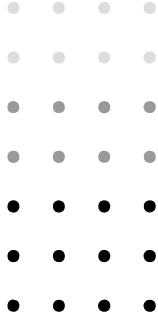


2023 Asian Regional Forum on
Investment Management of Foreign Exchange Reserves
Bali, Indonesia | 25-27 October 2023

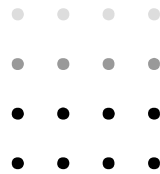


GOVERNANCE IN RESERVE MANAGEMENT

Mohammad Mahbub Alam
Director
Forex Reserve & Treasury
Management Department
Bangladesh Bank



FOREIGN EXCHANGE RESERVE: AN OVERVIEW

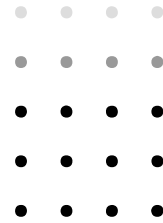


Official foreign exchange reserves include external assets readily available to and controlled by monetary authorities for direct financing of payments imbalances, indirectly regulating the magnitudes of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or other purposes.





Reserve assets, according to IMF BPM6, includes:



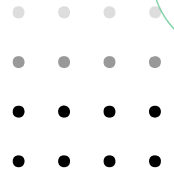
01 Monetary Gold

02 SDR Holdings

03 Reserve Position in the IMF

04 Other Reserve Assets
(currency, deposits, securities, financial derivatives, and other claims)





PURPOSE OF HOLDING RESERVE



Increase the capacity to intervene in the market to build confidence in monetary policy and exchange rate management

Provide confidence in meeting external debt obligations and backing up the value of domestic currency



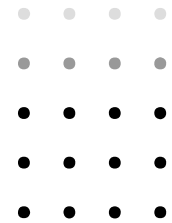
Limit external vulnerability and absorb BOP shocks

Maintain a reserve for national disasters or emergencies





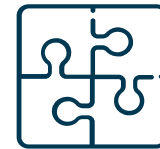
RESERVE MANAGEMENT OBJECTIVES



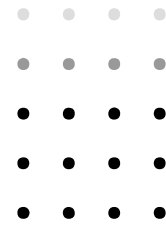
Ensure adequacy of reserve for meeting a defined range of objectives



Ensure liquidity, manage market and credit risks in a prudent manner



Subject to liquidity and other risk constraints, generate reasonable earnings to support the cost of holding reserves.



GOVERNANCE IN RESERVE MANAGEMENT

- ✓ Transparency and Accountability
- ✓ Risk Management
- ✓ Adherence to Regulations
- ✓ Monitoring and Evaluation
- ✓ Operational Efficiency
- ✓ Conflict Resolution
- ✓ Data and Information Management
- ✓ Capacity Building

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ROBUST GOVERNANCE FRAMEWORK



Legal Ownership of FX Reserve

- **Foreign exchange reserves are typically legally owned and managed by a country's central bank.**

- **Central Bank Independence**
 - ✓ A significant degree of independence in managing reserve is required

- **Legislative Framework**
 - ✓ Sound institutional and governance arrangements should be established through a legislative framework
 - • • •
 - • • •
 - • • •

ROBUST GOVERNANCE FRAMEWORK



Clear Mandates, Responsibilities, and Performance Criteria

➤ **Central Bank's Role and Responsibilities**

- ✓ Should have clear mandates and responsibility to manage reserve without political interference.

➤ **Government's Role and Oversight**

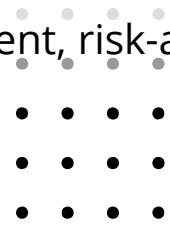
- ✓ The government may set broad policy objectives and provide guidelines for reserve management for effective communication and cooperation.

➤ **Defining Performance Metrics**

- ✓ Metrics may include return on investment, risk-adjusted returns, liquidity ratios, and adherence to investment guidelines.

➤ **Accountability and Reporting**

- ✓ Reporting requirements should be transparent, timely, and accessible to the public and relevant stakeholders.





ROBUST GOVERNANCE FRAMEWORK

Effective Oversight and Risk Controls

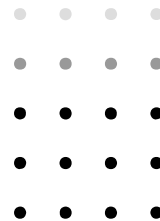
➤ **Risk Management Framework**

- ✓ Robust risk management framework is essential to keep External Market-based risks (e.g. liquidity risks, currency risk, interest rate risks) and Operational Risks (e.g. control system failure risks, financial error risk, loss of potential income) within acceptable parameters and levels.

➤ **Portfolio Diversification**

➤ **Governance Structures**

➤ **Internal and External Audits**



ROBUST GOVERNANCE FRAMEWORK



Communication and Cooperation Between Public Institutions

- **Coordination among Key Stakeholders**
- **Interagency Collaboration**
- **Transparency and Information Sharing**
 - ✓ Promotes trust and informed decision-making
- **Aligning Objectives**
 - ✓ Ensure that monetary and fiscal policies are aligned with the objectives of reserve management





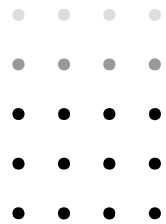
Case Study: Governance Style - Bangladesh



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LEGAL FRAMEWORK



Legal Mandate

Bangladesh Bank Order, 1972- “to hold and manage the official foreign reserves of Bangladesh.”

Reserve Management Guidelines (RMG)

Approved by the Board of Directors of BB, it defines the objective, responsibilities and institutional framework for reserve management.

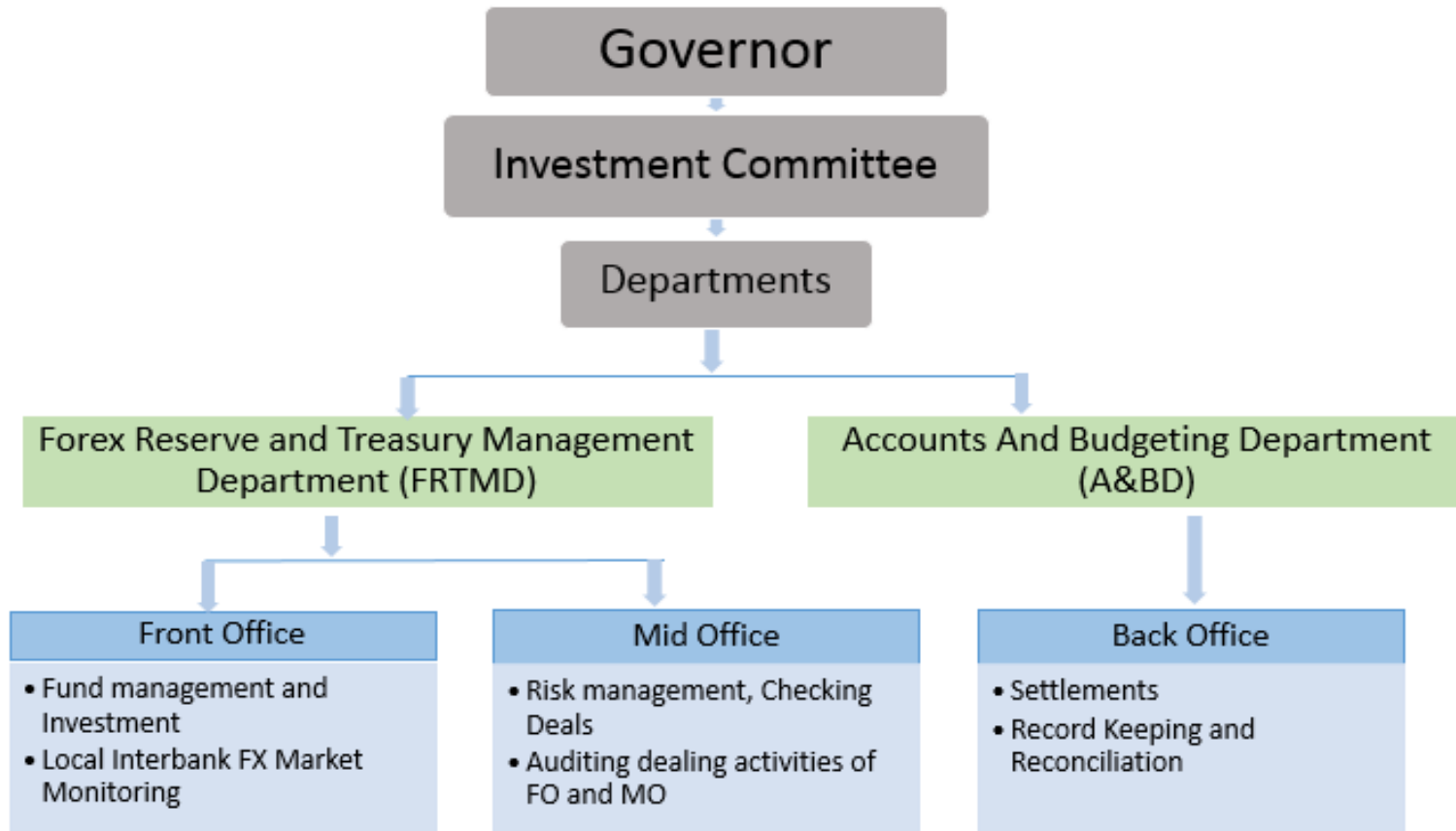
Reserve Management Operations Manual

Approved by the Governor, it sets out the policies, authorities, and procedures to be followed in day-to-day foreign currency dealing operations.

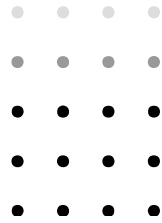
Investment Committee (IC)

Constituted by the Governor, IC is responsible for managing the foreign exchange reserves adhering to RMG.

MANAGEMENT & OVERSIGHT



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INVESTMENT COMMITTEE

Chairman

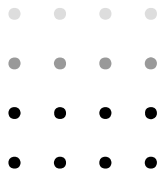
- Deputy Governor

Members

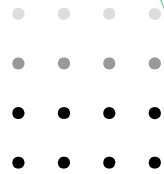
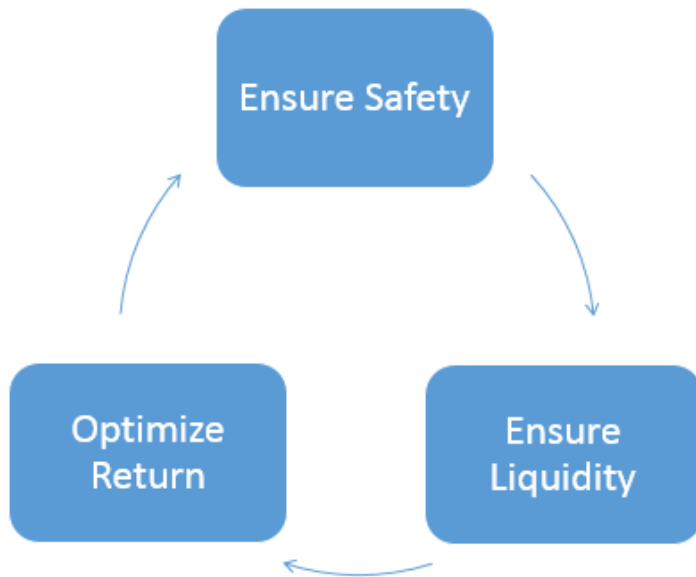
- Executive Director, FRTMD
- Chief Economist
- Director, FRTMD
- Director, A&BD

Member Secretary

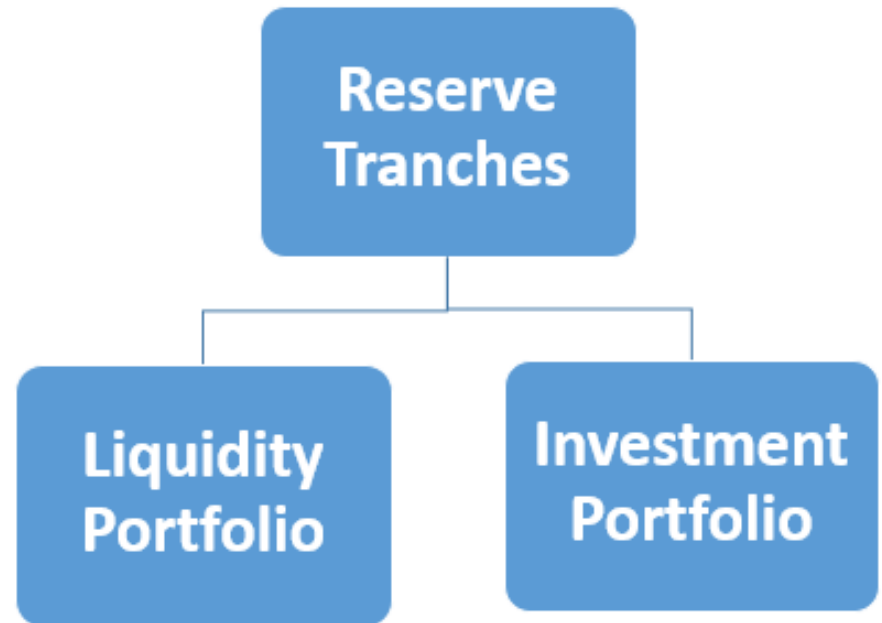
- Additional Director, FRTMD (Mid Office)



OBJECTIVES OF RESERVE MANAGEMENT



PORTFOLIO DIVERSIFICATION





CHALLENGES IN GOVERNANCE

Political Interference



Lack of Transparency

Coordination Issues

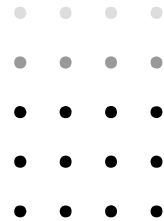


Rapid Market Changes



BEST PRACTICES IN GOVERNANCE

- *International Standards (e.g., IMF Guidelines)*
- *Regular Review and Adaptation*
- *Public Disclosure*
- *Continuous Training and Capacity Building*



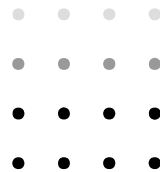


CONCLUSION

➤ Key Points:

- ✓ Good Governance
- ✓ Best Practices
- ✓ Risk Management

➤ Call to Action for Good Governance



THANK YOU!

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