



Governance as Ecosystem for Evolution

Session 11: Governance in Reserve Management

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Agenda

- **Governance as the Backbone of Asset Management**
- **Governance to Drive Changes(Beyond Oversight)**
 - Adaption and Evolution to thrive
 - What Makes the Difference
 - Case Study: Bank of Korea
- **Governance under Challenge**
 - Knowledge vs. Authority
 - Understanding Top Management
 - Risk Choices: Short-term vs. Long-term
 - A few Tips on Communication

Governance: The Backbone of Asset Management

- Ownership & profit/loss sharing rules
- Clear principles and objective
- Oversight and risk control
- Organizational structure & delegation
- Transparent reporting & public disclose

Governance to Drive Change (1/3)

- Adaption & Evolution to thrive

- Reserves accumulation → Higher risk tolerance
- CBs must adapt to global market evolution
- Authorizing environment enables changes in;
 - Investment horizon
 - Asset classes, investment strategies
 - Risk management framework and IT system
 - Organization structure and staffing

Governance to Drive Change (2/3)

- What makes the difference

- RAMP: 25 years helping CBs drive change
 - Many advanced rapidly in diversification & risk management
 - Others stagnated despite similar advice
- Difference: Great ideas are blocked by Governance hierarchy
- Culture, unwritten norms matter more than formal rules
- Common hurdles
 - A tendency to avoid accounting losses
 - Weak motivations to move forward

Governance to Drive Change (3/3)

- Case Study: Bank of Korea

- Cash flow management (80s)
- Portfolio management (90s)
 - Adoption of SAA with MTM practice
 - Risk management: Security-level → Holistic portfolio approach
 - Diversification into Corp bonds, MBS, EM, equities (2004)
- Outcomes: Higher return while maintaining safety & liquidity
- Enabler: Forward-looking authorizing environment

Governance under Challenge (1/4)

- Knowledge vs. Authority

- Front-line staff: close to markets, most informed
- Authority rests with senior management
- Progress requires Senior Management's buy-in
- Support must go beyond approval
 - Resources allocation and Training
 - IT upgrades
 - Delegation with accountability

Governance under Challenge (2/4)

- Communication with Top Management

- See from their perspective
 - Many competing priorities.
 - Little time to grasp technical detail
 - Fear of public mishap or political fallout
 - “Do nothing, nothing happens” mentality
- Good ideas alone don’t move the needle.
 - Invest time and energy to get buy-in
 - Highlight that “status quo” is not risk-free

Governance under Challenge (3/4)

- Short-term vs. Long-term risk

- Challenge (2004, Bank of Korea)
 - Net Income loss due to negative carry → Negative capital
 - Technical approach would not be the answer
- Solution
 - Currency diversification
 - Asset class diversification: MBS, Corp and Equity
- Getting Buy-in
 - With Status quo, negative capital is guaranteed for long-term
 - Diversification will resolve the issue, but with short-term risk
 - What risk should we take: short term or long-term?

Governance under Challenge (4/4)

- A few Tips on Communications

- Engage early & often → Allow time for reflection, build ownership
- Speak their language → Frame in B/S & I/S terms
- Leverage peer examples → Central Bank practices
- Use credible validation → ADB, BIS, IMF, World Bank
- Be patient, stay persistent

Thank you



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