of adequate human, technical and financial resources

The Board is ultimately responsible for the RMF and more broadly for the sound and prudent management of risks. Whilst the oversight of risk is delegated to the Audit & Risk Committee

(A&RC), this does not in any way abrogate the Board’s ultimate responsibility for ensuring Management have in place appropriate risk frameworks.

# RISK – AN OVERVIEW

# Objectives of Risk Management

The objective of risk management at NASFUND is to ensure:

* Appropriate internal processes are in place for identifying, rating, managing and reporting on material risks
* Appropriate internal processes are in place for ensuring the material risk profile remains up to date and relevant to NASFUND
* Risk appetite is clearly articulated and regularly reviewed
* An appropriate risk aware culture is embedded within and throughout NASFUND
* Available resources to execute controls are used optimally to manage material risks and have regard to the ratings assigned to risks
* Appropriate controls are in place for material risks and that the residual risk (after considering controls in place to manage the risks) are consistent with the risk appetite of NASFUND and of the Board (which may vary from time to time); and
* NASFUND takes informed and considered risks

# What is risk management?

Risk management is the culture, processes and structures in place at NASFUND that are directed toward taking advantage of potential opportunities (maximising upside) and managing potential adverse effects (minimising downside) of a risk.

A risk is defined as any uncertain future situation or event, which could influence the achievement of NASFUND’s objectives or realisation of opportunities. For NASFUND’s strategic risk profile, the central contextual consideration is the strategic objectives whilst for other risk management considerations, the objectives refer to the objectives of the process or decision that is being considered from a risk perspective.

PS8/2014 refers to the management of ‘material risk’ that focuses on the risks that could have a significant impact on NASFUND. Whilst not underestimating the importance of managing less significant risks, it is important to ensure that the focus remains on material risks.

Risk management is a continuous process, rather than an activity conducted at a point in time. It demands proactive action on the part of management to continually update their understanding of

risk and to develop cost effective solutions for the treatment of risks in the light of changing external and internal environments.

# Why manage risk?

All business transactions and activities carry an inherent level of risk to an organisations financial position, operational requirements, sustainability and reputation.

A risk management system allows NASFUND to be aware of the risks facing the organisation and make business decisions based on the level of risk that the organisation and those charged with governance are prepared to take.

Risk management allows the organisation to identify what risks it needs to manage well to succeed in the achievement of its objectives and measure how effectively it is managing these risks and implement changes to improve the management of risk as necessary.

A robust risk management framework and supporting processes will enable NASFUND to:

* Minimise unexpected financial and operational results
* Foreshadow and identify future emerging risks and act early to combat potential impacts of risk
* Execute more efficient and effective procedures
* Improve individual accountability
* Encourage innovation, whilst providing greater transparency and input into decision making, ensuring a complete picture of the potential risks and their potential impacts are well understood prior to making a decision; and
* Exploit business opportunities quickly with a full appreciation of risks involved

# The Risk Management Strategy (RMS)

As noted above under Section 2, NASFUND’s RMS is a part of the broader RMF and is specifically required by PS8/2014. It provides a framework for identifying, measuring, monitoring and responding to material risks. NASFUND’s RMS is outlined in more detail in Section 5 of this RMF.

# The Risk Appetite Statement (RAS)

As noted above under Section 2, NASFUND’s RAS is a part of the broader RMF and is also specifically required by PS8/2014. It provides a framework for documenting the appetite the Board has for risk so that management can make decisions that are consistent with this appetite. NASFUND’s RAS is outlined in more detail in Section 4 of this RMF.

# Material Risk

As a minimum, the Board must ensure that its RMF covers all material risks of NASFUND’s operations, both financial and non-financial; having regard to the size and complexity of those operations.

The Board must also assess the materiality of each of these risks with reference to its operations as a whole and the impact of these risks on the obligations of the NASFUND to its members.

At a minimum, NASFUND RMF’s covers:

* governance risk
* investment risk including (currency risk, asset concentration risk, and counter-party risk);
* liquidity risk
* operational risk
* strategic risks that arise out of NASFUND’s strategic and business plans;
* outsourcing risks
* business continuity risk; and
* any other risks that may have a material impact on NASFUND’s operations

# RISK APPETITE STATEMENT (RAS)

# What is Risk Appetite?

Risk appetite is the amount of risk the Board considers is acceptable to expose the Fund to, in the pursuit of its strategic objectives, and considers both value creation (upside) and value preservation (downside). These risks include those ‘material’ risks that are identified through NASFUND’s RMS.

The RAS is an integral part of NASFUND’s overall RMF. As such it should be noted that NASFUND’s risk appetite:

* fundamentally guides its risk culture and sets out boundaries on risk-taking activities. These boundaries are defined by principles and metrics, both quantitative and qualitative, which must be considered as a collective set and not in isolation
* guides decision making to ensure major decisions are assessed through a prism of both opportunity and risk
* defines governance processes and disciplines to ensure adherence to all boundaries and underlying limits
* commits NASFUND to operate within its appetite and causes it to move quickly to address actions and circumstances that may take NASFUND outside of it
* is dynamic in nature; hence NASFUND reviews it on a regular basis in conjunction with its strategic plans and business actions taken in changing macroeconomic environments; and
* applies across all parts of NASFUND’s operations

An important component of defining NASFUND’s risk appetite is to recognise that most risks cannot be eliminated entirely and that there is a ‘trade off’ between the level of risk on the one hand, and the actions required to reduce the risk. The Board weighs up such trade-offs when assessing risks. It may be possible to reduce some risks to a very low level; however, in some circumstances the cost to NASFUND (and ultimately the members) may outweigh the benefits.

In respect to the risk appetite at the individual risk (Level 3) level, information has been sourced from NASFUND’s current Risk Management Strategy and resultant Material Risk Register. The Material Risk Register helps NASFUND to align real risk exposure with its management and escalation activities. Once a risk tolerance level (target risk) has been breached, risk management treatments and business controls are implemented to bring the exposure level back within the accepted risk tolerance limit.

There are certain risks to which NASFUND is intolerant. Nevertheless, it is recognised that incidents will take place that create exposures to these risks. At such times NASFUND will take actions to address problems arising, and establish processes and controls to minimise the chance of reoccurrence.

# The Risk Appetite Statement (RAS) Framework

The RAS is an integral part of the RMF and represents the type and degree of risk that NASFUND is willing to accept in pursuit of its business objectives, considering its capacity to bear risk and philosophy on risk taking.

Key Definitions relevant to the RAS are as follows:

* Risk capacity: means the amount and type of risk an organisation is able to support in pursuit of its business objectives
* Risk appetite: means the amount and type of risk an organisation is willing to accept in pursuit of its business objectives, having regard to its risk capacity
* Risk tolerance: means the specific maximum risk that an organisation is willing to take regarding each relevant risk

NASFUND’s Board considers and approves a Risk Appetite Statement (RAS), that covers the Trustee’s business operations and each category of material risk. NASFUND RAS, at a minimum, articulates:

* the degree of risk that the Trustee is prepared to accept in pursuit of its strategic objectives, giving consideration to the interests of its members (risk appetite)
* for each material risk, the maximum level of risk that the Trustee is willing to operate within; expressed as a risk limit that, where possible, is based on a measurable limit of the risk remaining, after taking into account that mitigates for the risk where appropriate (risk tolerance)
* the process for ensuring that risk tolerances are set at an appropriate level, based on an estimation of the impact on the interests of members in the event that a risk tolerance is breached and the likelihood that each material risk is realised
* the process for monitoring compliance with each risk tolerance and taking appropriate action in the event of a breach of the risk tolerance; and
* the timing and process for review of the risk appetite and risk tolerances and the triggers which would result in a more frequent or immediate review of the risk appetite

In developing the risk appetite, the Board has expressed the risk appetite at three levels, which are interlinked:

**Level 1**

Strategic

**Level 2**

Risk Category

**Level 3**

Individual Risks

A statement of the Organisation’s tolerance to bear specific risks after treatments in order

to achieve its objectives

A statement of the Organisation’s appetite and tolerance for risk in pursuing specific business strategies

Risk Appetite and tolerance at a risk category level

A statement of the Organisation’s appetite for risk in pursuing its purpose of achieving long term returns for its members and access to funds through a sustainable business

Risk Appetite at the level of the Organisation’s operations as a whole

Appetite and tolerance for individual risks

All three levels of risk appetite are interlinked as the:

* Risk appetite at the strategic level (Level 1) expresses an appetite for activity in the context of the strategic direction and organisational purpose of NASFUND;
* Risk appetite at the risk category level (Level 2) expresses risk appetite in the context of operational activities or functions of NASFUND undertaken to achieve business strategies; and
* Risk appetite at the individual risk level (Level 3) expresses risk appetite in the context of desired tolerances for each material risk encompassing both strategic and operational risks.

Within each level, risk appetite is expressed as qualitative statements and quantitative measures which are intended to guide decision making. Further quantitative measures are expected to be incorporated into the risk appetite statement and embedded in the organisation as risk management continues to mature throughout all levels of the organisation. The Risk Appetite Statements of NASFUND are set out at **Appendix 2**.

# Ongoing Assessment and Review

To ensure that NASFUND’s RAS remains relevant, practicable and is monitored and complied with on an ongoing basis, the Trustee Board must review the risk appetite and risk tolerance levels at least annually and must incorporate into the Trustee’s business strategy and planning cycle.

The following trigger events will necessitate a review of NASFUND’s RAS:

* The occurrence of an event which has a material impact on the operation of the RAS
* A material change in NASFUND’s structure
* A significant change in the strategic direction of NASFUND; and
* Legislative changes or changes to the BPNG’s statutory requirements or change in PS 8/2014 or any relevant Prudential Standards.

The Trustee also has the responsibility to oversee a review of those risks that exceed NASFUND’s risk appetite and tolerances. The risk appetite and tolerances within NASFUND are monitored via the assessment and reporting of the key trigger events (outlined above) and variance of net risk ratings of material risks from the target risks.

The Trustee Board is notified of any breaches of the risk appetite. Following investigation by the Chief Risk Officer (CRO), an Action Plan is developed and presented to the Board for their review, recommendation and approval. The Board will also require the CRO to review the underlying cause of the identified risk and implement updated processes to minimize likelihood of reoccurrence.

# RISK MANAGEMENT STRATEGY (RMS)

NASFUND adopts a framework for risk management that is consistent with the most recent International Standard on Risk Management (currently ISO 31000). The RMS is made available to all employees on NASFUND’s intranet and to external stakeholders on its website.

Importantly, this framework provides NASFUND with the flexibility to adapt quickly to the changing needs of the business.

# The Risk Assessment Process

The Process applied by NASFUND is depicted in the following diagram:

**TREAT RISKS**

Identify options Assess options

Prepare and implement treatment plans Analyse and evaluate residual risk

***Risk Assessment***

**IDENTIFY RISKS**

What can happen? When and where? How and why?

**ANALYSE RISKS**

Identify existing controls Determine consequences & likelihood

Determine level of risk

**EVALUATE RISKS**

Compare against criteria Set priorities

Treat risks

**ESTABLISH THE CONTEXT**

Internal & External Context Develop Criteria

Define the Structure

**COMMUNICATE & CONSULT**

**MONITOR & REVIEW**

This framework, as depicted above, is further discussed below:

# Establishing the context

This phase establishes the basic parameters within which risk must be managed and sets the scope for the rest of the risk management process. NASFUND’s Strategic Plan is key to the context for risk, as this sets out the strategic objectives of NASFUND at a point of time. Regard is also given to NASFUND’s vision and mission, and NASFUND’s strengths, weaknesses, opportunities and threats (SWOT).

# Identify risks

This phase seeks to identify the risks to be managed. This phase must ensure a complete set of risks are identified, including those that may not ultimately be able to be controlled by NASFUND.

# Analyse risks

This phase seeks to analyse further the elements of the risk that help NASFUND develop a comprehensive understanding of the risk, so that it can apply a rating to the risk and rank its risks from highest to lowest. This includes:

* Evaluating the existing controls in place to manage and treat the risk.
* Identifying the consequences of the risk to the organisation.
* Assessing the likelihood of the risk occurring within or to the organisation.

This analysis phase is generally conducted through workshops involving key staff to ensure staff are afforded with the opportunity to participate in the process and learn and understand the broader principles of risk management. Refer to **Appendix 3** for the Risk Rating Parameters used to measure the material risks.

# Evaluate risks

This phase involves making decisions, based on the outcomes of risk analysis, about which risks need treatment and prioritisation and also those risks, which are not acceptable (having regard to the risk appetite of NASFUND).

# Treat risks

This phase involves the identification of the options for treating risks, assessing these options, and the preparation and implementation of treatment plans. NASFUND’s Material Risk Register include a section on the agreed action plans and timeframes and the responsible officer for ensuring the action is completed.

# Monitor and review

This phase is vital to ensure that the agreed management plans are being implemented, risk records, rating and risk profile are kept up to date, risk policies remain relevant and up to date, and appropriate culture is continually developing and improving. The risk profile and supporting risk records will be updated on an annual basis.

# Communicate and consult

This phase involves establishing a culture that is committed to openness and transparency on risk management and consulting within and external to NASFUND as required.

A monthly report on risk management activities and progress against action plans will be prepared by the CRO and reported to the A&RC.

# RESPONSIBILITIES FOR RISK MANAGEMENT WITHIN NASFUND

# NASFUND’s Risk Management Function

NASFUND has an in-house Risk Management Function that is led by the CRO. This function includes in-house support resources to assist in the management and monitoring of risk including periodic compliance testing.

The position of CRO is functionally independent from other business units of NASFUND and the CRO has access to all aspects of NASFUND’s business operations, the Board and Committees in order to conduct the risk activities.

The Risk Management Function is also supported by the outsourced internal audit function and external audit in respect to providing assurance over the design and operating effectiveness of internal control and risk management frameworks.

Importantly however, all people involved in the achievement of NASFUND’s objectives have some role to play in the management of risk and these collectively form NASFUND’s Risk Management Function. Those roles are broadly outlined below:

# The Board and Audit & Risk Committee

The Board is responsible for instilling a strong risk culture throughout the organisation and for ensuring that an effective process of risk management and internal compliance and control is in place. The Board oversights the risk management process including the risk assessment process and the effectiveness and status of risk mitigation actions through its sub-committee, the A&RC.

# Management

Management is responsible for the implementation of organisational policies to achieve effective risk management, and for ensuring adherence to policies by employees. Members of management are responsible for identifying and evaluating risks within their area of responsibility and implementing agreed actions to manage risk.

# Chief Risk Officer’s specific roles

The CRO has the role of:

* Endorsing the organisational risk profile and associated management action plans/mitigation strategies and submitting these to the Board for approval
* Maintaining this policy document and ensuring that the risk management policy and underlying procedures remain current and relevant to the business in the context of emerging risk management practice
* Establishing risk management related procedures and ensuring procedural documentation incorporates risk management principles in accordance with the policy
* Developing and embedding risk management knowledge and culture within the organisation;
* Co-ordinating, facilitating and reporting the outcomes of the periodic organisational risk profile to relevant stakeholders and in particular the Board
* Co-ordinating and facilitating the timely reporting of risk activities by the Departments to relevant stakeholders and in particular the Board. This includes status of risk mitigation actions, expected timeframe for completion of action items, significant changes to the organisational risk profile and emerging risks; and
* Reporting to the Board, A&RC and BPNG when a material deviation from, or material breach of the RMF

# Manager’s/Team Leader’s specific roles

Managers/Team Leaders are responsible for:

* Developing, documenting, approving, communicating, maintaining and reporting of procedures within their Divisions to give effect to this policy
* Contributing to the development of the organisational risk profile
* Establishing, complying with, and implementing risk mitigation actions within their area of responsibility; and
* The timely reporting of risk management activities within their area of responsibility to the CRO. This includes status of risk mitigation actions, expected timeframe for completion of action items, significant changes to the organisational risk profile and emerging organisational

risks. This includes any breaches, incidences of fraud or suspected fraud, non-compliance with legislation or internal policies or procedures

# Other Staff

All employees are responsible for ensuring compliance with the requirements of the risk management policy and risk related procedures. Employees must report any potential risk exposures to their line managers/supervisors and to the CRO.

# Assurance providers

NASFUND’s internal and external auditors play a key role in monitoring and reporting to the Board on NASFUND’s management of risk by:

* Assessing the extent of compliance with various procedural/legislative/regulatory requirements
* Assisting Management in evaluating their processes for identifying, assessing and managing the key operational, financial and compliance risks
* Assisting Management in evaluating the effectiveness of internal control systems, including compliance with internal policies; and
* Recommending improvements in efficiency to the risk management and internal control systems established by Management

# REVIEW, AUDIT AND REPORTING

The RMF will be submitted to the BPNG on initial adoption and for each revision thereafter. The RMF will be subject to the following reviews:

# Comprehensive Review

At least once every 3 years, the Trustee will ensure that the appropriateness, effectiveness and adequacy of its RMF are subject to a comprehensive independent review by Internal Audit.

# Annual Review

At least once a year (for each year during which a comprehensive review does not take place), the Trustee will undertake a review of the appropriateness, effectiveness and adequacy of its RMF.

# Other reviews

Outside of the review arrangements set out above, where the Trustee identifies institutional, operational or other developments that materially affect the size, business mix and complexity of its business operations, the Trustee must assess whether any amendment to, or a review of, the RMF is necessary to take account of these developments.

# Audit

To assist the Board to attest annually that the RMF is appropriately designed and operating effectively, the CRO will discuss the scope of the external audit and internal audit to ensure appropriate compliance testing coverage is maintained.

# Risk Management Declaration

On an annual basis, the Trustee will provide BPNG with a declaration on risk management signed by two Directors. The risk management declaration shall be in the form as set out in **Appendix 1**.

# Breach reporting

The CRO will be responsible for reporting to the Board, A&RC and BPNG when a material deviation from, or material breach of the RMF.

In order to satisfy this requirement, the Trustee will maintain a Breach Register. Any breach of, or material deviation from, the RMF identified by NASFUND Ltd will be recorded in the Breach Register, and the details of any significant breach reported to the BPNG as soon as practicable after, and in any case within 5 business days of, identification of the breach. It will be deemed to be to be a breach of the RMF if it is discovered that the RMF did not adequately address a Material Risk.

# Risk reporting

Management reporting of risk information underpins the effectiveness of the Board’s risk management governance structure and ensures the transparency of risks that face NASFUND’s business. Reporting on risks include the following:

* Quarterly Audit & Risk Committee Reporting

The quarterly risk report is the means of communication of risk activities, significant risks, and incidents, which is then consolidated for reporting to the Board meetings on a quarterly basis. The quarterly risk report is compiled and presented by the CRO.

# APPENDIX 1 – RISK MANAGEMENT DECLARATION

For the purposes of section 20 of the ***Prudential Standard 8 2014 – Risk Management***, that encompasses the totality of systems, structures, policies, processes and people, that identifies, asses, manages mitigates and monitors all internal and external sources of inherent risk that could have a material impact on an ASF’s business operations; this Risk Management Declaration confirms that in all material respects, the ASF is in compliance with:

# Risk Management Framework (RMF)

The Board has developed, documented and maintained an RMF that takes into account the size, complexity and risk profile of the ASF’s business. The Board has also developed a Risk Management Strategy (RMS) that give effect to its approach to managing risk and describes the key elements of this RMF. Hence, the Board reviews the RMF on a regular basis (annually), and takes into account, the minimum requirements in paragraph 10 to 21 of this standard, stated in the following:

# Responsibility for Risk Management:

The ASF’s RMF provides that the Board is ultimately responsible for the RMF and may delegate, but cannot abrogate its responsibility for functions delegated Committee or to management. The RMF ensures that all delegations of authority are documented and approved by the Board, the Board has in place mechanisms to monitor the exercise of delegated authority, and it receives regular reports on exercise of delegated authorities.

# Risk Appetite:

The ASF’s RMF provides that the Board considers and approves a Risk Appetite Statement (RAS) that covers the AFS’s business operations and each category of material risk, showing *its relevant risk appetite, risk tolerance, and its risk management process.*

# Material Risk

The RMF covers all material risks, both financial and non-financial, of the ASF’s operations, having regard to the size and complexity of those operations. The Board assess the materiality of each of these risks with reference to its operations as a whole, and accounts for governance risk, currency risk (asset concentration risk, counter-party risk, liquidity risk), operational risk, strategic risk, business continuity risk, outsourcing risk, and any other risk that arise from the ASF’s strategic and business plans, that has a material impact on the ASF’s operations.

# Material Contagion Risk

The ASF’s RMF covers material contagion risks that are non-superannuation in nature. In the event that the ASF engages in business activities that are non-superannuation, it will evaluate all material contagion risks associated with these undertakings. At the time of this declaration no such business activities are being undertaken.

# Risk Management Strategy

The ASF’s RMF provides that the Board develops and maintain a Risk Management Strategy (RMS) that at a minimum, describes:

* 1. Each material risk identified and the approach to managing these risks;
  2. Policies and procedure dealing with these risks. This includes the date when each policy or procedure was last revised, the next date that is due for review and who is responsible for the review

# Review of the Risk Management Framework

The Board ensures that the appropriateness, effectiveness and adequacy of its RMF are subject to a comprehensive independent review by appropriately trained and competent persons at least every 3 years at a minimum. The scope of these comprehensive independent reviews has regard to the size and complexity of the ASF’s operations, the extent of any changes to those operations or its risk appetite, and any changes to the external environment.

1. **Risk Management Framework Audit Procedures/Arrangements**

The Board has implemented satisfactory internal audit procedures and external audit arrangements to ensure compliance with the RMF. This has enabled the Board to attest that the Risk Management and internal control systems are in place and are operating effectively and adequately.

# Risk Management Function

The ASF has a designated Risk Management function that, at a minimum: is responsible for assisting the Board, Board Committees and Senior Management to develop and maintain the RMF, hence is required to notify the Board immediately when it becomes aware of any material deviation from, or material breach of, the RMF. The Risk Management Function is appropriate for the size, business mix and complexity of the business operations, has excess to all aspects of the business, has the necessary authority and reporting structure to the Board, Board Committees and Senior Management to conduct its Risk Management activities in an effective and independent manner; and is required to notify the Board immediately when it becomes aware of any material deviation from, or material breach of the RMF.

# External Service Provider of Risk Management Function

The RMF provides the ASF may engage the services of an external service provider to perform all or part of the Risk Management function given that the ASF can demonstrate to the Bank that the external Risk Management functions meets the requirements in paragraph 17 of *Prudential Standard 8 2014 – Risk Management*

# License Holder that is part of a corporate group

The Board approves the use of the RMF of the group and ensures that the RMF of the group gives appropriate regard to the ASF’s operations and its specific requirements (where an ASF is part of such a corporate group). That is, an ASF that is part of a corporate group, may rely on a Risk Management function located in another entity in the group, given that the Risk Management function satisfies the criteria set out in paragraph 17 of *Prudential Standard 8 2014 – Risk Management*

# Risk Management Declaration

The Board, on an annual basis, provides to the Bank a declaration on Risk Management referred to as a Risk Management Declaration (RMD) signed by the Chairman and two

Directors that satisfies the requirements prescribed by the Bank. The Board ensures that the outsourcing risks and controls are taken into account as part of its overall RMF. Where the Board qualifies the RMD, the qualified declaration includes a description of any material deviation from the ASF’s RMF and the steps taken, or proposed to be taken to remedy the mentioned deviations.

# Notification Requirements

The ASF’s RMF provides that the Board must notify the Bank of Papua New Guinea within 5 working days when it:

* 1. Becomes aware of a significant breach of, or material deviation from, the RMF; or ii.Discovers that the RMF did not adequately address a material risk.

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| **…………………………………….**  *Name:*  *Board Chairman* |
| **…………………………………….**  *Name:*  *Board Director* |
| **……………………………………..**  *Name:*  *Board Director* |

# APPENDIX 2: RISK APPETITE STATEMENTS (RAS)

**Risk Appetite at the Strategic Level (Level I)**

The business of NASFUND is to be undertaken in a sustainable manner through delivering a value proposition that enables long term revenue to exceed expenditure at an acceptable price to members who receive access competitive investment returns in the longer run.

The achievement of NASFUND’s purpose requires the delivery of long-term sustainable outcomes for both members and the business, underpinned by a commitment to member retention and conversion as well as business and member growth.

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| **Risk Appetite at the Strategic Level (Level 1)** |
| *At the strategic level the appetite for risk of the Board is expressed as follows:* |
| The Board of Directors has a very low appetite for activities, which could compromise the long term financial sustainability of the Fund, protection of members’ funds; wellbeing of its employees; long term member wealth  creation; and compliance with regulatory requirements. |

The level of the appetite of the Board of Directors for risk provides the context for the risk appetite at the other levels of the organisation.

# Risk Appetite at the Risk Category Level (Level 2)

The achievement of NASFUND’s business strategies requires efficient and disciplined execution through operational activities or functions of the organisation.

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| **Risk Appetite at the Risk Category Level (Level 2)** |
| *The Risk Appetite Statements in relation to the Fund’s main risk categories*  *include:* |
| ***Governance & Regulatory*** |
| * The Board has no appetite for deliberate contravention and disregard for   the Fund’s policies and procedures. |
| * The Board has a very low appetite for anything that may materially and   adversely affect the Fund’s regulatory obligations. |
| * The Board has no appetite for fraud, misconduct or corruption. |
| ***Strategy*** |
| * The Board supports growth opportunities that are aligned with the Fund's   business objectives. |
| * The Board has a very low appetite for any activities that may compromise   the long term financial sustainability of the Fund. |
| ***Liquidity*** |
| * The Board has a strong appetite for activities and investments that ensure   the Fund's ability to meet its obligations as and when they fall due, while retaining member equity. |
| ***Investment*** |
| * The Board has a low appetite for the non-achievement of the return   objective of the Fund, being the target return above CPI. |

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| * The Board has no appetite for investment into products it does not understand. |
| * The Board has no appetite for direct investment in anything that supports environmentally irresponsible practices, arms and weapons and violation   of human rights. |
| ***Operational & Business Continuity*** |
| * The Board has a very low appetite for material or sustained losses arising   from inefficient business practices. |
| * The Board has a strong appetite for strong recruitment practices to support   a sufficiently skilled, adequately resourced and engaged workforce. |
| * The Board has a strong appetite for operational activities that are supported   by appropriate controls being in place. |
| * The Board has no appetite for employees, contractors and agents who engage in deliberate activity that negatively impacts on the future brand   and reputation of the Fund. |
| * The Board has a low appetite for alliances and partnerships that will impact   the reputation of the Fund. |
| * The Board has a very low appetite for activities that place Fund staff in an   environment that is hazardous to their wellbeing. |
| * The Board has a very low appetite to the provision of product, which is not   relevant or appropriate to the Fund. |

# Risk Appetite at the Individual Risk Level (Level 3)

The risk appetite at the individual risk level (Level III) expresses risk appetite in the context of desired risk tolerance for residual risk exposures for individual material risks, which may encompass both strategic and operational risks.

A ‘target residual risk’ rating is recorded in the Material Risk Register against each risk, which indicates the Board’s appetite for individual risks. These targets have been identified as long-term goals as opposed to levels to be obtained in the shorter term.

# APPENDIX 3: RISK MEASUREMENT PARAMETERS

# Consequence Rating

Business risks are assessed in terms of the consequence of their impact on strategic business objectives. Both direct financial consequences as well as indirect financial consequences such as reputation, management effort and productivity are considered in determining the consequence rating. The following table is used as the guide to assess of consequences of each identified risk in the workshops.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Determination of Consequence Rating | | | | | |
| **Consequence and**  **Category** | Insignificant (1) | Minor (2) | Moderate (3) | Major (4) | Catastrophic (5) |
| Financial impact  (Or change in net assets) | < PGK 1m  < 10% of Net Assets | PGK 1m - PGK 2m  10 - 15% of Net Assets | PGK 2m - PGK 3m  15 - 25% of Net Assets | PGK 3m - PGK 5m  25 - 50% of Net Assets | >PGK 5m  > 50% of Net Assets |
| Investment values | < PGK 150m | PGK 150m - PGK 300m | PGK 300m - PGK 700m | PGK 700m - PGK 1.7b | >PGK 1.7b |
| Liquidity | Unable to meet corporate commitments < 1 month | Unable to meet corporate  commitments between 1 - 3 months | Unable to meet corporate  commitments > 3 months + member payments < 1 month | Unable to meet member payments > 1 months | Unable to meet member payments > 6 months |
| Brand & Reputation | Limited public awareness. Issue contained on an individual or local level. Unlikely to lead to a stakeholder complaint. | Minor local media exposure. Members disappointed. Likely to lead to stakeholder complaint | Member questions Society's values or ongoing commitment. Likely to be referred to a politician, lobby group or  state/national media | Consistent and continued adverse criticisms by stakeholders (incl staff). Likely to receive significant or extended negative media coverage by national  media | Serious public or media outcry with national coverage. Major loss of Member or community support. |
| Membership | Loss of <10% members | Loss of between 10-25%  members | Loss of between 25-50%  members | Loss of between 50-75% members | Loss of > 75% of members |
| Governance  (Legal & Compliance with Act & PS) | Minor breach (i.e. small fine).  No regulatory or legal consequence | Warning issued by regulator. Legal style letter received or sent. | Likely fine or prosecution. Detailed legal advice required. | Inquest into business Major fines and/or court case | Loss of licence and directors/ senior management charged and/or convicted |
| Staff Wellbeing | No injuries and/or no first aid treatment (non- reportable). | Minor staff dissatisfaction or minor injuries or first aid treatment (reportable). | Loss of between < 25% of staff with possibility of replacing. Medical treatment incl doctor or hospital visit required. | Loss of 1-2 key Board or Executive member, or loss of between 25 - 50% of staff without any ability to replace.  Extensive injuries resulting in incapacity  for at least one week. | Loss of majority of all Executive Team, Board, or > 50% staff without any ability to replace. Death or severe incapacity. No longer able to work. |
| Business  Interruption | Business interruption for 1 hour to 1 day | Business disruption  for 1 to 2 consecutive days | Business disruption  for 3 to 5 consecutive days | Business disruption  for 6 to 10 consecutive days | Business disruption  for more than 10 consecutive days - major loss of services, IT systems, power etc. |

# Likelihood rating

The likelihood that the business will be exposed to each specific risk is determined considering factors such as:

|  |  |  |
| --- | --- | --- |
| * anticipated frequency. * the external environment. | * staff commitment, morale, attitude. * history of previous   events. | * the procedures, tools, skills currently in place. |

For the purposes of assessing likelihood the following scale was used:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Likelihood rating** | | | | | |
| **Almost certain** | Is expected to circumstances | occur | in | most | Happens multiple times every year |
| **Likely** | Will probably circumstances | occur | in | most | Happens at least once every year |

|  |  |  |
| --- | --- | --- |
| **Likelihood rating** | | |
| **Moderate** | Aware of instances that have occurred at some time | Once every 2-5 years |
| **Unlikely** | Could occur at some time | Once every 5 -10 years |
| **Rare** | May occur only in exceptional circumstances | Once every 10+ years |

Through the analysis of likelihood and consequence the risk rating for each of the identified risks was then calculated using the product of these rankings. The relationship of these factors and the resultant risk rating is demonstrated in the table below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Consequences** | | | | |
| **Likelihood** | Insignificant | Minor | Moderate | Major | Catastrophic |
| Almost certain | High | High | Extreme | Extreme | Extreme |
| Likely | Moderate | High | High | Extreme | Extreme |
| Moderate | Low | Moderate | High | Extreme | Extreme |
| Unlikely | Low | Low | Moderate | High | Extreme |
| Rare | Low | Low | Moderate | High | High |

**Control effectiveness rating Control** is understood to mean:

Anything which comprises those elements of an organisation (including its resources, systems, processes, culture, structure and tasks) that, taken together, support people in the achievement of the organisation’s objectives.

The following three levels are used to rate control effectiveness:

|  |  |
| --- | --- |
| ***Satisfactory*** | Controls are strong and operating properly, providing a reasonable level of assurance that objectives are being achieved. |
| ***Some weaknesses*** | Some control weaknesses / inefficiencies have been identified. Although these are not considered to present a serious risk exposure, improvements are required to provide a reasonable assurance that objectives will be achieved. |
| ***Weak*** | Controls do not meet an acceptable standard, as many weaknesses/inefficiencies exist. Controls do not provide reasonable assurance that objectives will be achieved. |

# Controllability

The following three levels are used to rate the capacity of the Department to influence the risk:

|  |  |
| --- | --- |
| ***Controllable*** | Organisation has the capacity to significantly influence the risk rating. |
| ***Partially controllable*** | Organisation has some capacity to influence the risk rating. |
| ***Not controllable*** | Organisation has limited or no capacity to influence the risk rating. |