



Risk Management Policy
(extracts)

Pakistan Stock Exchange

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1. PURPOSE

The purpose of risk management is the creation and protection of value. It improves performance, encourages innovation and supports the achievement of objectives.

The purpose of the Risk Management Policy is primarily to create an environment where risks are managed in a proactive, anticipatory, responsible, coordinated and systematic manner and to assist the Board of Directors and senior management of PSX in implementing an effective framework for managing risk. In this regard, this policy sets the principles and guidelines that Pakistan Stock Exchange (PSX) needs to adhere to in order to address the uncertainty associated with the planning, performance management and operations. This includes integrating risk management principles into key decision making, core activities and processes.

PSX recognizes that making business decisions inherently involves taking calculated risks which is essential for delivering long term value to our shareholders. Therefore, PSX aims to use this risk management policy to make better-informed decisions to improve the probability of achieving its mandate, strategic goals and operational objectives. The policy is mainly guided by the principles, framework and process outlined in ISO 31000:2018 Risk Management Guidelines.

2. SCOPE

This policy is part of the overall Risk Management Framework (RMF) of PSX and applies to all departments and operations of PSX.

3. KEY DEFINITIONS

Control	Measure that maintains and / or modifies risk. Controls include, but are not limited to, any process, policy, device, practice, or other conditions and/or actions which maintain and/or modify risk.
Consequence/ Impact	A consequence is the outcome of an event and has an effect on objectives. A single event can generate a range of consequences which can have both positive and negative effects on objectives.
Context	To establish the context means to define the external and internal parameters that PSX must consider when managing risk. PSX's external context includes its external stakeholders, its local, national, and international environment, as well as any external factors that influence its objectives. PSX's internal context includes its internal stakeholders, its approach to governance, its contractual relationships, and its capabilities, culture, and standards.
Event	An event could be one occurrence, several occurrences, or even a nonoccurrence (when something doesn't actually happen that should have happened). It can also be a change in circumstances. Events always have causes and usually have consequences. Events without consequences are referred to as near-misses, near-hits, close-calls, or incidents.
Effect	A deviation from the expected.
ISO	International Organization for Standardization. It is an international standard-setting body composed of representatives from various national standards organizations.
Key Decisions	All strategic decisions as covered in strategic plan of PSX, decisions to start new projects/products, decisions for which senior management specifically requests for a risk assessment, etc.

Likelihood / Probability	Chance of something happening.
Risk	The effect of uncertainty on objectives. Risk is usually expressed in terms of risk sources, potential events, their consequences and their likelihood.
Risk Appetite	The level of aggregate risk PSX is willing to accept in pursuit of its objectives.
Risk Assessment	<p>Risk assessment is a systematic process which includes the following processes:</p> <p><i>Risk identification</i> is a process that is used to find, recognize, and describe the risks that could prevent PSX from achieving its objectives.</p> <p><i>Risk analysis</i> is a process that is used to understand the nature, sources, and causes of the risks that have been identified and to estimate the level of risk. It is also used to study impacts and consequences and to examine the controls that exist.</p> <p><i>Risk evaluation</i> is a process that is used to compare risk analysis results with risk criteria in order to determine whether or not a specified level of risk is acceptable or tolerable.</p>
Risk Tolerance	The specific maximum risk PSX is willing to accept in pursuit of its objectives.
Risk Treatment	A risk modification process. It involves selecting and implementing one or more treatment options. Once a treatment has been implemented, it becomes a control or it modifies existing controls.
Risk Heat Map	A tool used to visually and concisely present the likelihood and impact of multiple risks.
Risk Management	Coordinated activities to direct and control an organization with regard to risk at all levels.
Risk Management Framework (RMF)	A set of components that support and sustain risk management throughout PSX.
Risk / Process owner	A person that has been given the authority to manage a particular process and associated risk and is accountable for doing so.
Risk Register	A tool detailing description of risks, proposed responses / controls, likelihood/probability of occurring, impact(s) on objectives, remaining exposure, owners, etc.
Risk source	Elements which alone or in combination has the potential to give rise to risk
Inherent Risk Rating	A quantitative or qualitative value based on the probability of impact and the level of impact, with no risk response option considered. It is also called pre-treatment risk rating.
Residual Risk Rating	A quantitative or qualitative value based on the likelihood/probability of impact and the level of impact, after a risk response option is considered. It is also called post-treatment risk rating.
Stakeholder	A stakeholder is a person or an organization that can affect or be affected by a decision or an activity of PSX.
Senior Management	MD & CEO, COO, and Head of Departments of PSX.
Management System	A management system is the framework of policies, processes and procedures employed by PSX to ensure that it can fulfill the tasks required to achieve its purpose and objectives.

4. MANDATE AND COMMITMENT

PSX's Board unequivocally commits to sustain strong, efficient and effective risk management across PSX and is unequivocally supported in this by the Senior Management Team of PSX. Hence, the Board shall:

- ❖ Retain the responsibility for risk management whilst delegating oversight to the Board's Audit Committee
- ❖ Align risk management objectives with the objectives and strategies of PSX;
- ❖ Assign accountability for the maintenance of the Risk Register, and the execution of risk mitigation actions and operational risk management activities to the Managing Director;
- ❖ Ensure that necessary resources are allocated to risk management.

PSX's commitment to risk management is confirmed by the BoD's approval of this Risk Management Policy.

5. POLICY STATEMENT

PSX is committed to making risk-informed decisions by identifying, analyzing, prioritizing and mitigating the risks that may have an impact on PSX achieving its strategic goals, operational objectives, projects and day-to-day activities.

6. RISK CATEGORIES

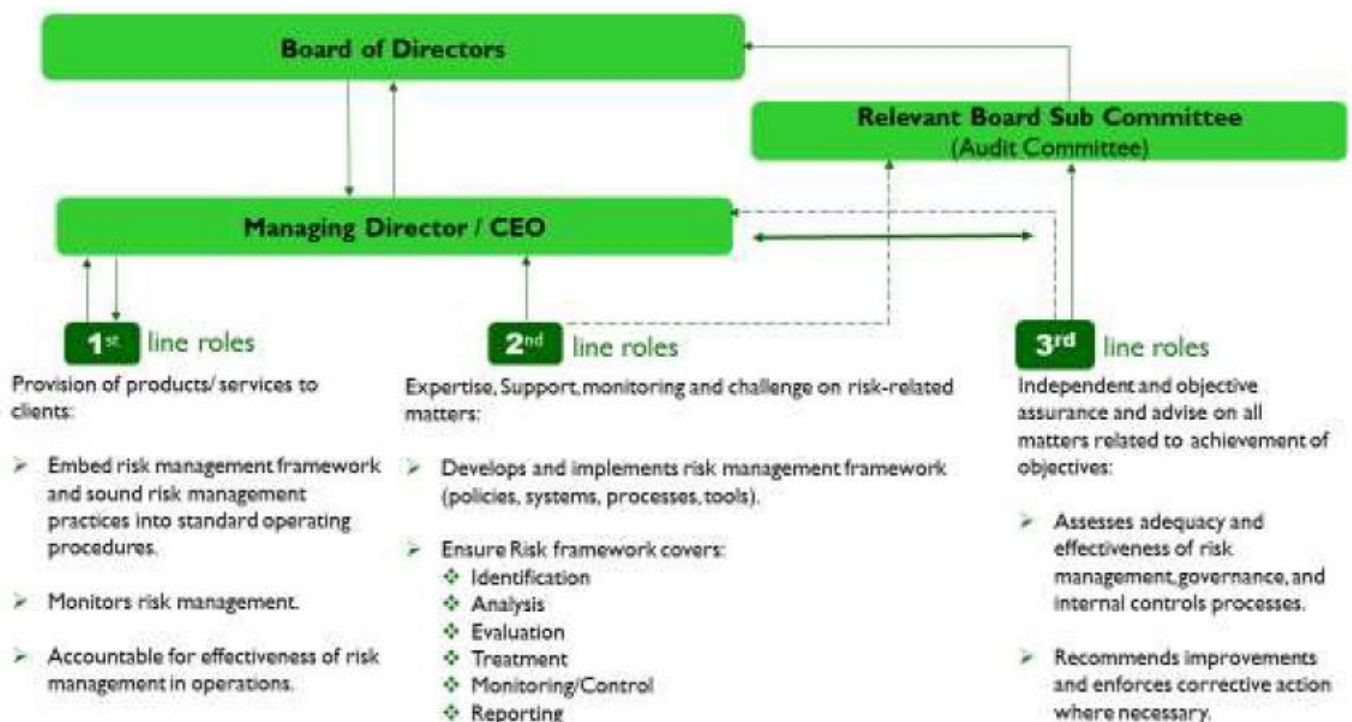
PSX is exposed to various types of risks including strategic and business risks, credit risk, market risk, liquidity risk, operational risk, information technology and security risk, compliance risk, reputational risk, etc.

7. RISK MANAGEMENT FRAMEWORK (RMF)

The purpose of the RMF is to assist PSX in integrating risk management into significant activities and functions. The effectiveness of risk management will depend on its integration into the governance of the organization, including decision-making. Framework development encompasses integrating, designing, implementing, evaluating and improving risk management across the organization.

8. GOVERNANCE STRUCTURE OF PSX

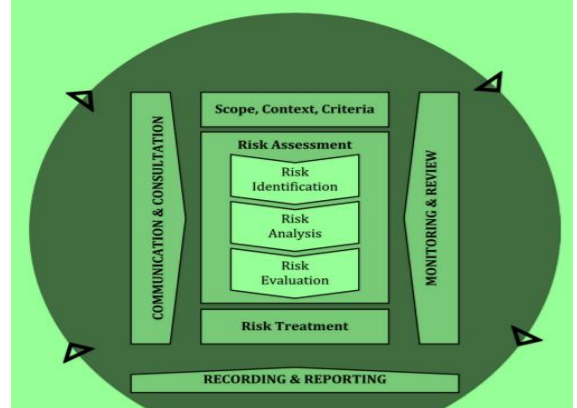
To ensure the effectiveness of PSX's RMF, the board and senior management rely on adequate line functions – including monitoring and assurance functions – within the PSX. Therefore, the 'Three Lines Model' has been adopted which explains relationship between these functions and guides as to how responsibilities should be assigned.



9. RISK MANAGEMENT PROCESS

PSX integrates risk management in core business activities including key decision-making. Whenever management or staff are required to make a key decision, appropriate risk management has to be performed. The overview of the risk management process is depicted in diagram.

Risk management is an integral part of management and key decision-making and is integrated into the structure, operations (including new projects) and processes related to PSX strategic goals and objectives.



10. ROLES AND RESPONSIBILITIES

The management of risk is both an individual and collective responsibility at all levels of the PSX. Everyone who engages in PSX activities has an active role in being 'risk aware' and managing risks. Management should ensure that the responsibilities and authorities for relevant roles with respect to risk management are assigned and communicated at all levels at PSX.