

Directive on the Treasury Investment Portfolio

February 21, 2023

1. Overriding Objective

- 1.1. This Directive on Treasury Investments Portfolio (Directive) establishes rules, processes, and parameters to ensure that the Bank's Treasury Investment Portfolio is managed in accordance with the *General Investment and Financial Derivative Authority*, *Asset Liability Management Policy*, and *Risk Appetite Statement*.
- 1.2. This Directive has the objective to establish a robust liquid asset investment framework to ensure that, at all times, the Bank has the necessary liquidity, asset quality and diversification to protect it the against material stress events and safeguard the Bank's credit ratings. The Treasury Investment Portfolio will be managed with the overall objective of maintaining, during times of stress (i) relatively low volatility of market value of the constituent assets and (ii) sufficient portfolio-wide liquidity. Subject to these objectives, the Office of the Treasurer (TRE) shall seek an optimal risk return profile for the Treasury Investment Portfolio to preserve the Bank's capital and contribute to its income.

2. Definitions

- 2.1. **Investments** refers to all transactions approved in the General Investment and Financial Derivative Authority and shall include any long or short position held by the Bank, as defined in the General Investment and Financial Derivative Authority.
- 2.2. **External Managers Program (EMP)** refers to Investments managed on the Bank's behalf by external managers mandated by TRE.
- 2.3. **Investment Management Agreement (IMA)** refers to the terms of investment and management of EMP investment portfolios agreed by the Bank with external managers.
- 2.4. **Treasury Investment Portfolio** refers to each of the Bank's asset portfolios (individually and/or collectively, as applicable) set up by TRE pursuant to its authority under the General Investment and Financial Derivative Authority and this Directive, whether directly managed or managed externally under the EMP.

3. Governance

3.1. Roles and responsibilities

3.1.1. The Chief Financial Officer (CFO) shall

- (a) oversee the strategies and activities of the Office of the Treasurer in relation to the management of the Treasury Investment Portfolio.

3.1.2. The Risk Committee (RC) and Asset and Liability Management Committee (ALCO) shall exercise their respective duties in accordance with their respective terms of reference (TOR).

3.1.3. The Risk Management Department (RMD) shall implement the Bank's risk management, in accordance with the Bank's policies, directives, and administrative guidance.

3.1.4. The Office of the Controller (CTL) shall maintain the Bank-wide accounting policy, as well as a centralized general ledger control and financial reporting.

3.1.5. The Office of the Treasurer (TRE) shall

- (a) Identify and manage the credit and market risks associated with the Treasury Investment Portfolio, with the objective of protecting capital, earnings and the economic value of the Bank's net worth, and report related matters to ALCO;
- (b) In respect of its actions herein provided, operate within, and in line with, the limits and principles set, respectively, by the CFO and the CRO;
- (c) Manage the Bank's overall balance sheet duration according to the Administrative Guidance on Equity Duration;
- (d) Set up an investment strategy for the Treasury Investment Portfolio and review the same at least once, annually, and have responsibility for all procedures and systems, such as custody and document management, related to all of the Bank's investment activities;
- (e) Assess the appropriateness of financial instruments, as hedges relating to the Treasury Investment Portfolio, in line with the then prevailing economic environment, and report the results to ALCO, as required;
- (f) Ensure sufficient liquidity and that, at all times, relevant liquidity risk metrics are met and managed appropriately;
- (g) Report any limit breaches, relating to the Treasury Investment Portfolio, to the Treasurer, for assessment of materiality and recommendation of an appropriate course of action, as may be required;¹

¹ Such breaches may be "active," (i.e. those that violate limits at the time of investment) or "passive," (i.e. those caused by exchange rate movements, credit downgrades or changes in the Bank's exposure modelling parameters or methodology that may only retrospectively cause an investment to be in violation of limits set by the Bank).

- (h) Notify the CRO and RMD, in a timely manner, of any material limit breaches, relating to the Treasury Investment Portfolio, together with a plan on how to address the same;
- (i) Appoint external managers, as required, with the prior approval of the CFO; and
- (j) Ensure that the Treasury Investment Portfolio is managed in accordance with the relevant Policies, Directives and Administrative Guidance of the Bank.

4. Portfolio Structure

- 4.1. The purpose of the Treasury Investment Portfolio is to ensure that the Bank maintains sufficient liquidity by holding a cushion of high-quality liquid assets which allows the Bank to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources.
- 4.2. TRE shall determine the structure of the Treasury Investment Portfolio, and constituent investments, which shall be described in the applicable Administrative Guidance, containing the relevant investment guidelines, stating in respect thereof the relevant:
 - (a) Funding measure(s) or benchmark(s);
 - (b) Duration target(s) and deviation limit(s) (if any);
 - (c) Sector, credit ratings and product type limit(s) (if any);
 - (d) Currency limits; and
 - (e) EMP related investment oversight procedures (where applicable)

5. Eligible asset classes and constraints

- 5.1. TRE has the authority to invest the asset classes provided in the General Investment and Financial Derivative Authority.

6. Environmental considerations

- 6.1. TRE will adhere to the Bank's mission and core values as a "green organization," and shall ensure that the constitution and management of the Treasury Investment Portfolio will give due consideration to the objectives of the Bank's Environmental and Social Framework (ESF).

7. Portfolio Management

7.1. The Treasury Investment Portfolio will be managed in line with the appropriate benchmark(s) or funding measure(s) (including Funds Transfer Pricing, as applicable).

TRE shall use appropriate interest rate and FX products as part of its portfolio management process, to enable it to effectively separate the management of interest rate risk, credit risk, relative value, and liquidity risk in respect of the Treasury Investment Portfolio.

7.2. TRE shall actively manage the interest rate, credit and basis risk of the Treasury Investment Portfolio.

7.3. Additionally, TRE Investments shall ensure that the Bank's duration exposure is in line with the Bank's desired structural interest rate exposure, in line with the Treasurer's direction on duration target, within allowable deviation limits.

8. Externally Managed Portfolios

8.1. TRE currently oversees externally managed asset portfolios pursuant to its EMP. This enables TRE to diversify the Treasury Investment Portfolio irrespective of internal resource constraints. Additionally, the EMP creates opportunities to share knowledge, build internal capacity and support the internal portfolio management process.

8.2. Externally managed asset portfolios shall be managed in the manner specified in the relevant Investment Management Agreement (IMA) signed by the Bank. The IMA must be consistent with the Bank's applicable Policies and Directives.

8.3. TRE shall monitor the performance of external managers appointed under each IMA and shall establish a formal management and performance review process to determine their compliance with the terms of the applicable IMA.

9. Short-term Borrowing

9.1. The Bank's Global Borrowing Authority authorizes it to acquire funds in the form of short-term borrowings (of less than 1 year). TRE shall properly utilize such short-term borrowings to help manage the Bank's short-term liquidity needs.

9.2. The risk management and use of proceeds in respect of such borrowings shall be determined by TRE in accordance with the Bank's Asset and Liability Management Policy and its Global Borrowing Authority, including the limits therein on borrowing amounts.

10. Portfolio Monitoring and Reporting

- 10.1. TRE shall monitor performance and risk in respect of the Treasury Investment Portfolio on a daily basis. Additionally, TRE shall execute necessary transactions in respect of all internally managed positions and provide instructions in this regard to external managers under the EMP, as necessary.
- 10.2. TRE shall monitor utilization of the limits set by the CFO in respect of the Treasury Investment Portfolio. TRE shall also monitor the compliance of externally managed portfolios under the EMP with their respective IMAs. In each case, TRE shall promptly inform the RMD and the CFO of any material limit breach.
- 10.3. TRE shall provide monthly portfolio performance reporting and commentary to ALCO, in line with the ALCO Terms of Reference.

11. Implementations

- 11.1. The CFO shall monitor the implementation of this Directive.

12. Authority

- 12.0. The CFO shall make all final decisions regarding the application of this Directive.