



# **Governance as Ecosystem for Evolution**

**Session 11: Governance in Reserve Management**  
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ON INVESTMENT MANAGEMENT  
OF FOREIGN EXCHANGE RESERVES

# 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