

# Derivatives Risk Policy

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Improving the future prosperity of Victoria

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# 1. Introduction

## 1.1. Objectives

The *Derivatives Risk Policy* (the "Policy") outlines the policies, limits and controls in place covering the use of derivatives by VFMC and the processes for assessing compliance with those controls.

These policies, limits and controls are intended to ensure the proper use of derivatives in the management of client investment portfolios.

The *Derivatives Risk Statement* was first approved by the Board of Directors of VFMC on 20 December 2010. The *OTC Counterparty Approval and Exposure Monitoring Policy* was first approved by the Board of Directors of VFMC on 4 November 2009. This *Derivatives Risk Policy* consolidates both documents into a single policy.

## 1.2. Scope

This Policy applies to all employees of VFMC while performing their duties or acting on behalf of VFMC. It is a requirement that all employees involved in the management of derivatives understand and are familiar with the contents of this document.

# 2. Definition of Derivatives

Derivatives are financial contracts whose value is derived from an underlying asset or index. Derivatives include futures, options, swaps and forward contracts.

Some derivatives replicate physical investments and their market risk characteristics are similar. Others exhibit optionality i.e. they derive their value from giving or receiving the right but not the obligation to undertake a transaction (e.g. options, warrants).

Where uncertainty exists about whether an instrument is a derivative, it should be treated as a derivative for the purpose of this Policy.

# 3. Relationship to Investment Strategy

VFMC's aim is to meet or exceed clients' investment return objectives within the approved risk limits. The use of derivatives must be consistent with this aim and with the client investment strategies as set out in the Investment Risk Management Plan (IRMP), Client Investment Management and Funds Management Service Agreements, VFMC Multi Strategy Funds Brochure, and Section 9A of the VFMC Act.

# 4. Purpose of the Use of Derivatives

Derivatives may be used by VFMC as part of an overall strategy to achieve each client's return and risk objectives. For example:

- To manage market exposure and rebalance portfolios;
- As a hedge against adverse movements in market prices or exchange rates;
- As a substitute or proxy for physical instruments;
- To implement a strategy that cannot be replicated as efficiently with physical assets
  - on a net of fees / transaction cost basis; and/or
  - due to liquidity constraints;
- To manage asset-liability mismatch volatility;
- To control the market impact on portfolio valuations from significant transactions;
- To facilitate cash management; and
- To achieve transactional efficiency through reducing transaction costs and obtaining prices that may not be available in the physical market.

## 5. Restriction on the Use of Derivatives

### 5.1 Legislative and contractual restrictions

For clients covered under the IRMP, VFMC may only use derivatives in accordance with the Treasurer's approval under section 11 of the Borrowing and Investment Powers Act 1987 (BIPA) initially dated 1 May 2007 and as amended. Section 11 of BIPA applies to each client which is referred to in the BIPA Schedule.

For trusts where VFMC acts as trustee (which includes the Multi-Strategy Funds) VFMC may only use derivatives in accordance with the approval of the Treasurer under section 11 of the BIPA.

For other clients, where appropriate, the use of derivatives will be as prescribed in the client agreement.

### 5.2 Leverage and cash backing

Under the Treasurer Approval on Derivative Investment Powers (dated 13 January 2012), VFMC must ensure (in relation to any client portfolio or as trustee of any VFMC trust) that:

- it has at all times sufficient cash or assets to meet its net obligations relating to derivative positions;
- client portfolios and VFMC trusts are not leveraged; and
- it has not used derivatives in such a way that would result in any fund for which the client or VFMC as trustee is responsible being more than 100% invested (i.e. in this case VFMC would be deemed to be leveraged).

For VFMC this is achieved by different means in different cases:

- Long position: In the case of derivatives taking a long position in an underlying asset<sup>1</sup>, this is achieved by allocating an equivalent amount of cash (physical or synthetic) or "cash like" assets to "back" the notional amount of each derivative position.
- Hedging: In the case of derivatives hedging currency risk, equity risk or other market risks, the derivative is 'backed' by the assets being hedged.
- In the case of derivatives where the underlying is not an asset but rather a reference index (e.g. an interest rate or credit spread) no cash-backing is required unless (a) relevant trust guidelines, if any, specify otherwise; or (b) the Portfolio Execution team deems it prudent to cash-back the position.

Portfolio exposure is calculated on a net effective, rather than gross, basis<sup>2</sup>. A portfolio with more than 100% net effective exposure is deemed to be leveraged. The net effective exposure is calculated with reference to the market characteristics of the long and the short positions held (i.e. equities, bonds, currency). Further specific restrictions relating to net effective exposures (including the calculation methodology) may be detailed in trust guidelines or IMAs relating to particular trusts or mandates if warranted.

Derivatives may also be utilised in taking a short position in an underlying asset (but which aren't strictly "hedges"<sup>3</sup>). In this case one of the following must be satisfied:

- An equivalent quantity of 'similar assets' must be allocated to 'back' the notional amount of each derivative position<sup>4</sup>; or
- The amount of cash being held within a client portfolio or trust must be more than sufficient to satisfy any reduction in value (i.e. changes in collateral or margin requirements) in a severe market movement. Historical movements in the underlying asset are to be used as a guide, with a default time horizon period of 1 month – being a reasonable period over which additional liquidity could be sourced (should this be required).

"Cash like" assets are assets that in VFMC's professional judgement have a market exposure substantially equivalent to cash (i.e. approximately zero beta and a cash benchmark) and have sufficient liquidity to meet

<sup>1</sup> For the purposes of this section an "asset" is one or more physical securities such as an individual stock, a basket of stocks or stock index, an individual bond, a basket of bonds or a bond index, or a commodity or commodity index.

<sup>2</sup> Gross exposure is the aggregate of all long positions and short positions, whilst net effective exposure offsets long and short positions on a market exposure basis. For example, a portfolio may have 100% long exposure via derivatives and a 100% short exposure which would lead to a gross exposure of 200% and a net of 0%.

<sup>3</sup> For example, a short equity index futures position to achieve portfolio rebalancing or implement a portfolio tilt.

<sup>4</sup> An example of this may be a short DAA or CAA bond or equity position. These trades are done at the client level (rather than trust) and must not take the aggregate exposure in that market to an overall net short. For example, a short US bond DAA position of 2% requires a minimum of a 2% long position in US bonds (or cash), likely held within that asset class.

the derivative's settlement requirements. A 'similar asset' for the purposes of short positions is one with a very high correlation (>90%) to the underlying of the derivative.

Mandate or trust guidelines must have defined limits which are consistent with the above guidelines relating to cash-backing of short positions, ensuring the total potential loss does not exceed the value of the portfolio (including cash and traded positions). Where any of the above risk exposures or calculations are unable to be captured by automated compliance rules (i.e. potential loss on short derivative positions) the ultimate ownership is with the head of the relevant asset class in which the risk is taken. For such exposures, the methodology must be agreed with the Head of Portfolio Risk & Solutions in advance of the strategy or position being undertaken.

### 5.3 Options

In any given VFMC entity (client portfolio, trust or account) the total aggregate vega<sup>5</sup> of all the VFMC-managed option positions must be zero or positive, unless approval has been given in writing from the CIO in advance. In other words, no VFMC entity<sup>6</sup> can be "short volatility" from VFMC-managed option positions without CIO approval. Short volatility positions from options can generate significant risk and CIO approval is intended to ensure a robust discussion of risk and trade management prior to undertaking such a position.

## 6. Risk Analysis

Risk management is a fundamental part of the investment management process. VFMC is committed to having a strong control environment and culture to ensure that portfolios are managed in accordance with their relevant investment strategies and statutory approvals.

There are various risks associated with the use of derivatives. The key risks, and the controls in place to mitigate these, are outlined below:

### 6.1 Market Risk

Market risk is the potential loss from fluctuations in the market value of client portfolios and their constituent securities. Market risk is taken on behalf of clients as part of achieving their long-term investment objectives.

Market risk analysis for client portfolios and their components is conducted on a regular basis. VFMC monitors and controls market risk by ensuring that all positions including derivatives are marked to market, and that net exposure to an asset class does not go outside limits set in the client's or VFMC trust's investment strategy.

Derivatives traded internally by VFMC are marked-to-market daily. This mark-to-market (MTM) process involves revaluing each derivative with the most up-to-date market data. Market risk from derivatives arises from changes in the MTM value. Depending on the type of derivative, the MTM value can be sensitive to changes in one or more of the following, including:

- interest rates;
- inflation rates;
- foreign currency price levels;
- stock prices or equity index levels;
- credit spreads or credit index spreads;
- commodity prices;
- option volatilities;
- single- and cross-currency basis rates; and
- correlations.

Foreign currency exposure will naturally arise from investment in overseas assets and instruments, including derivatives. Such foreign currency exposure, and any use of derivatives to manage such exposure, must be consistent with the client's investment strategy and the VFMC trust's investment objectives.

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<sup>5</sup> The vega of an option is its sensitivity to changes in implied volatility. An bought call or put option position has positive vega and is "long volatility". A sold call or put option position has negative vega and is "short volatility".

<sup>6</sup> Individual option positions may have a negative vega so long as, at the entity level, the overall vega from VFMC-managed option positions is zero or positive.

## 6.2 Portfolio Liquidity Risk

This is the risk that a VFMC client portfolio or trust cannot meet financial obligations resulting from its derivative activities, such as meeting margin calls on futures contracts, posting collateral or margin on swaps or funding the settlement of an FX forward contract at maturity.

Each client's and VFMC trust's liquidity is monitored on a daily basis and regularly stress tested to ensure any future obligations can be met.

Various mitigants are utilised to manage liquidity risk across client portfolios including having cash in client portfolios, staggering the due dates for settlements, operating a cash management trust, undertaking liquidity coverage ratio analysis and maintaining REPO facilities with various financial institutions.

## 6.3 Market Depth Liquidity Risk

This is the risk that VFMC cannot easily unwind or offset a particular position at or near the previous market price, because of inadequate market depth or because of disruptions in the market. In managing market depth liquidity risk, the decision to invest in any instrument involves consideration of the instrument's liquidity and the size of the position to be taken relative to the overall market.

## 6.4 Counterparty Credit Risk

Counterparty credit risk is the risk that a counterparty (the other party with whom a derivatives contract is made) will fail to perform its contractual obligations (i.e. default in either whole or part) under a contract.

Derivative transactions can only be undertaken with approved counterparties in accordance with Section 7 of this policy.

## 6.5 Basis Risk

Basis risk is the risk that a derivative security does not exactly mirror the price movements of the underlying security or benchmark index. VFMC considers basis risk along with other considerations such as transaction costs and liquidity, when evaluating portfolio implementation options.

## 6.6 Operational Risk

Operational risk is the risk that deficiencies in the effectiveness and accuracy of the information systems or internal controls and processes will result in material loss. This risk may be associated with human error, systems failures, inadequate procedures and lack of internal management controls.

VFMC mitigates operational risks with the following processes and controls:

- Organisational separation of Investments, Investment Operations, Data Management and Settlement functions.
- Within the Investments function, the CIO sets out authorisations to implement strategies and transact securities, including derivatives as per the Authorisation to Trade Policy.
- Investment guidelines restriction monitoring is performed via a combination of automated and manual processes. The Custodian performs post trade investment guideline monitoring on all portfolios managed by VFMC and mandated external fund managers. Internal monitoring is performed by the Risk & Compliance Team.
- The Investment Operations function maintains a fit-for-purpose, vendor-supplied, widely-used trading system supported by a skilled internal IT team. The Risk and Compliance Team, overseen by the Chief Risk Officer, are responsible for maintaining and supporting a risk management program to effectively evaluate and mitigate operational risk across the organisation

IRMP asset allocations are monitored by the Investments, Investment Operations and Risk & Compliance teams:

- All derivatives positions, margins and cash balances are reconciled by the Custodian with counterparties and clearing brokers' statements.
- The Custodian captures and settles all derivative transactions.
- The Custodian values all securities, including derivatives, daily for Investment Administration, Investment Management & Technology and Analytics services, including performance, mandate monitoring, and client and fund accounting purposes. VFMC also values derivatives daily for portfolio management purposes consistent with the Investment Pricing and Valuation Policy.
- For portfolio management purposes, the Custodian reconciles daily all portfolio holdings and valuations in the Investment Book of Record (IBOR) to VFMC's portfolio management system (SCD) and resolves any discrepancies. The Custodian also reconciles daily all portfolio holdings in the IBOR to the Custody and Accounting records. The Investment Operations team will perform daily oversight activities and quality assurance for these reconciliation functions.
- A business continuity plan is in place to ensure the business can continue to operate in the event of a disaster.

## 6.7 Legal Risk

Legal risk is the risk that counterparty performance obligations are not properly documented or legally enforceable. Legal arrangements and documentation are reviewed by the Legal team and must be signed off before execution. Where necessary, the legal department utilises external legal counsel with the appropriate skills and experience for particular transactions. VFMC only executes non-centrally cleared over-the-counter (OTC) contracts with counterparties with whom ISDA Master Agreements are in place.

## 6.8 External Manager Derivatives Risk

VFMC utilises external fund managers for investment management services. External manager derivatives risk is the risk that these managers:

- use derivatives in a manner that is not consistent with VFMC's investment management process; or
- have deficient or ineffective internal controls and processes, which may result in material loss.

VFMC mitigates this risk via:

- Investment Management Agreements with mandated managers which specify investment guidelines and any limitations on the use of derivatives;
- Ensuring Derivatives Risk Statements (where available) and Reports on Internal Controls are received annually from mandated managers;
- Where utilising pooled vehicles, ensuring an understanding of the manager's derivatives and risk management process as part of its due diligence; and
- Monitoring and reporting of any manager investment guideline breaches.

# 7. Counterparty Approval

## 7.1 Types of Counterparties

This Policy defines three categories of counterparties:

Category 1: Central clearer or Exchange

Category 2: Bilateral OTC counterparty – collateralised

Category 3: Bilateral OTC counterparty – uncollateralised<sup>7</sup>

The counterparty risk differs in each case and this Policy tailors the approach accordingly. Category 1 is the safest whilst category 3 can involve material counterparty risk:

	Variation Margin <sup>8</sup>	Initial Margin <sup>9</sup>	Capital Reserves	Clearing House
<b>Category 1</b>	Yes	Yes	Yes	Yes

<sup>7</sup> For the avoidance of doubt, "uncollateralised" means uncollateralised to VFMC. A bilateral OTC counterparty where VFMC receives collateral, but doesn't post collateral, should be treated as collateralised for the purposes of this policy.

<sup>8</sup> Variation margin is a collateral payment to the counterparty to cover the current mark-to-market value of a derivative.

<sup>9</sup> Initial margin is an additional one-off collateral payment to the counterparty, over-and-above the variation margin, to cover slippage and gap risks that the variation margin may not be sufficient to cover.



<b>Category 2</b>	Yes	If specified	No – but derivatives rank senior	No
<b>Category 3</b>	No	No	No – but derivatives rank senior	No

Category 2 and 3 counterparty risks can be significantly mitigated by three policy mechanisms: (A) strict eligibility criteria for approval counterparties; (B) on-going monitoring of counterparties; and (C) credit risk limits. (A) and (B) ensure that default is highly unlikely and (C) limits the loss in the event of default.

For the purposes of this policy, the counterparty for any centrally-cleared derivative is the central clearer.

### 7.1 Criteria for Approval of Category 1 Counterparties

There are three criteria for a Category 1 Counterparty to be approved for trading with VFMC:

1. It must be government regulated in one of the following jurisdictions:
  - a. Asia Pacific: Australia, New Zealand, Japan, Hong Kong or Singapore
  - b. North America: the United States or Canada
  - c. Europe: the United Kingdom, the European Union or Switzerland
2. It must be assessed by the Head of Portfolio Risk & Solutions to be:
  - a. a material source of liquidity for the contracts likely to be traded;
  - b. widely used by major financial institutions and of good repute; and
  - c. have robust operational infrastructure.
3. It must be approved by TRAC and EIC.

The list of approved Category 1 Counterparties is in Schedule 1 of this Policy.

### 7.2 Criteria for Approval of Category 2 and 3 Counterparties

There are three criteria for a Category 2 or 3 Counterparty to be approved for trading with VFMC:

1. It must have a minimum long-term credit rating of A or equivalent, on average across the three main rating agencies of S&P, Moody's and Fitch
2. It must be assessed by the Head of Portfolio Risk & Solutions to be:
  - a. sufficiently credit worthy with reference to its traded credit spreads; and
  - b. widely used by major financial institutions and of good repute.
3. It must be approved by TRAC and EIC.

The list of approved Category 2 and 3 Counterparties is in Schedule 2 of this Policy.

### 7.3 Ongoing Evaluation of Approved Counterparties

The Head of Portfolio Risk & Solutions is responsible for the on-going monitoring of Approved Counterparties.

If an existing Approved Counterparty (a) no longer meets the requirements set out in this Policy; and/or (b) represents too high an exposure (whether direct or indirect) in VFMC's portfolio; then the Head of Portfolio Risk & Solutions will make a timely recommendation to TRAC that reflects the:

- significance of the change in credit risk;
- perceived probability of default;
- magnitude of the credit risk metrics;
- level of liquidity across investment markets;
- relevant commercial criteria (pricing, service, relationship and trade volume); and
- the overall exposure (direct or indirect) of that entity in VFMC's portfolio.

### 7.4 Transactions with Non-Approved Counterparties

Trades with non-approved counterparties are not permitted except in a circumstance where:

- a. such a trade is either (i) a necessity; or (ii) strategically highly important; within a timeframe shorter than the standard approval process (described in sections 7.2 and 7.3 above) could practically be completed; and
- b. the CIO has given written approval in advance.

## 8. Counterparty Exposure Monitoring

### 8.1 Credit Risk Limits

No credit risk limits are applicable to Category 1 counterparties.

Once a Category 2 or 3 counterparty has been approved, its derivative exposure to VFMC must remain within an expected loss (EL) limit. The EL limit ensures that the counterparty's derivative credit risk to VFMC at the current point in time is not excessive. These limits are specified in Schedule 3.

A counterparty's non-derivative positions will reduce the available EL limit by an amount equal to their aggregate EL. This ensures that the total credit exposure across all instruments from a single counterparty remains acceptable. If a counterparty's non-derivative positions generate an aggregate EL equal to or greater than the EL limit specified in Schedule 3, then the available limit for derivatives with that counterparty is reduced to zero.

In other words, the available EL limit for derivatives from a given counterparty C is equal to  $A - B$  where:

- A is the EL limit in Schedule 3 applicable to counterparty C; and
- B is the aggregate EL from all non-derivative positions from counterparty C.

If B is larger than A, then the available EL limit is zero.

EL limits in this policy do not apply to non-derivative instruments. This means that if a non-derivative instrument generates an exposure in excess of the counterparty derivative EL limit, that does not constitute a breach under this policy (although it may constitute a breach under another policy).

Once a Category 3 counterparty has been approved its exposure must additionally remain within a counterparty FX delta limit. The counterparty delta limit helps to ensure that the counterparty credit risk does not become excessive in future due to adverse market movements. Since the only trades with Category 3 counterparties are FX derivatives, only Category 3 counterparties are subject to a FX delta limit (i.e. not interest rate, equity or other deltas)<sup>10</sup>.

In addition to the compliance with limits, active risk management by the relevant risk owners is an essential requirement to ensure that market moves do not cause a passive limit breach.

For the purposes of setting limits, this Policy defines three tiers of Category 2 and 3 counterparties, with different tolerances for each:

1. The Custodian appointed to ensure the safe keeping of client assets;
2. Australian financial institutions;
3. Regulated international institutions.

The credit limits for each counterparty, as approved by TRAC and EIC, are detailed in Schedule 3. The limits are expressed as a proportion of FUM to ensure they scale appropriately and automatically.

### 8.2 Approval of Credit Risk Limits

The credit risk limits are approved by TRAC and EIC based on advice from the Head of Portfolio Risk & Solutions.

The limits are reviewed on an annual basis by the Head of Portfolio Risk & Solutions, TRAC and EIC.

### 8.3 Methodology

Approved counterparty exposure limits are applied to individual counterparties (rather than on a portfolio basis). Furthermore, non-derivative exposures (i.e. holdings of bonds, equities, deposits, notes and any other

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<sup>10</sup> In the unlikely circumstance that other types of derivatives are traded with a Category 3 counterparty, this policy may require amendment to include an appropriate non-FX delta limit.

securities<sup>11</sup>) issued by that counterparty are included in the utilisation of the limit to ensure that overall counterparty exposure remains reasonable and to enable a total fund calculation of exposures in the event of a default<sup>12</sup>.

The EL metric combines all counterparty exposures (derivative and non-derivative) with a market implied probability of default (PD) and any expected recoveries that may be realized post default, to arrive at an EL number for each counterparty with which VFMC trades. The following standard formula is used:

$$EL = \text{Exposure} \times PD \times (1-R)$$

Note that PD is tenor-dependent, and R depends on the seniority of the exposure. R is the recovery rate, derived from the standard market CDS assumptions i.e. typically 40% for senior exposures (derivatives and senior debt). R is assumed to be 0% for equities.

FX delta is computed for individual derivative positions by (a) perturbing the underlying spot FX rate by 1% (i.e. a relative move rather than an absolute one<sup>13</sup>); and (b) revaluing the derivative. The change in the derivative's value is the FX delta. The counterparty FX delta is the sum of all FX deltas for a given counterparty.

## 8.4 Reporting

For category 2 and 3 counterparties, an automated daily email with the following metrics is sent to the Risk & Compliance and Portfolio Risk & Solutions teams to assist real-time surveillance:

- actual exposures per counterparty;
- expected loss per counterparty; and
- counterparty FX delta.

Portfolio Risk & Solutions will update TRAC in a timely manner in the event of any counterparty credit risk issues.

## 8.5 Responsibilities

The Head of Portfolio Risk & Solutions has the following responsibilities:

- Daily monitoring of counterparty credit risk limits
- Monitoring, maintaining and updating the Approved Counterparty list
- Monitoring, maintaining and updating the credit risk limits
- Provision of reports to TRAC as required under this Policy
- Escalation of any limit breaches directly to the CIO and CFRO in a timely manner
- Preparation of Exception Reports (with the assistance of Compliance) in the event of any breach of this Policy

The CIO has the following responsibilities:

- Overseeing the Head of Portfolio Risk & Solutions' implementation of this policy
- Noting the counterparty reports to TRAC

All investment team staff have a responsibility to inform the Portfolio Risk & Solutions team in a timely manner if they become aware of any current or emerging issues involving counterparty risk.

# 9. People Management

A strong control environment and focus on risk management is embodied across the organisation via policies, training and regular risk reporting across the various functions. Recruitment procedures are designed so that VFMC recruits team members of appropriate calibre, expertise and background. There is a clear definition

<sup>11</sup> Also includes securities lending exposures.

<sup>12</sup> The equity trading that we undertake for internally managed portfolios is settled on a Delivery-versus-Payment (DVP) basis, so counterparty risk is not relevant in those transactions, i.e. the exchange of shares and cash is performed simultaneously at the Exchange Clearing House (CHESS).

<sup>13</sup> Relative FX delta as a function of spot FX is much less non-linear than absolute FX delta. Hence if there are large currency moves, a relative FX delta changes less which greatly reduces the chances of a passive limit breach.

and separation of responsibilities and regular performance assessments. Appropriate training is made available to VFMC's people.

## 10. Assessment of Controls

VFMC's people demonstrate compliance with their obligations through attestations and confirmations provided in the compliance monitoring and reporting system. This contains obligations arising from legislation, the Prudential Standard, regulatory approvals, risk controls, reporting and audit standards.

In addition to the above, internal and external audit periodically perform reviews of, and report on, VFMC's operations, internal controls and service providers.

Any breaches of legal and regulatory obligations or breakdown of control procedures are reported to the Operational Risk Management Committee and corrective action is taken as necessary.

## 11. Reporting

VFMC is responsible for regular reporting to clients. This includes making this Derivatives Risk Policy available to all relevant parties and any material updates as they occur.

VFMC is required to certify on a periodic basis that client funds are being managed in accordance with the IRMP and clients' investment objectives, and on the adequacy of internal controls.

Material breaches of internal controls in relation to the Derivatives Risk Policy and the use of derivatives will be reported to the Operational Risk Management Committee and the Board.

## 12. Related Documents

### 12.1 Related policies

Investment Pricing and Valuation Policy  
Authorisation to Trade Policy  
Risk Management Policy  
Risk Appetite Framework

### 12.2 Related Acts

Victorian Funds Management Corporation Act 1994 (VFMC Act).  
Borrowing and Investment Powers Act 1987

## 13. Schedule 1: Approved Counterparties – Category 1

1. London Clearing House (LCH)
2. Australian Securities Exchange (ASX)
3. New York Stock Exchange (NYSE)
4. Chicago Mercantile Exchange (CME)
5. Chicago Board of Trade (CBOT)
6. London Stock Exchange (LSE)
7. Euro Exchange (EUX)
8. EUREX Frankfurt AG (EUREX)
9. Stockholm Stock Exchange (SSE)
10. Singapore Stock Exchange (SGX)
11. Osaka Securities Exchange (OSE)
12. Hong Kong Futures Exchange (HKFE)
13. ICE Futures U.S. (IFUS)
14. ICE Europe Equity / Financial (IFLL)
15. Bourse De Montreal (MOD)

## 14. Schedule 2: Approved Counterparties – Categories 2 & 3

1. State Street
2. Commonwealth Bank of Australia
3. Westpac
4. ANZ
5. National Australia Bank
6. Macquarie Bank
7. Citigroup
8. UBS
9. Goldman Sachs
10. JP Morgan Chase
11. HSBC
12. BAML
13. Morgan Stanley
14. BNP Paribas SA
15. Deutsche Bank
16. Royal Bank of Canada

## 15. Schedule 3: Credit Limits

Tier 1 (Custodian)	Expected Loss Limit (bps)	FX Delta Limit (bps)
STATE STREET	25	10
<b>Tier 2 (Australian)</b>		
COMMONWEALTH BANK	15	10
WESTPAC	15	10
ANZ	15	10
NATIONAL AUSTRALIA BANK	15	10
MACQUARIE BANK	15	10
<b>Tier 3 (International)</b>		
CITIGROUP INC	10	10
BANK OF AMERICA	10	10
UBS AG	10	10
GOLDMAN SACHS	10	10
JPMORGAN CHASE & CO	10	10
HSBC	10	10
MORGAN STANLEY	10	10
BNP PARIBAS SA	10	10
DEUTSCHE BANK	10	10
ROYAL BANK OF CANADA	10	10