



BANGKO SENTRAL NG PILIPINAS

Governance in Reserve Management at the Bangko Sentral ng Pilipinas

Presented by

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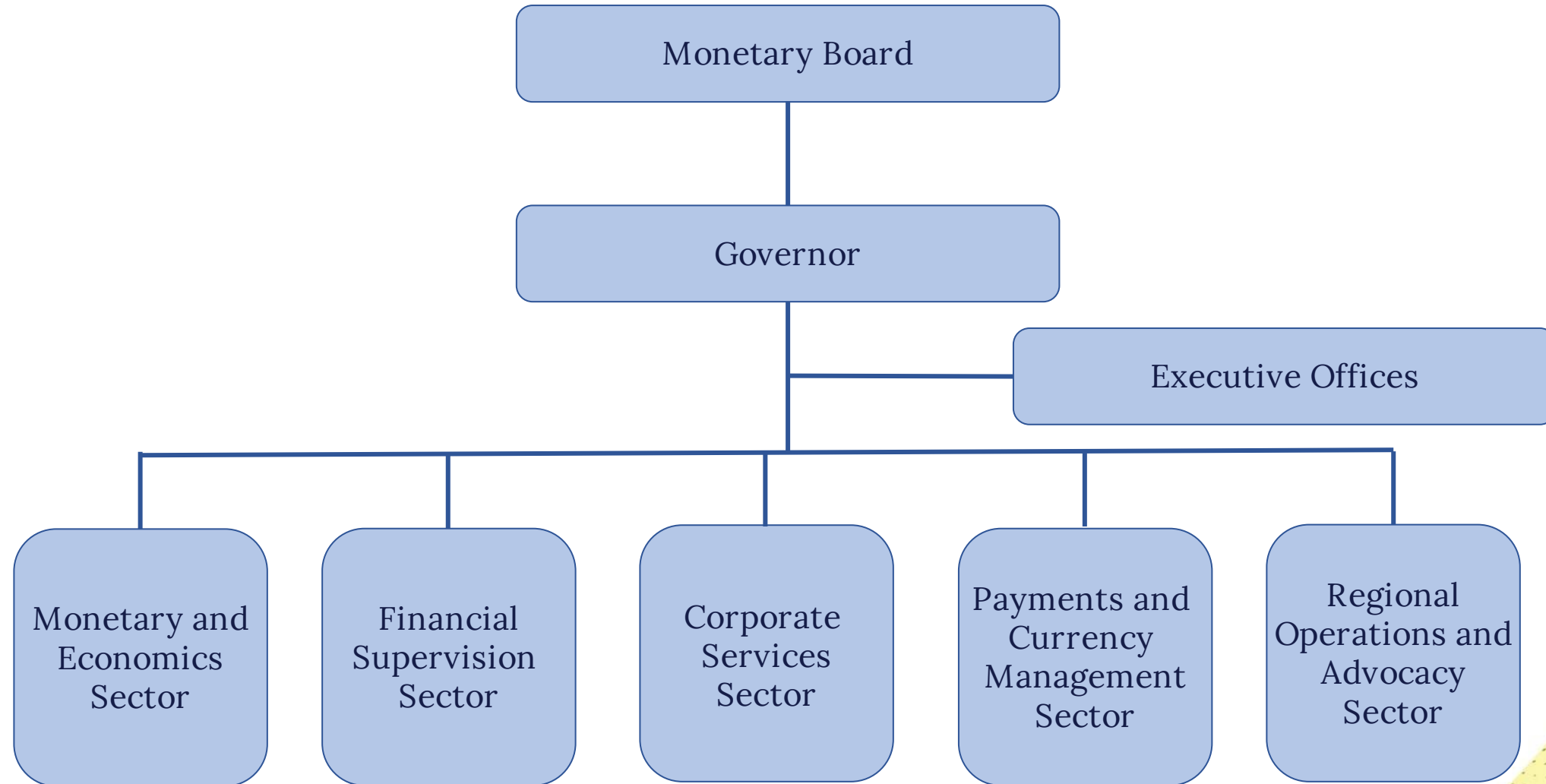


Outline

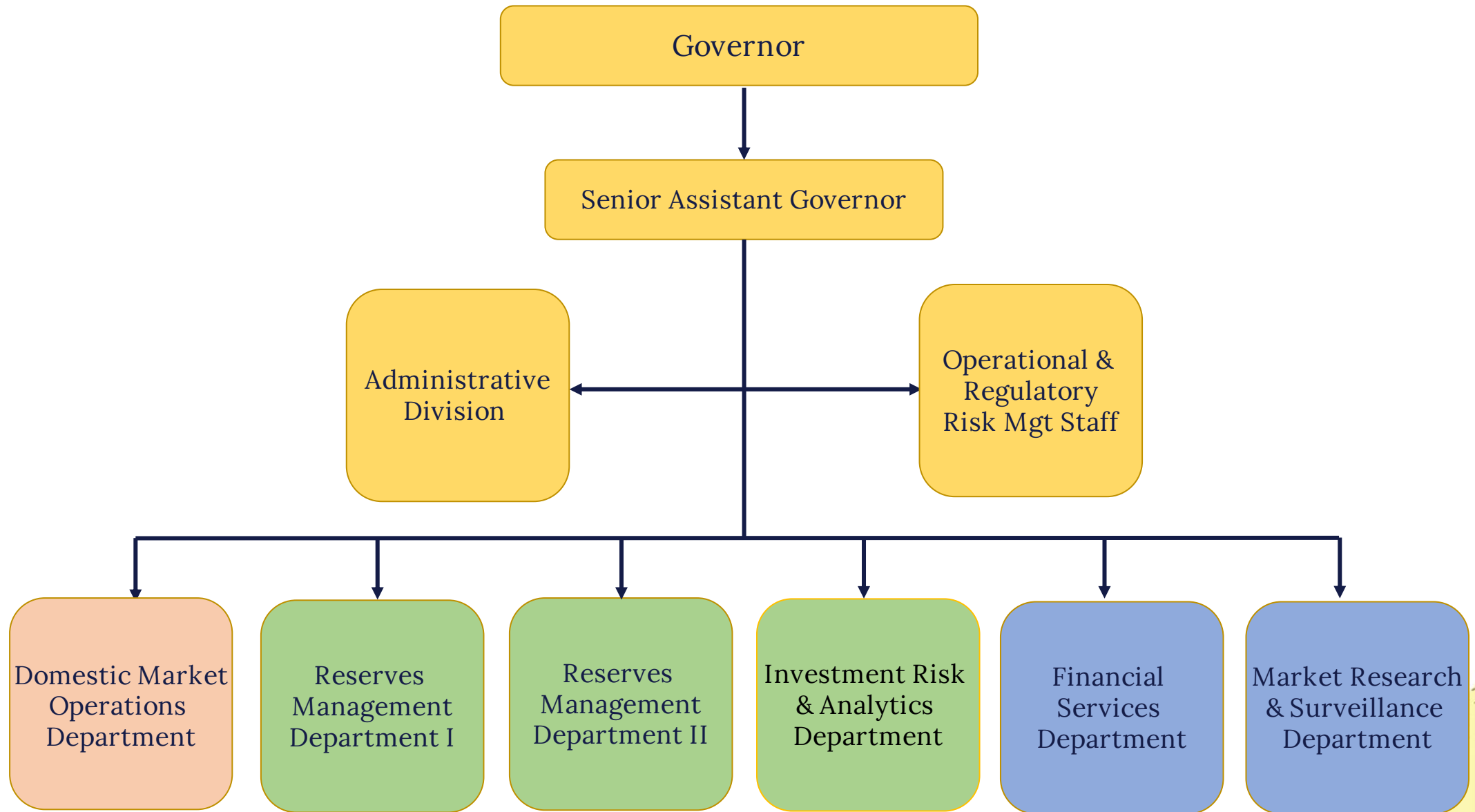
- Organizational Structure
 - BSP
 - Financial Markets
- Governance
 - Regulatory Framework
 - Structure
 - Risk Controls and Performance Criteria



BSP Organizational Structure



FM Organizational Structure



Regulatory Framework – International Reserves

Republic Act 11211
(BSP Charter of
2019)
Sections 65, 66 & 75)

Republic Act 7076
(People's Small-
scale Mining Act
of 1991)

Republic Act 11256
(An Act to Strengthen the
Country's GIR of 2019)



Vertical and horizontal governance

■ Vertical governance

- Decisions should be taken at the right level and otherwise such key decisions could be taken without proper guidance from the top.
 - ➔ The executive level of the organization should be responsible for strategic decision-making

■ Horizontal governance

- To organize business areas and their reporting lines to minimize conflicts of interests
 - ➔ The front, middle and operation functions are to be separated for check and balance

Source: World Bank



Governance Structure for Reserve Management

Monetary Board

Approves the Strategic Asset Allocation & Investment Policy;
Sets the Risk Tolerance



Investment Management Committee

Approves the Operational Investment Guidelines & Parameters; Oversees & provides direction & recommendations on the management of international reserves



Financial Markets

Tactical Asset Allocation, Implementation, Feedback and Reporting of Portfolio Activities/Performance



IMC Governance

Chairman : Governor

Vice Chairperson : Deputy Governor
Monetary and Economics Sector

Members : Deputy Governor
Financial Supervision Sector

Deputy Governor
Corporate Services Sector

Senior Assistant Governor
Financial Markets



Main Responsibilities

Monetary Board (MB)	Investment Management Committee (IMC)	Financial Markets (FM)
Approves the Investment Policy Criteria	Approves the Operational Guidelines	Implements the management of the international reserves
<ol style="list-style-type: none"> 1. Defines the macro objectives & constraints for reserves management 2. Approves the following: <ul style="list-style-type: none"> ❖ The tranche structure of the reserves ❖ Methodology for determining the currency composition ❖ Tolerance to market and credit risks & the investment horizon ❖ Set of eligible asset classes ❖ Criteria for the selection of counterparties/agents/EFMsFramework for managing gold reserves 3. Notes the performance of the various BSP's portfolios covering non-gold reserves 	<ol style="list-style-type: none"> 1. Translates the macro objectives & constraints into operating guidelines 2. Approves the following: <ul style="list-style-type: none"> ❖ Size of the tranches and rebalancing operations ❖ Currency composition of each tranche ❖ Selection of benchmarks for each tranche ❖ Budget of risk for active management and other risk limits ❖ Reviews and provide direction on the deviations of the internally-managed reserves against approved benchmarks ❖ Acceptable minimum credit rating threshold applied to counterparties, issuers and agents ❖ Selection of counterparties/ EFMs/issuers and limits ❖ Methodology for the assignment of limits ❖ Operational guidelines and parameters for managing gold 3. Reviews and evaluates the risk, and performance of the various BSP's portfolios 	<ol style="list-style-type: none"> 1. Manages the international reserves 2. Performs the following: <ul style="list-style-type: none"> ❖ Determines the size of the tranches and currency composition; rebalancing. ❖ Calculates and proposes strategic asset allocation (SAA) ❖ Calculates the budget of risk and other risk limits ❖ Proposes and implements strategies for reserve management ❖ Studies and recommends the minimum credit rating threshold; ❖ Credit analysis on issuer names and assignment of limits ❖ accreditation of counterparties and assignment of limits to counterparties ❖ Selection of agents and EFMs ❖ Compliance monitoring ❖ Settlement, accounting and reconciliation procedures 3. Measures the risk and performance of the various BSP portfolios



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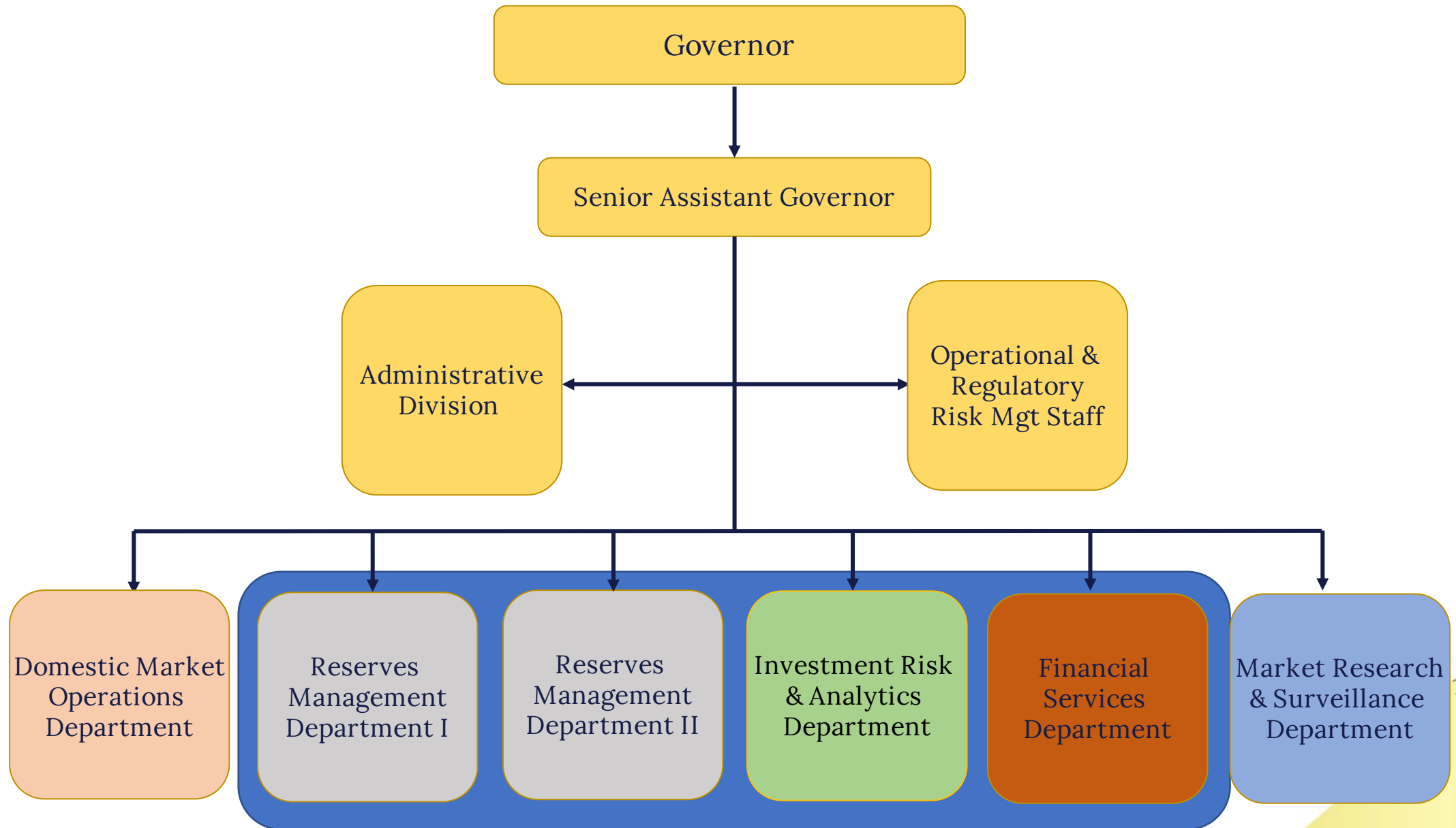
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FM Organizational Structure



Risk Measures for Strategic Asset Allocation

Probability of
negative return

Return/Risk

Value-at-Risk
(VaR)

Expected Shortfall
or
Conditional VaR



Risk Limits in the Investment Guidelines

Duration limits

Currency deviation limits

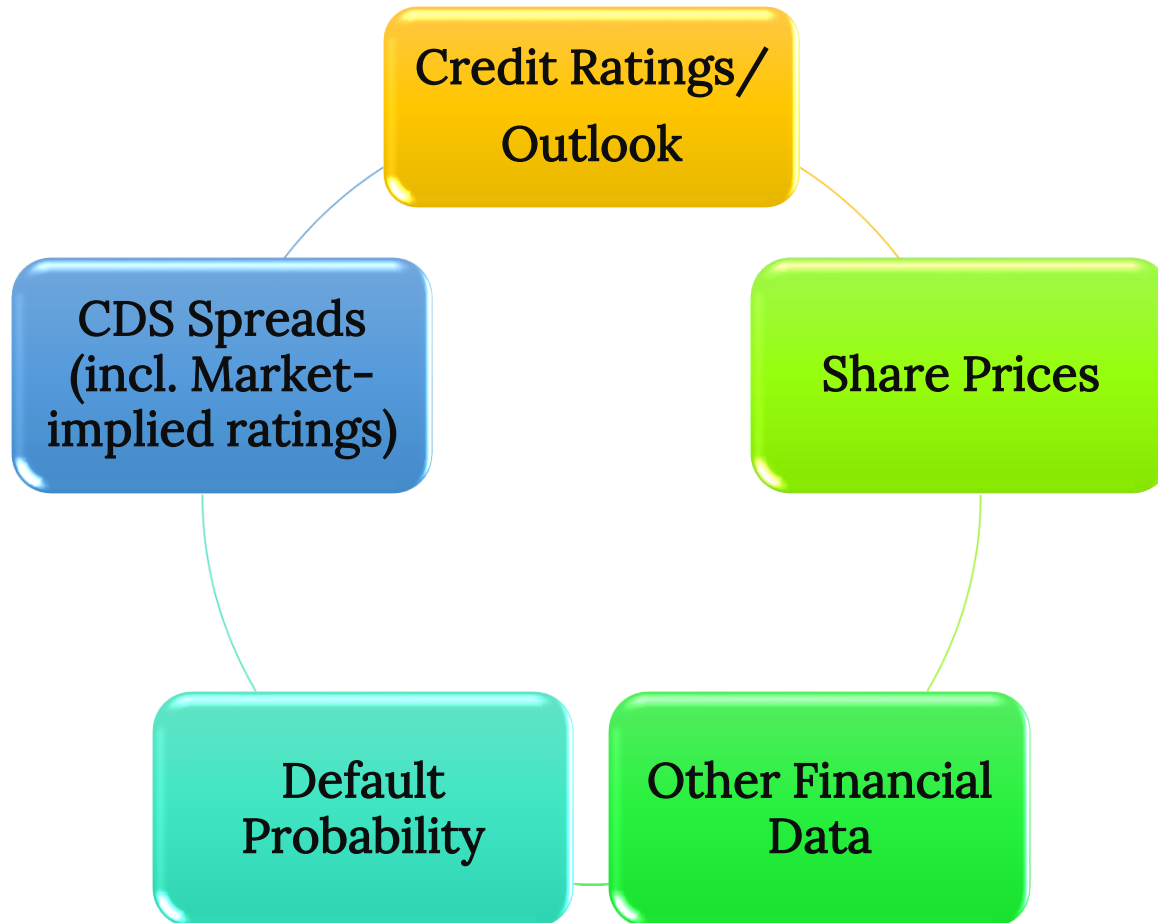
Soft ex-ante tracking error limits



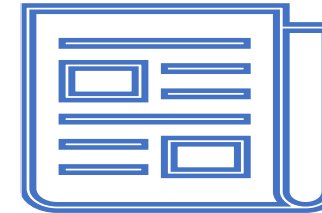
Credit Risk Management

Monitoring Tools

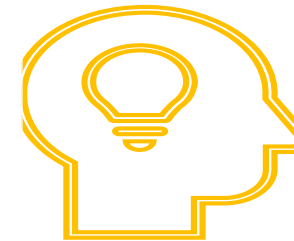
A. Quantitative



B. Qualitative



Relevant News



Dealer's Opinion



Performance Measurement and Analytics

Measurement

Change in market price

FX rates

Accrued interest

Analytics

Absolute return

Relative return

Attribution Factors

Duration strategies

Credit strategies

Currency strategies

Carry (coupon rates or yield to maturity)



Thank you.

