

Risk Management for Central Banks

4-day intensive residential programme
11 – 14 September 2012

Christ's College, Cambridge

Course chairman:

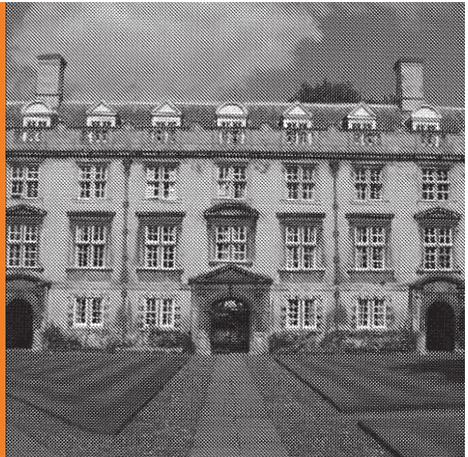
Luděk Niedermayer

Director, Deloitte Consulting and Former
Vice-Governor, Czech National Bank

Series adviser:

Charles Goodhart, CBE

Professor Emeritus
London School of Economics
Financial Markets Group



Dear Delegate,

"Risk management functions in central banks needs to be 'quite a bit bigger' given the tasks being carried out."

Paul Fisher, Executive Director for Markets, Bank of England, March 2012

The acceptance of riskier forms of collateral, the unprecedented scale of the liquidity support throughout the crisis, the sharp and unpredictable fluctuations in exchange rates present and volatile flows, a series of interlocking challenges for the assessment and management of financial and operational risks.

Across the globe, central banks have responded. They are rethinking and implementing approaches to risk management. They are setting up committees and risk management departments unifying financial and operational risks in order to establish an enterprise wide risk management culture across the institution.

For central banks taking risks is unavoidable. They are, as the crisis showed, the fire fighters of last resort.

However, risks can be managed and central banks need to apply state-of-the-art tools to their particular circumstances. This is necessary to uphold the public's confidence and, furthermore, by leading by example they promote sound risk management practices to the private sector.

This course, Risk Management for Central Banks, equips risk managers with the tools to meet these challenges. It does not look for the best practice, it is designed for the participating central banks to identify the 'right' practice for their unique circumstances by openly and confidentially comparing lessons learned and new approaches explored with their peers.

The four-day programme of interactive roundtable seminars and workshops offers concrete examples of risk management innovation and implementation, as well as opportunities to explore those questions that are most important to you.

This year we are delighted to welcome:

- **Janet Cosier**, Adviser on Strategic Planning and Risk Management, Bank of Canada
- **Magnus Vesterlund**, Head of Risk Division, Sveriges Riksbank
- **Jan Nigel Bladen**, Chief Operating Officer, Dubai Financial Services Authority

Key highlights include:

- Promoting a risk management culture
- Integrated risk division
- The fundamentals of enterprise wide risk management
- Defining operational risk for central banks
- Changing environment for FX reserves management
- Liquidity risk and open market operations
- Credit risk and internal credit rating
- Reputation risk management
- Risks stemming from bank interventions

We are delighted to welcome back **Luděk Niedermayer**, a former vice-governor of the Czech National Bank with extensive experience in risk management in the central banking context, as chairman for the seminar.

This format, as more than 3,500 central bankers and regulators can attest, encourages delegates to quiz panellists, raise issues and discuss solutions to the specific challenges they face.

We look forward to welcoming you to Cambridge in September.

Yours sincerely,



Robert Pringle
Chairman
Central Banking Publications



■ ■ Excellent training programme, very good venue and fruitful discussion. ■ ■

Ahmad Hidayat, Bank Indonesia

Tuesday 11 September

Establishing an enterprise wide risk management culture

Identifying current and future challenges

Led by the chairman **Luděk Niedermayer**, Director, Deloitte Consulting and Former Vice Governor, Czech National Bank

The global financial crisis has reshaped the risk profile of central banks almost beyond recognition. The new – and in many ways unprecedented – financial risks they face underlines the need for a robust framework for assessing and managing them. This introductory session will set out the fundamental principles of risk management for central banks. Participants will be asked to consider what the essential components of a risk management framework are and discuss the emerging risks facing their institutions.

The integrated risk division: a case-study

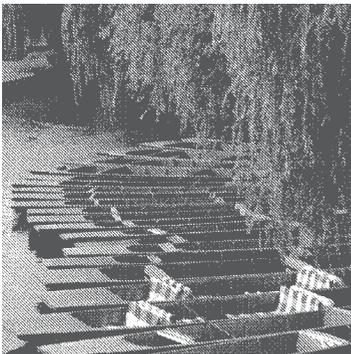
Magnus Vesterlund, Head of Risk Division, Sveriges Riksbank

Those in charge of risk management must strive to identify all possible general risks and the potential sources of these for their central bank. But for this to be manageable, the central bank must create a collection point and repository for this information. The speaker will show how his, newly formed and small, integrated risk division, which employs both financial and operational risk experts, is trying to achieve just that. The division covers credit, market and liquidity risks within asset management and monetary policy operations, as well as traditional operational risks within asset management, operational risks in a wider sense within the rest of the central bank, internal control and internal regulation, information security and business continuity. The speaker will share with the group how this “one stop risk shop” was established by blending influences from central banks and other Swedish public institutions as well as the private sector.

Risk management and strategic planning – the interface

Magnus Vesterlund

For risk managers developing synergies with those in charge of strategic planning and can be highly – and mutually – beneficial. The strategic planning function with its forward looking nature is helpful in sounding out potential future risk areas. By the same token, the risk management function which sits close to the day-to-day business can provide valuable insights for those in charge of the strategic planning process. In this session, the speaker will look at how to best integrate risk management with strategic planning and performance management in order to better manage a central bank's business and reputation risks.



About the course chairman

Luděk Niedermayer was vice-governor of the Czech National Bank (CNB) from December 2000 until his second term expired in February 2008. Before his appointment as vice-governor, he served as an executive director of the CNB and a member of its management committee, responsible for foreign exchange reserves administration and money market operations. He played a leading role in the CNB's adoption of inflation targeting and represented the central bank in various international fora, including the Bank for International Settlements and the International Monetary Fund.

Wednesday 12 September

Operational risk in focus

The fundamentals of enterprise wide risk management

Jan Nigel Bladen, Chief Operating Officer, Dubai Financial Services Authority

As central banks engage in new operations and prepare to take on new roles, their risk profile necessarily changes. The risk oversight function that the central bank possesses therefore becomes more important and more challenging. The speaker, a highly experienced risk manager, will outline how a risk management function can look across operational, financial and reputational risks, and the techniques used to identify and measure these in the risk function itself and within individual business units and processes. He will show how a central bank's board can formally determine its risk appetite. A series of case-studies will analyse examples of risk management "gone wrong" and group discussion will draw out the lessons to be learned.

Defining operational risk for central banks

Janet Cosier, Adviser on Strategic Planning and Risk Management, Bank of Canada

In today's uncertain world central banks find themselves performing an increasing array of new tasks. These tasks not only strain already busy departments but expose central banks to a wide array of financial and non-financial risks. Several of the latter, notably those related to reputation, have an importance that is difficult to overstate. This session looks at how one central bank has constructed a framework for identifying, managing and mitigating operational risks.

Effective operational risk reporting

Speaker to be confirmed

A critical aspect for any operational risk manager is reporting to senior management. This is a delicate task for three reasons. First, as it bridges the gap between quantitative analysis and business strategy it is vital that risk managers question assumptions behind the reports. Second, they must find exactly what management knows about operational risk, where their risk tolerance lies and make sure their reports are intelligible to non-risk managers. Third, they must be wary of over-reporting or being seen to "cry wolf". This session will focus on the key elements of an operational risk report, on how reports can be best presented and what can be done to follow up the reporting process.

Business continuity planning: a case study

Janet Cosier

In 2012 no central bank is unaware of the requirement that all key business areas to be included in effective contingency plans. But these plans must be backed up by efficient management structures to deliver them. What systems are necessary to maintain central bank services in order to preserve confidence in local and international markets? What is the best approach to testing these plans? This session outlines approaches to systems design and procedures for disaster planning for the central bank itself, and, by extension, the financial system in which it sits at the centre of.

Promoting a risk management culture

Discussion led by the chairman

Risk management does not stand still. On an ongoing basis, central banks must identify emerging risks, whether they arise from financial market developments, technological innovation or political uncertainty. Raising risk awareness through the establishment of a risk management culture is a fundamental step to reducing the risks the organisation as a whole faces. In this session, the group will identify and compare practical steps being taken to help foster a risk management culture in their central bank.

Thursday 13 September

Financial risk after the crisis

Risk to central bank balance sheets, capital and financial independence

Luděk Niedermayer

By increasing their exposure to credit and political risk, central banks' balance sheets, funding, reputations and crucially financial independence are – or will be – at risk. The rapid expansion of balance sheets, increased holdings of foreign exchange reserves, revisions to collateral frameworks and contingent liabilities have all heightened the importance of financial risk management. This session examines changes in balance-sheet risks and whether with new mandates central banks are under risk of weakening their capital positions and how to respond to this risk.

The changing environment for FX reserves management

Çiğdem Köse, Chief Representative, London, Central Bank of Turkey (invited)

The experience of the crisis calls for a fundamental reassessment of reserve management. The crisis has highlighted how central banks can face multidimensional requirements when it comes to structuring their reserves whether in terms of currency, asset class or duration. It is clear that central banks may at times face a dilemma over stabilising financial markets and preventing losses in their reserve portfolio: as they sell riskier assets in distressed and less liquid markets they may possibly increase volatility in these markets. Meanwhile, monetary policy and financial stability considerations have led central banks to inject more liquidity and accept lower-rated collateral. This session will consider whether the current features of the typical reserve management framework, such as the most commonly used investment horizons and risk metrics, are fit for purpose or in need of fundamental review. It will also look at the use of an ALM approach for central bank reserve management.

Liquidity risk and open market operations

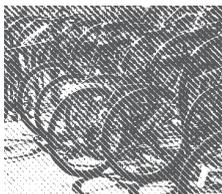
Speaker to be confirmed

The global financial crisis has required most central banks to introduce unconventional policy measures, such as the expansion in the eligible collateral and asset purchases. Central banks also found themselves injecting foreign exchange liquidity into the system and establishing swap lines. These changes underscore the importance of having a robust risk management framework, yet one that is flexible enough to identify new risks and respond to changing policy needs. In this session, the speaker will discuss new liquidity risks the central bank has faced as a result of the financial crisis and how it has responded.

Credit risk and internal credit rating

Marco Ruiz, Head of Foreign Reserves, Central Bank of Colombia

Central banks' investments are on a continues rise – both in terms of emergency lending as well as foreign exchange reserves accumulation. Central banks have also broadened the list of eligible collateral they accept as part of their various liquidity facilities. With increased exposure to credit and heightened concentration risk, accurate credit assessment is vital. This session will look at how one central bank balances external credit ratings with internal analysis – with limited resources. Group discussion will focus on the lessons to be learned from this approach.



■ ■ This is a good seminar to discuss and share our experiences and broaden your network ■ ■

A central bank delegate

Friday 14 September

Reputation: the most valuable asset

Risks stemming from bank interventions

Anne Marie McKiernan, Head of Risk Division, Central Bank of Ireland (invited)

Central banks are being caught between a rock and a hard place – providing emergency lending and liquidity to point where financial institutions might collapse. In order to avoid tail risks materialising, central banks need to be forward looking in their judgment as to whether the bank can survive. In this session, the speaker whose central bank as part of an ongoing resolution of the financial crisis has been involved in the provision of substantial liquidity support to the banking system, supporting the recapitalisation and restructuring of the main domestic credit institutions, will show how the central bank manages the risks involved.

Managing reputation risk – central bank communication

Luděk Niedermayer

Central banks are traditionally seen by the public as conservative institutions. But in times of crisis, the central bank is typically required to take on risk in its policy making capacity. When a central bank has to devote public funds to tackle market disruptions, how it communicates to markets and the public is of critical importance to maintaining its credibility and to the success of the intervention. How policymakers are seen to react to emergencies is, therefore, a vital element of risk management. Central banks need to craft a consistent message regarding their role and policies and the use of public funds, and ensure that this message is effectively communicated. In this session, the speaker will identify what central banks can do to ensure that the risks to their reputation are minimised.

Lessons and action points

Led by the chairman

In this session, the chairman will review the key lessons from the presentations and discussions throughout the course. Delegates will be asked to reflect on how the lessons learnt over the four days can be applied at their home institutions and how emerging risks can best be managed.

CBP training course/seminar series, Autumn 2012:

- How to Regulate Islamic Financial Markets and Products
- Communications and External Relations for Central Banks
- Effective Oversight of Financial Market Infrastructures
- The Changing Framework of Monetary Policy Operations
- Government Debt Management: New Trends and Challenges
- Legal Risks and Good Governance for Central Banks
- Human Resources: Engaging People and Facilitating Performance
- New Challenges in Financial Market Supervision and Regulation
- Financial Independence and Accountability for Central Banks
- Maximising the Value of Economic Analysis and Forecasting for Central Banks
- IT Governance for Central Banks

For detailed programmes and a fax-back registration form for each of these key courses, please visit: www.centralbanking.com/events



Booking details

Course fee: £3,000

(VAT at 0% for delegates employed by government in furtherance of its sovereign activities)

4-day (3 nights) residential course

Course fee includes: en-suite accommodation, meals, refreshments, course documentation and a complimentary copy of the most recent issue of the Central Banking journal. Substitute delegates can be accepted should the registered delegate be unable to attend; please let us know prior to the event.

How to book

Please complete and return the registration form overleaf to:

Central Banking Publications
Incisive Media
Haymarket House
28 – 29 Haymarket
London SW1Y 4RX
UK

telephone: +44 (0) 207 968 4530

fax: +44 (0)207 504 3730

email: conference@centralbanking.com

website: www.centralbanking.com/events



The venue

Christ's College is one of England's oldest university colleges and traces its origins back to 1439 when it was founded by William Byngam as "God's house" and adopted by King Henry VI.

The college is conveniently situated in the heart of Cambridge surrounded by all the historical sites, and is one hour by train from London.

About Central Banking Publications

Central Banking Publications' events division is the leading independent organiser of public policy seminars/training courses for the official sector. Since 1997, CBP has hosted roundtable seminars and training courses for over 3,500 senior policymakers from central banks, ministries of finance and financial regulatory agencies around the world. Senior officials from more than 120 countries have attended these meetings over the past ten years.

Registration for Risk Management for Central Banks

1. Delegate details: PLEASE WRITE IN CAPITALS

Mr/Mrs/Ms: _____ Surname/Family name: _____

First name: _____

Job title: _____

Organisation: _____

Address: _____

Postcode: _____

Telephone: _____

Facsimile: _____

Email 1: _____

Email 2: _____

Please provide us with the direct email address of the delegate and an additional email address if possible. This is very important because all correspondence with delegates is by email.

Course fee: £3,000 (VAT at 0% for delegates employed by government in furtherance of its sovereign activities)

2. Payment details:

Bank transfer: The Royal Bank of Scotland, 62/63 Threadneedle Street, London EC2R 8LA, UK
A/c No: 21975543 Sort code: 15-10-00 IBAN: GB89 RBOS 1510 0021 9755 43 Swift code: RBOSGB2L
Please pay the course fee net of all bank charges and send us the copy of the transfer details

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