South African Reserve Bank

# Official Gold and Foreign Exchange Reserves Management Investment Policy

## (Investment Policy)

**Effective date:** **28 February 2016**

**South African Reserve Bank 2016**

## Contents

## Glossary

### Base Currency

The currency in which the portfolio is denominated.

### Benchmark

A notional or reference portfolio comprising investible securities or an investment strategy that reflects the preferred risk position specified in the strategic asset allocation.

### Excess returns

Portfolio returns in excess of the benchmark returns.

### Investment guidelines

The guidelines governing the investment of reserves for each portfolio in order to contain risk taking by portfolio managers and to remain within the risk tolerance.

### Investment horizon

The period over which the reserves are expected to be used, and over which returns and risks should be managed and measured.

### Local Currency

The currency in which the security is issued.

### Passive Risk Tolerance

The risk that the Bank is willing to take when following an index tracking strategy.

### Reporting Currency

The currency in which the reserves are reported, i.e. US Dollar.

**Repurchase agreement (repos)**

A form of collateralised short-term cash borrowing where the South African Reserve Bank sells an eligible security with a predefined commitment to repurchase it at some date in the future.

**Reserves: adequate reserve level**

A sufficient amount of reserves that will cover known and likely trade and debt obligations that may prevail in the future based on reasonable assumptions.

**Reserves: optimal reserve level**

The amount of reserves deemed by the Governors' Executive Committee to be the most appropriate level for macroeconomic stability.

**Reverse repurchase agreements (reverse repos)**

The opposite of a repurchase agreement; a form of collateralised short-term cash lending where the Bank purchases an eligible security with a predefined commitment to sell it back at an agreed future date.

**Risk budget**

The maximum risk tolerance level allocated to an investment portfolio.

**Securities lending programme**

Securities lending involves the temporary exchange of securities, usually for other securities (securities collateral) or cash of an equivalent value (cash collateral), with an obligation to redeliver a quantity of the same securities at a future date. Most securities lending is structured to give the borrower legal title to the securities for the life of the transaction even though, economically, the terms are more akin to a loan. The borrow fee is generally agreed in advance and the lender has contractual rights similar to beneficial ownership of the securities, with rights to receive the equivalent of all interest payments or dividends and to have equivalent securities returned.

**Strategic asset allocation**

The target asset allocation with respect to currency composition, duration and credit risk that meets the investment objectives, liquidity constraints and risk profile of the fiduciaries of the foreign currency reserves.

**Tracking error**

The measure of risk that quantifies how closely a portfolio follows the index against which it is benchmarked. It is calculated as the standard deviation of excess returns.

| **List of abbreviations** | |
|---|---|
| **Bank** | **South African Reserve Bank** |
| **FMD** | **Financial Markets Department** |
| **FRMP** | **Financial Risk Management Policy** |
| **GEC** | **Governors' Executive Committee** |
| **IAD** | **Internal Audit Department** |
| **IMF** | **International Monetary Fund** |
| **ISDA** | **International Swaps and Derivatives Association** |
| **IT** | **Information Technology** |
| **NT** | **National Treasury** |
| **Resmanco** | **Reserves Management Committee** |
| **RMC** | **Risk Management Committee** |
| **SAA** | **Strategic Asset Allocation** |
| **SDR** | **Special Drawing Rights** |
| **SLP** | **Securities Lending Programme** |
| **SSAE** | **Statement on Standards for Attestation Engagements** |

## 1. Policy statement

1.1. The Governors' Executive Committee (GEC) has the authority to establish, approve or amend policies of the South African Reserve Bank (the Bank) or, where applicable, policies of the Group (i.e. the Bank and its subsidiaries). This Investment Policy has been considered and approved by the GEC as being most appropriate to support the effective and efficient achievement of the Bank's objectives, while being fair to all stakeholders and in line with sound governance principles.

1.2. In exceptional circumstances, however, the GEC may exercise its prerogative to deviate from the stipulations of this Investment Policy when it is believed to be in the best interest of the Bank. Such deviations will be formally approved and dealt with in a controlled, objective, equitable and fair manner, in line with the values and objectives of the Bank.

1.3. In accordance with its role as a central bank and the South African Reserve Bank Act 90 of 1989 (SARB Act), the official gold and foreign exchange reserves (reserves) of the Republic of South Africa (South Africa) are held and managed by the Bank.

1.4. Reserves play a key role in ensuring that South Africa will be able to service its foreign exchange liabilities, maintain confidence in its monetary, financial stability and exchange rate policies, and protect the economic well-being of South Africa in the event of external shocks.

1.5. The Financial Markets Department (FMD) is responsible for the management of the reserves, considering the aforementioned objectives of holding such reserves. The Investment Policy provides a framework within which the Reserves Management Committee (Resmanco) sets risk parameters at portfolio level, while the FMD manages these portfolios under the guidance of a Deputy Governor within the reporting structure of the Bank.

1.6. The FMD is at all times required to have documented and established processes in place to give effect to the principles espoused in the Investment Policy. It is the responsibility of the FMD to ensure compliance with this Investment Policy and the Bank's investment guidelines, to manage the risks associated with the management of reserves, to measure performance, and to report on the Bank's reserves management activities on a regular basis as set out in clause 7.3.

## 2. Investment Policy objectives

2.1. The objectives of the Investment Policy are to:

2.1.1. define the approach and framework governing the management of reserves; and

2.1.2. define the governance structures, roles and responsibilities pertaining to reserves management operations.

## 3. Scope of the Investment Policy

3.1. The Investment Policy provides a strategic framework that guides the FMD and Resmanco in their respective roles in the reserves management process. The Investment Policy specifies, among other things, the aggregate tolerance parameters of the Bank for the management of the reserves and the eligible asset classes.

3.2. This Investment Policy is subject to credit risk, market risk and operational risk concepts, which are embedded in the Financial Risk Management Policy (FRMP).

3.2.1. Credit risk

3.2.1.1. Credit risk is the risk that arises from the uncertainty in a counterparty's ability to meet its financial obligations and can broadly be categorised as issuer risk and counterparty risk.

3.2.1.2. Issuer risk is the risk of an issuer or borrower defaulting and not being able to fulfil its obligations such as coupon payments, interest payments or principal repayments. Issuer risk is monitored by the FMD using market data and credit rating agencies' indicators. Issuer risk is managed by specifying percentage holding limits per credit rating category. There is ongoing monitoring of issuer limits and credit risk exposures. Risk models are built to capture credit spreads, credit limits and ratings of issuers such that issuer risk monitoring is enhanced beyond the rating agencies' credit score. More dynamic measures are also used, such as credit default swap spread analysis, to determine the markets' perception of a default associated with issuer counterparties.

3.2.1.3. Counterparty credit risk arises due to the fact that a counterparty to a transaction could fail to honour its obligation before the final settlement of the transaction's cash flows. Counterparty risk stems from trading partners rather than borrowers and includes pre-settlement risk, settlement risk and replacement risk. Pre-settlement risk is the risk that the counterparty may default prior to the transaction's final settlement date. Settlement risk is the risk that the counterparty may fail to settle its transaction obligation on a due date. Over-the-counter derivatives, securities lending, repurchase agreements and reverse repurchase agreements provide for early default and termination of the contract should a specific trigger event occur such as a specific downgrade, merger or acquisition. The replacement risk is the risk that the contract cannot be replaced under the same economic conditions and some economic value may be lost.

3.2.1.4. Credit risk is continually assessed at counterparty and aggregated levels through ratings issued by credit rating agencies as well as dynamic FMD models and tools. Counterparty credit risk is mitigated through minimum collateral requirements and netting-off arrangements with certain counterparties and securities lending agents, usually through the International Swaps and Derivatives Association (ISDA) master agreements. In addition, the use of exchange-traded derivatives, legally segregated custodial and securities lending accounts and indemnity arrangements can further mitigate counterparty pre-settlement, settlement and replacement risks.

3.2.2. Market risk

3.2.2.1. The FMD values its financial assets at fair value on a daily basis. Market risk in respect of foreign reserves is measured, managed and monitored by calculating risk metrics such as duration, value at risk and tracking error, and reporting thereon. Other quantitative methods used to assess and analyse market risk can include stress testing and scenario analysis.

3.2.2.2. Collateral used in domestic market operations of the FMD are subject to a daily mark-to-market valuation and margin calls, either in cash or physical scrip. Participants in the repurchase (repo) transactions have to provide securities with market values adjusted lower (i.e. haircut valuation).

3.2.3. Operational risk

3.2.3.1. Operational risk is managed through principles and activities as set out in the Operational Risk Management Framework to ensure that effective control measures are in place. The Risk Management Committee (RMC) and Resmanco have an oversight role in how operational risk is managed within the FMD.

3.2.3.2. For its externally managed investment portfolios, the FMD requires external fund managers to provide their Statement on Standards for Attestation Engagements (SSAE) No. 16 for purposes of reporting on their design of internal controls and their operational effectiveness.

3.3. The strategic asset allocation (SAA) and the investment guidelines outline the specific parameters and allocations that guide the investment of reserves.

## 4. Investment Policy principles

4.1. Investment objectives

4.1.1. The objectives for the management of reserves are, in order of priority, as follows:

4.1.1.1. Capital preservation: Safety of the principal amount invested is the foremost investment objective. Investments shall be undertaken in a manner that seeks to preserve the capital value of the overall portfolio over the investment horizon, subject to the approved risk tolerances.

4.1.1.2. Liquidity: Investment management shall seek to ensure that adequate reserves are available to meet a defined range of objectives. In order to maintain sufficient liquidity, reserves shall be invested largely (see proposed investment guidelines) in securities with an active secondary market.

4.1.1.3. Returns: Subject to the capital preservation and liquidity constraints stated above, the reserves shall be invested with the objective of achieving a reasonable return which is consistent with the investment objectives and risk constraints.

4.2. Adequacy and tranching of reserves

4.2.1. The Bank shall aim to maintain an adequate level of reserves at all times. This is the amount of reserves a country needs to hold in liquid assets in order to cover known and likely trade and debt obligations. It can be viewed as the minimum required reserves holding. The optimal level of reserves includes the provision for unanticipated obligations, taking into account the cost of holding reserves. The difference between adequate and optimal reserves can be viewed as a safety buffer. An optimal range for the level of reserves shall be calculated and reviewed annually using generally accepted models.

4.2.2. The optimal amount of reserves is determined by using various factors that include, among other things, the South African government's short-term external debt, probability of a sudden stop of capital inflows, imports, exports and gross domestic product growth, and the cost and return of holding reserves.

4.2.3. The Bank does not target any specific level of reserves to guide its accumulation strategy; instead it uses the calculated optimal range as a guideline.

4.2.4. The reserves shall be divided into two tranches, namely the Liquidity Tranche and the Investment Tranche. The Liquidity Tranche size is determined by the adequate level of reserves. Amounts in excess of this are allocated to the Investment Tranche.

4.2.5. The Liquidity Tranche is invested in highly liquid securities to ensure the timely availability and capital preservation of reserves.

4.2.6. The Liquidity Tranche is subdivided into four sub-tranches, namely the Special Drawing Rights (SDR) Sub-tranche; the Gold Sub-tranche; the Working Capital Sub-tranche and the Buffer Sub-tranche.

4.2.7. The SDR Sub-tranche is focused on the special needs of the Bank in respect of South Africa's membership of the International Monetary Fund (IMF). SDRs can also be exchanged for currencies of the IMF member countries during crisis events and, as such, are viewed as insurance against unforeseen events.

4.2.8. The Gold Sub-tranche is a function of South Africa's willingness to hold gold as a special reserve instrument. Given gold's high liquidity, its diversification benefits and its role as a form of currency, it is used as insurance against adverse economic outcomes.

4.2.9. The Working Capital Sub-tranche provides liquidity for short-term liabilities and cash management needs.

4.2.10. The Buffer Sub-tranche caters for unforeseen liquidity needs and serves to replenish the Working Capital Sub-tranche as and when required.

4.2.11. The Investment Tranche aims to enhance the returns on the reserves portfolio and to cover longer-term contingencies consistent with South Africa’s overall macroeconomic and financial stability policies. It is invested in higher yielding securities to enhance the return of the portfolio, while recognising the capital preservation and liquidity objectives.

4.3. Investment strategy

4.3.1. The Gold Sub-tranche is passively managed but can be actively managed when market conditions permit, subject to the approval of the GEC, while the Working Capital Sub-tranche, Buffer Sub-tranche and Investment Tranche are actively managed by the FMD, within specified risk and asset allocation tolerance levels.

4.4. Leverage and the use of derivative instruments

4.4.1. Leverage of the reserves portfolio is not permitted. Leverage in this context means that the market value of tradable securities held at any time will not exceed the total size of the reserves assets.

4.4.2. Investments can be made in derivative instruments only if explicitly authorised by Resmanco and specified in the investment guidelines. Derivatives are used to reduce transaction costs or when they are easier to trade than the underlying instrument, and thereby improve transactional efficiency.

4.4.3. Short selling of eligible financial instruments (Annexure B) is prohibited

4.5. Currency composition

4.5.1. The currency composition of the Liquidity Tranche takes into account the currency exposure of imports and debt service obligations of the South African government’s short-term external debt (i.e. over the following 12-month period).

The currency composition shall be reviewed annually (or when deemed necessary), following consultation between the Bank and National Treasury (NT).

4.5.2. The currency composition of the Investment Tranche is determined as part of the SAA decision, subject to the appropriate risk-return optimisation process, which is reviewed from time to time.

4.5.3. The list of eligible investable currencies (Annexure A) is set per portfolio, per tranche in the investment guidelines.

4.6. Strategic asset allocation and the role of investment guidelines

4.6.1. The SAA determines the optimal asset allocation of the Bank's reserves while recognising the risk tolerance and liquidity constraints of the Bank. It sets the tranche sizes, currency composition, appropriate asset classes, and assesses the expected risk and return over the relevant time horizon. These parameters are specified at tranche level. Hence, each tranche has its own asset mix aimed at achieving the investment objectives of the tranche. The SAA is rebalanced annually with a full review occurring triennially or as necessary.

4.6.2. The GEC approves the Bank's SAA on Resmanco's recommendation. The SAA allows for specific approval of the passive risk tolerance represented by an optimal blend of benchmark portfolios. In addition, it contains the overall risk budget for the active management of the reserves.

4.6.3. Tracking error is a measure of risk and quantifies how closely a portfolio follows the index against which it is benchmarked. The tracking error is calculated as the standard deviation of the excess returns of the portfolio over those of its benchmark. A selected benchmark is a reference portfolio comprising investible securities or an investment strategy that reflects the preferred risk position specified in the SAA. The overall risk budget (the tolerance level for intended deviation from benchmarks by the portfolio managers) is set in the SAA and is cascaded to individual portfolios.

4.6.4. The investment guidelines serve to govern the investment of reserves per portfolio in order to control risk taking by portfolio managers within the risk tolerance of the Bank. Benchmarks, investment guidelines and tracking error allocation per portfolio embody the overall risk tolerance assigned for the management of reserves. The risk budget is cascaded to each portfolio that is actively managed.

4.6.5. Market benchmarks are selected to replicate the SAA and form part of the investment guidelines. The tracking error and investment guidelines are determined and allocated on the basis of the risk tolerance for each portfolio.

4.6.6. Resmanco approves the investment guidelines per investment portfolio, which is then transferred to the FMD for appropriate internal and external fund manager distribution.

4.7. Portfolio management

4.7.1. The reserves are segregated according to the SAA and managed as separate portfolios. Portfolios are allocated to internal and external portfolio managers.

4.7.2. The Bank employs internal portfolio managers to manage the reserves, develop and enhance portfolio management skills within the Bank, and gather market intelligence.

4.7.3. Internal fund managers present an internal portfolio performance review to Resmanco on a quarterly basis, or more frequently if requested by Resmanco.

4.7.4. Resmanco approves the appointment and termination of external fund managers. The objective of employing the services of external fund managers is to add value to the reserves portfolios through the diversification of strategies, to transfer skills and build capacity for internal portfolio managers and, where appropriate, to benchmark internal portfolio managers. Furthermore, external fund managers are also hired in order for the Bank to invest in asset classes that require a more sophisticated infrastructure than that available within the Bank.

4.7.5. The Bank hires external portfolio managers in line with its procurement policy and corporate governance principles. The Bank employs external fund managers for a minimum period of three and a half years, although assessments are made over three years. This period is generally seen as appropriate to assess the performance of a fund manager. Resmanco can, however, decide to terminate the mandate earlier should circumstances warrant.

4.7.6. External fund managers are contractually obligated to present annual portfolio performance reviews at the South African Reserve Bank, Head Office.

4.7.7. The Bank shall, prior to the expiration date of any mandate, conduct a comprehensive quantitative and qualitative review of the external fund management programme.

4.8. Custodians

4.8.1. Resmanco approves the appointment of custodians for the purpose of providing custody services for the Bank. Custody services for the Bank's reserves assets include safekeeping, trade settlements, position reporting, processing corporate actions, collecting and distributing coupons, tax reclaim services, fund administration and, on occasion, providing market news and information.

4.8.2. The Bank reviews its custody service arrangements every three to five years, in line with its corporate governance principles.

4.9. Securities lending

4.9.1. Securities lending involves the temporary exchange of securities, usually for other securities (securities collateral) or cash of an equivalent value (cash collateral), with an obligation to redeliver a quantity of the same securities at a future date. The lender receives a fee from the borrower for lending securities. Where a lender accepts cash as collateral the cash is reinvested to generate a return. The objective of the Bank's Securities Lending Programme (SLP) is to help defray the cost of custodial and external fund management fees.

4.9.2. Resmanco approves the Bank's SLP, its agent and the SLP investment guidelines, including its risk tolerance parameters, all in accordance with the risk philosophy of the Bank. The Bank reviews its SLP and the agent every three years, in line with its corporate governance principles.

4.9.3. The GEC approves the size of the Bank's SLP.

## 5. Investment risk tolerance

5.1. Investment risk tolerance parameters are determined at tranche level because each tranche has its own objectives, expected holding period and associated risks. The objectives are translated to broad overarching tolerances which are listed below. Specific detailed parameters are listed per portfolio in the investment guidelines.

5.2. The Working Capital Sub-tranche investment horizon is limited to one month.

5.3. The Buffer Sub-tranche investment horizon is limited to one year.

5.4. The Investment Tranche has a three-year investment horizon.

5.5. The actively managed Buffer Sub-tranche and the Investment Tranche are allocated a total active risk budget of 50 basis points (i.e. an ex ante tracking error of 50 basis points).

5.6. Resmanco approves the allocation of the risk budget per individual portfolio.

5.7. The Buffer Sub-tranche should be invested in order to maximise returns subject to limiting the probability of negative returns (in base currency terms) to no more than 1 per cent over a one-year investment horizon. However, should negative returns be inevitable in the context of safety of capital, the investment tranche should be invested in such a manner that the overall reserves do not generate negative returns.

5.8. Similarly, the Investment Tranche should be invested with the objective of maximising returns (in base currency terms) subject to limiting the probability of negative returns to no more than 1 per cent over a three-year investment horizon.

## 6. Reserves management framework

6.1. The FMD should at all times have a reserves management framework that facilitates the integration of all investment management structures, processes and associated activities. The broad elements of the framework, namely the governance of reserves management and the reserves management universe are described in the following sections.

## 7. Governance of reserves management

7.1. The GEC delegates to Resmanco through the Investment Policy, SAA and a terms of reference document the authority to define the parameters for the investment of the reserves and to oversee the process.

7.2. The FMD, under the guidance of a Deputy Governor within the reporting structure of the Bank, is responsible for the management of the reserves in accordance with the criteria set out in the Investment Policy, the SAA, the investment guidelines and the implementation of other prescriptions of the GEC and Resmanco. The FMD is also responsible for maintaining effective internal controls and an organisational structure that ensures that the reserves are managed in a sound and prudent manner and in accordance with the Investment Policy and investment guidelines.

7.3. Reporting

7.3.1. The FMD must submit monthly and quarterly risk reports to Resmanco. It must also report quarterly to the RMC of the Bank on risk and to the GEC on the performance of the reserves portfolios.

7.3.2. The FMD must provide the Bank's Board of Directors with an annual report on the reserves management activities.

7.3.3. The FMD must release, via the Bank's website, by the fifth working day of every month a statement on the official gold and foreign exchange reserves of the Bank as at the end of the previous month.

## 8. Reserves management investment universe

8.1. Details of the permissible instruments for both internal and external portfolio managers are listed in Annexure B.

8.2. Annexure C highlights the credit risk guidelines used when selecting investments.

## 9. Control activities

9.1. Resmanco is responsible for the oversight of the FMD with regard to the investment of the reserves.

9.2. The Head of FMD ensures that effective internal controls and an organisational structure exist, such that the reserves are managed in a sound manner. The Head of FMD therefore uses a governance process that:

9.2.1. establishes the appropriate segregation of duties between related units in the FMD with regard to the execution of portfolio transactions, compliance monitoring, risk and performance measurement, trade settlement and accounting;

9.2.1.1. delegates specific and clearly defined responsibilities and accountabilities to each unit in the FMD;

9.2.1.2. promotes adherence to the code of ethics governing staff;

9.2.1.3. provides adequate information technology (IT) support for reserves management activities; and

9.2.1.4. reviews the Internal Audit Department (IAD) findings which oversee adherence to policies, procedures, roles and responsibilities and, where appropriate, implement relevant recommendations.

9.3. In the event of an emergency situation, the Deputy Governor: Markets, in consultation with the Governor, may override the prescripts of this Investment Policy and all other related policies and guidelines.

## 10. Review of the Investment Policy

10.1. The FMD shall review and propose for consideration by the GEC, via Resmanco, any possible changes to this Investment Policy as part of the process to review the external fund manager program..

## Annexure A: Eligible currencies

| Currencies |
|---|
| Australian dollar (AUD) |
| British pound (GBP) |
| Canadian dollar (CAD) |
| Chinese renminbi (CNY) |
| Danish krone (DKK) |
| Euro (EUR) |
| Japanese yen (JPY) |
| New Zealand dollar (NZD) |
| Norwegian krone (NOK) |
| Swedish krona (SEK) |
| Swiss franc (CHF) |
| South Korean won (KRW) |
| US dollar (USD) |

## Annexure B: List of eligible instruments

The Bank is authorised to transact in the following financial instruments with specific parameters outlined in the investment guidelines:

- Gold: The Bank is authorised to hold a portion of its reserves in gold. The gold will be stored at GEC-approved storage facilities, both within South Africa and abroad.

- Government securities: Marketable bonds and other obligations issued or unconditionally guaranteed by the sovereign government of a country (including inflation-linked bonds).

- Government agencies, states (provinces), multilateral organisation securities (supranational), marketable bonds and other obligations issued or unconditionally guaranteed by an agency of a sovereign government of a country or by multilateral organisations.

- Banks' and other financial institutions' short- and long-term securities.

- Derivatives with underlying instruments explicitly authorised in the investment guidelines for efficient portfolio management.

- Repurchase agreements (repos) and reverse repurchase agreements (reverse repos): The eligible securities comprise securities which the Bank is authorised to obtain.

- Foreign exchange: Currencies eligible for investment as authorised in the investment guidelines.

- Corporate, asset-backed and covered securities: Any marketable bond, note or other obligation or security (including securities that are asset-backed securities) issued or unconditionally guaranteed by a legal entity or trust.

- Mortgage-backed securities (MBS): Agency MBS.
- Money-market mutual funds.
- Other asset classes as may be expressly authorised by the GEC.

## Annexure C: Credit risk guidelines

Only ratings issued by the rating agencies Standard and Poor's, Fitch and Moody's shall apply. Securities and issuers must be rated by at least two rating agencies. In the event that a security is rated by only two rating agencies, the lower of the two credit ratings will apply. If the security is rated by the three rating agencies, the lowest of the two highest ratings will apply. Securities or issuers of securities rated below ‘A’ or ‘A-1’ are not permitted. Unrated securities of qualifying issuers (i.e. rated ‘A’ or ‘A-1’ and above) will assume the issuer ratings according to the corresponding debt rank level. Counterparties must meet the minimum long-term credit rating by any two of the following rating agencies: Fitch, Standard and Poor’s or Moody’s, which credit rating must be at least single ‘A’. The FMD is responsible for the methodology for the selection and review of counterparties in consultation with the relevant Deputy Governor.

The Bank is authorised to transact in eligible instruments provided that the following credit risk guideline is adhered to:

(i) Obligations issued by the government of a country in the currency of such country should possess a minimum long-term foreign currency rating of ‘A’ (excluding ‘A-’).

(ii) Obligations issued by the government of a country in another currency unit other than its local currency unit should possess a minimum long-term foreign currency and local currency rating of ‘A’ (excluding ‘A-’).

(iii) Obligations issued or unconditionally guaranteed by the agency or state (province) of a government of a country or by a multilateral (supranational) organisation in any currency unit, provided that the obligation is rated at least ‘A’ (excluding ‘A-’) in both local and foreign currency.

(iv) Deposits with any commercial bank counterparty are permitted if the senior debt securities of the bank involved in the transaction are rated at least ‘A’ (long-term foreign currency rating) by at least two approved rating agencies. In addition, for deposits the FMD cash limit model will also apply. In exceptional circumstances (given that the term of deposits is typically so short making it impractical to obtain the approval of the Chair of Resmanco), the Head of FMD may approve temporary breaches of deposit limits, subject to the execution of any such discretion being reported to the Deputy Governor as soon as practicable.

(v) Corporate bonds are permitted with a minimum rating of ‘AA-’.

(vi) Covered bonds are permitted with a minimum rating of ‘AA-’.

(vii) Asset-backed securities are permitted with a minimum rating of ‘AAA’.

(viii) Money-market mutual funds are permitted given that the underlying instruments have a minimum rating of ‘A’ (excluding ‘A-’) or ‘A-1’.