

Session 4:

Governance, Risk Management, and Strategic Asset Allocation for Central Banks

Governance and Risk Management for Central Banks

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**2026 ASIAN REGIONAL FORUM
ON INVESTMENT MANAGEMENT
OF FOREIGN EXCHANGE RESERVES**



2026 Asian Regional Forum on Investment Management of Foreign Exchange Reserves

Governance and Risk Management for Central Banks

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Reserves Management – Exchange Fund

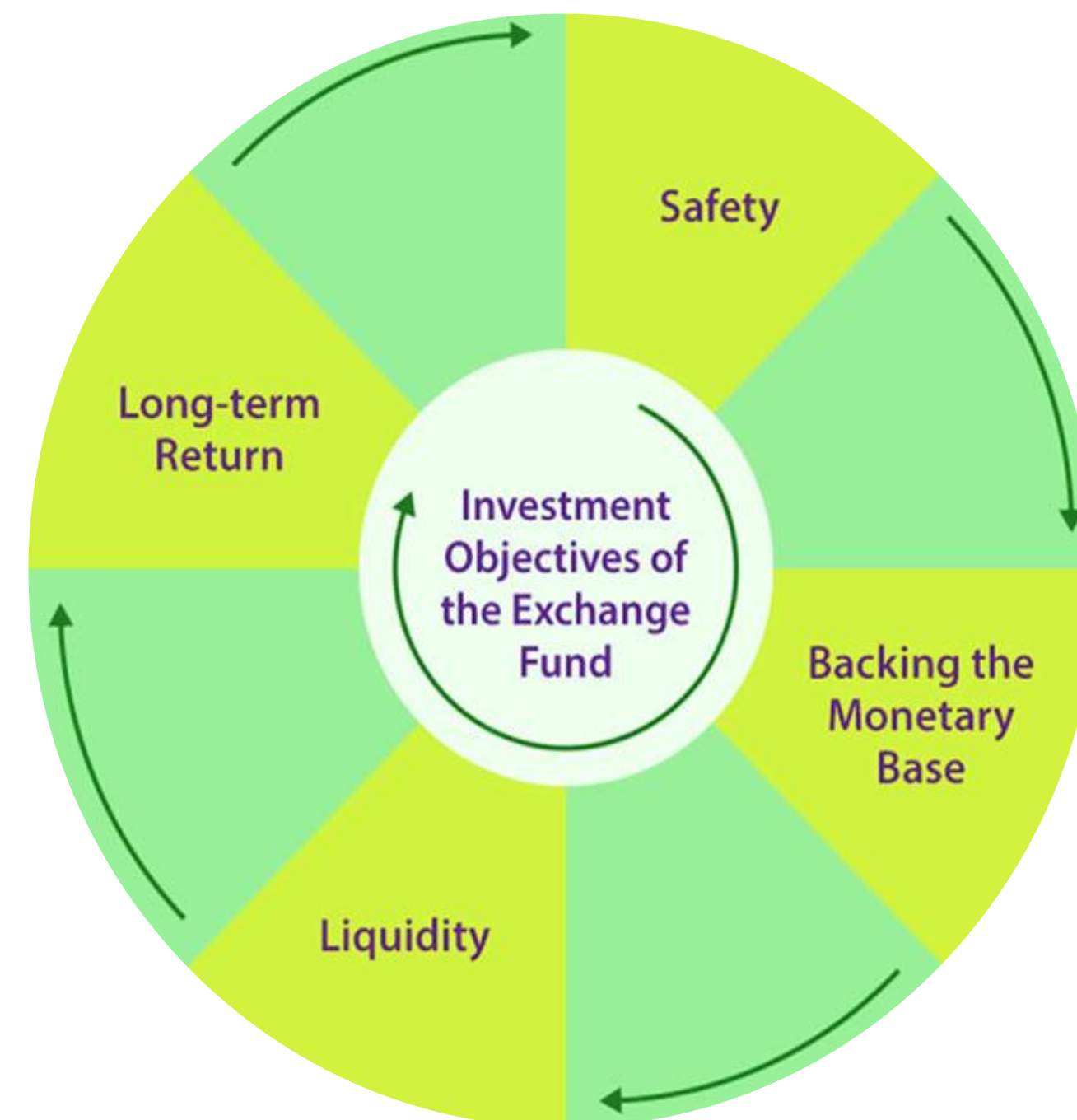
Statutory purpose defined by the **Exchange Fund Ordinance**:

Primary purpose

- To affect, either directly or indirectly, the exchange value of **the currency of Hong Kong**

Secondary and subsidiary purpose

- To maintain the stability and integrity of Hong Kong's **monetary and financial systems**, with a view to maintaining **Hong Kong as an IFC**





Governance on HKMA's Reserves Management

Monetary Authority is appointed by the Financial Secretary

Oversight

- Oversight by Exchange Fund Advisory Committee and its sub-committees

Oversight

Accountability

- Financial Secretary
- Legislative Council
- Public communications...

Accountability

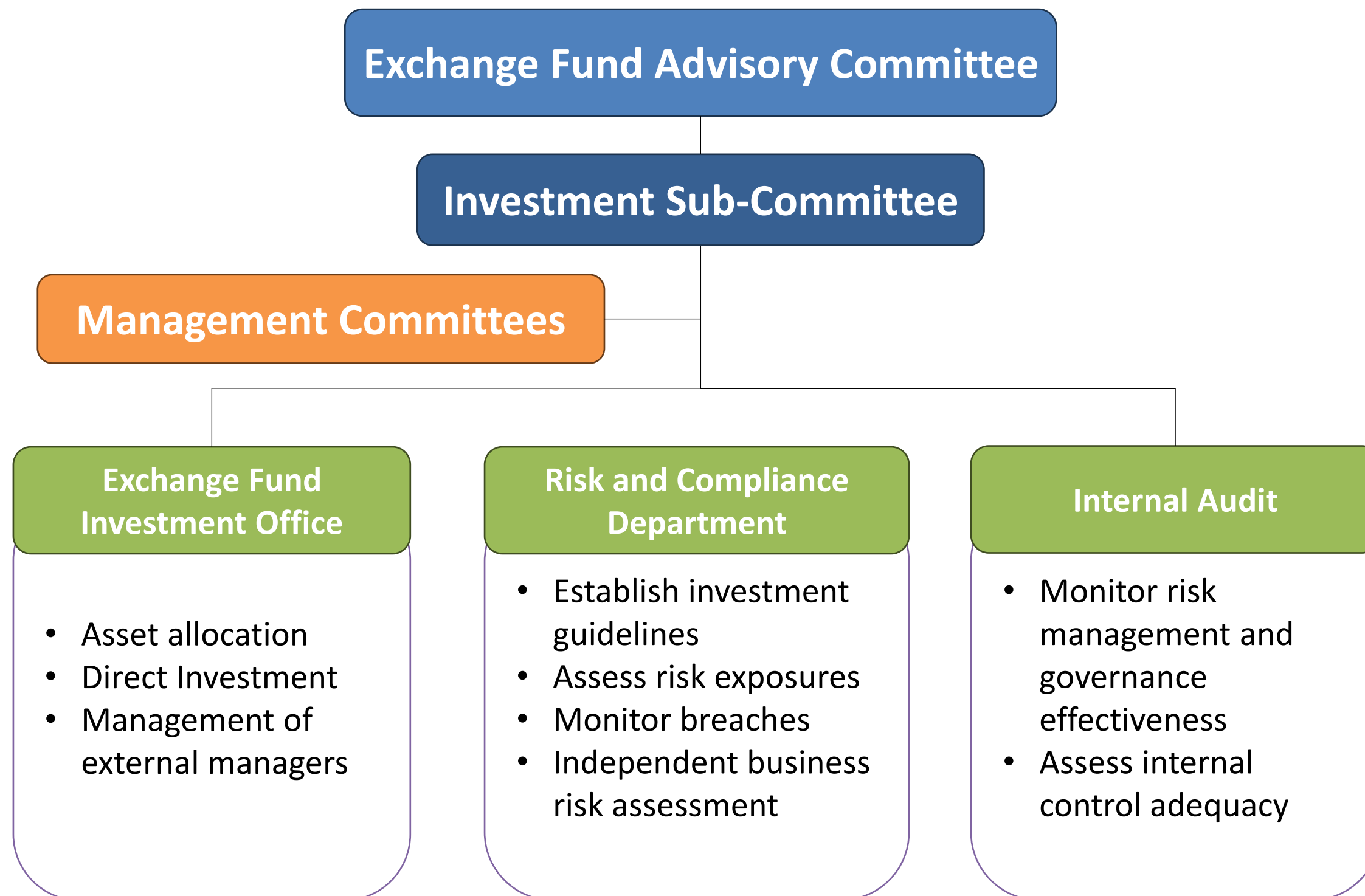
Transparency

- Press releases
- Annual audited financial statements
- Disclosure based on IMF SDDS...

Transparency



Investment Management of the Exchange Fund



Regular reporting to the Board

Management oversight

Three lines of defence



Major Exchange Fund Components & Our Risk Management Framework

Exchange Fund composition

Backing Portfolio

- Provide full backing for the monetary base
- Highly liquid, high credit quality USD assets

Investment Portfolio – Public market

- Preserve purchasing power while providing liquidity
- Public market bonds & equities

Investment Portfolio – Long-Term Growth Portfolio

- Enhance longer-term risk-adjusted returns through diversification
- Private equity & real assets

Identify

Measure

Control

Monitor

Report



Market Risk



Liquidity Risk



Credit Risk



Operational Risk



Market Risk Management Framework

Dual-Track VaR & Active Risk Governance

- Monitoring of Absolute VaR to ensure portfolio resilience
- Monitoring of active risk relative to SAA benchmark (i.e. VaR of active positions and tracking error)

Portfolio Resilience under Stress

- Assessing impact of severe market dislocations in our investments
- Stressed risk measures capture changing volatilities and cross-asset correlations

Oversight & Accountability of Performance

- Reporting EF returns and front office performance
- Assessing realised performance vs benchmark returns with clear accountability

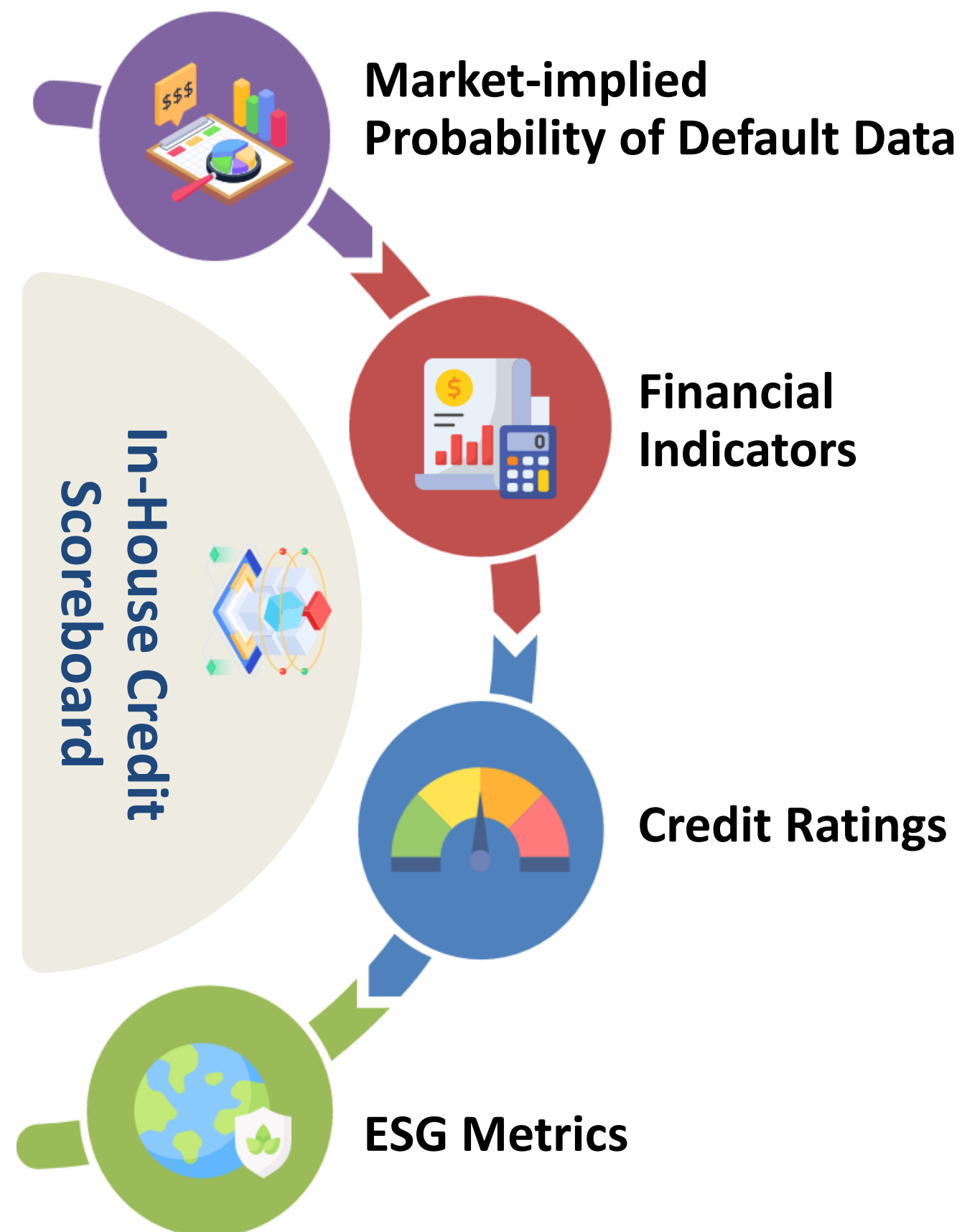
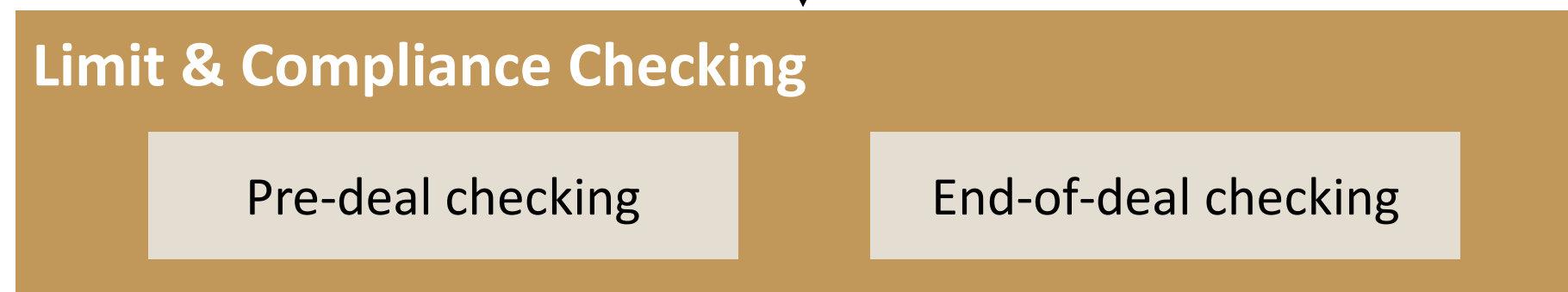
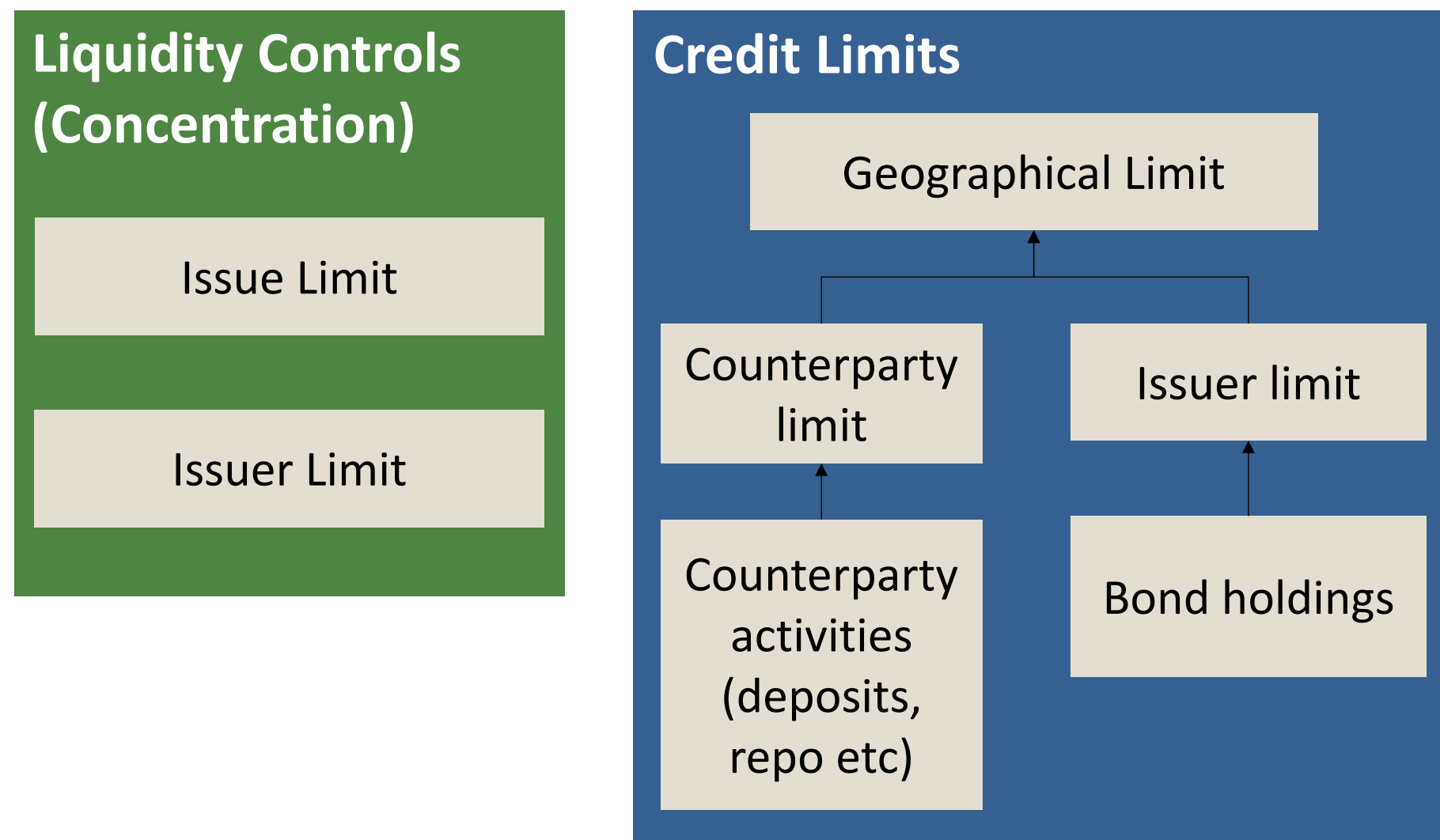
Enhancement of Front Office Strategy

- Assessing performance relative to industry peers and market standards
- Providing feedback to identify systemic underperformance



Credit Risk Management Framework

BUILDING BLOCKS OF OUR CREDIT POLICY





Operational Risk Management Framework

1. Key Risk Indicators (KRIs)

- Identify and monitor KRIs
- Verification of KRIs & thematic review

2. Operational risk profile

- Regular reports on operational risk profile
- Operational incident management

6. New investment product approval

- New product oversight and coordination
- Post-implementation review

3. Third-party risk management

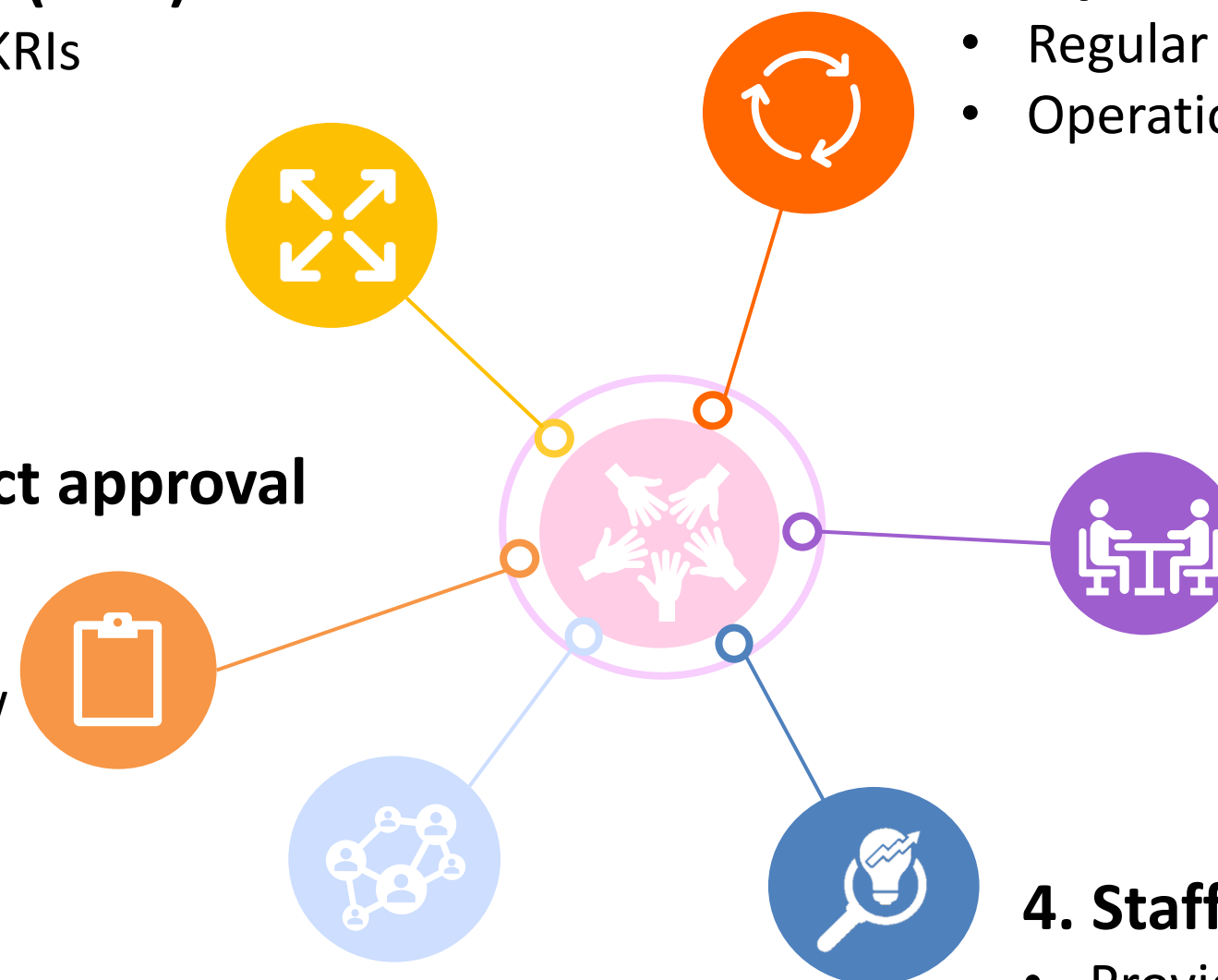
- Maintain and update third-party register

4. Staff training

- Provide training to enhance Operational Risk Management awareness and promote risk culture

5. Review front offices' operational process

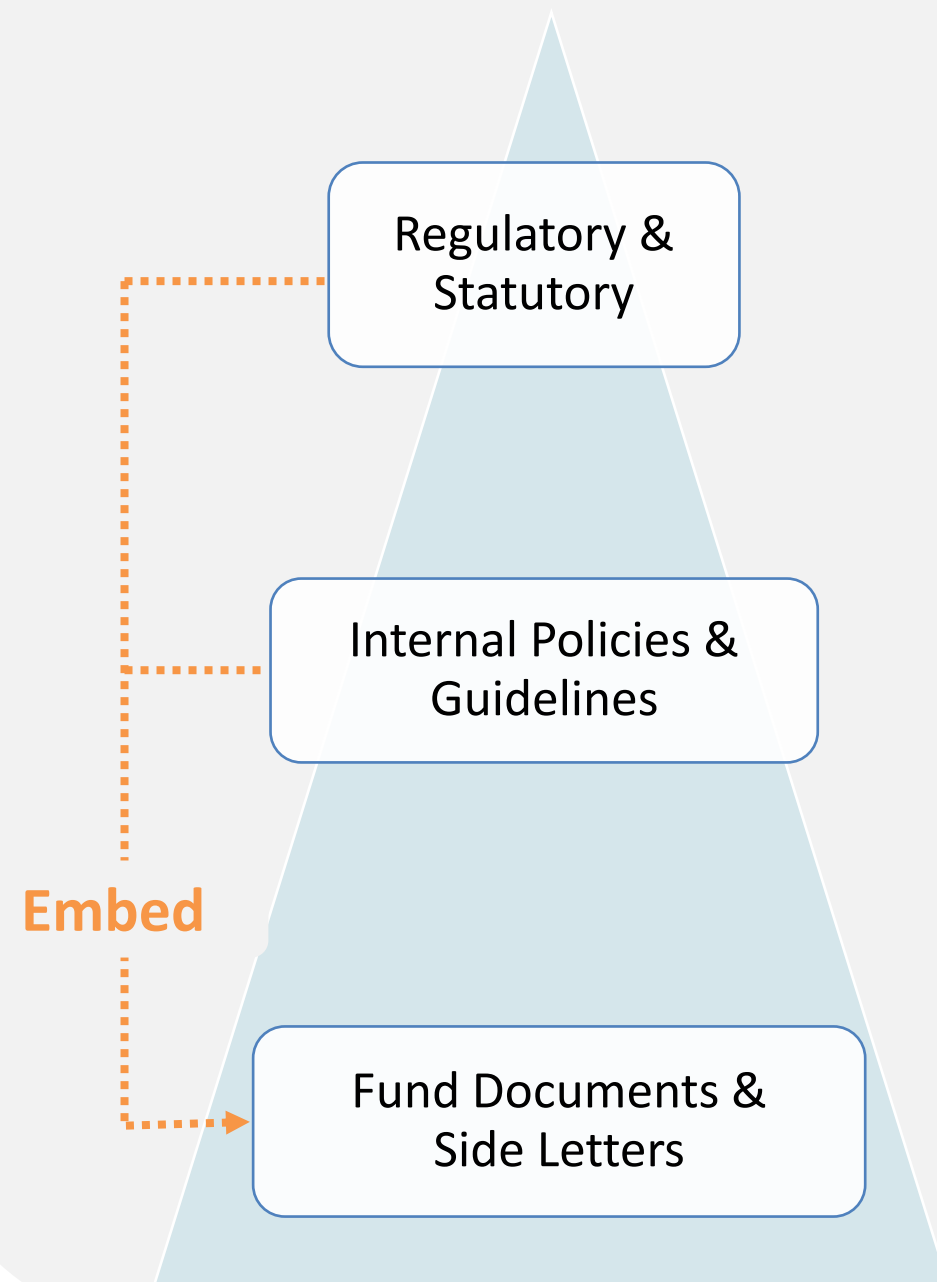
- Provide comments on procedural manual of business teams
- Advisory to front offices on process change / initiative





Investment Compliance Monitoring Framework

Compliance Requirements



Compliance Monitoring Functions



1st Line of Defence: Execution & Initial Validation

Internal - Front Office

- Pre- and post-deal compliance validation
- Daily compliance reporting

External – Fund Managers / GPs

- Independent deal verification controls
- Regular compliance reporting



2nd Line of Defence: Oversight & Governance

Risk Management & Compliance

- Daily oversight and reconciliation of compliance reports
- Exception investigation, escalation and remediation
- Custodian service quality assurance
- Holistic portfolio exposure monitoring for adherence

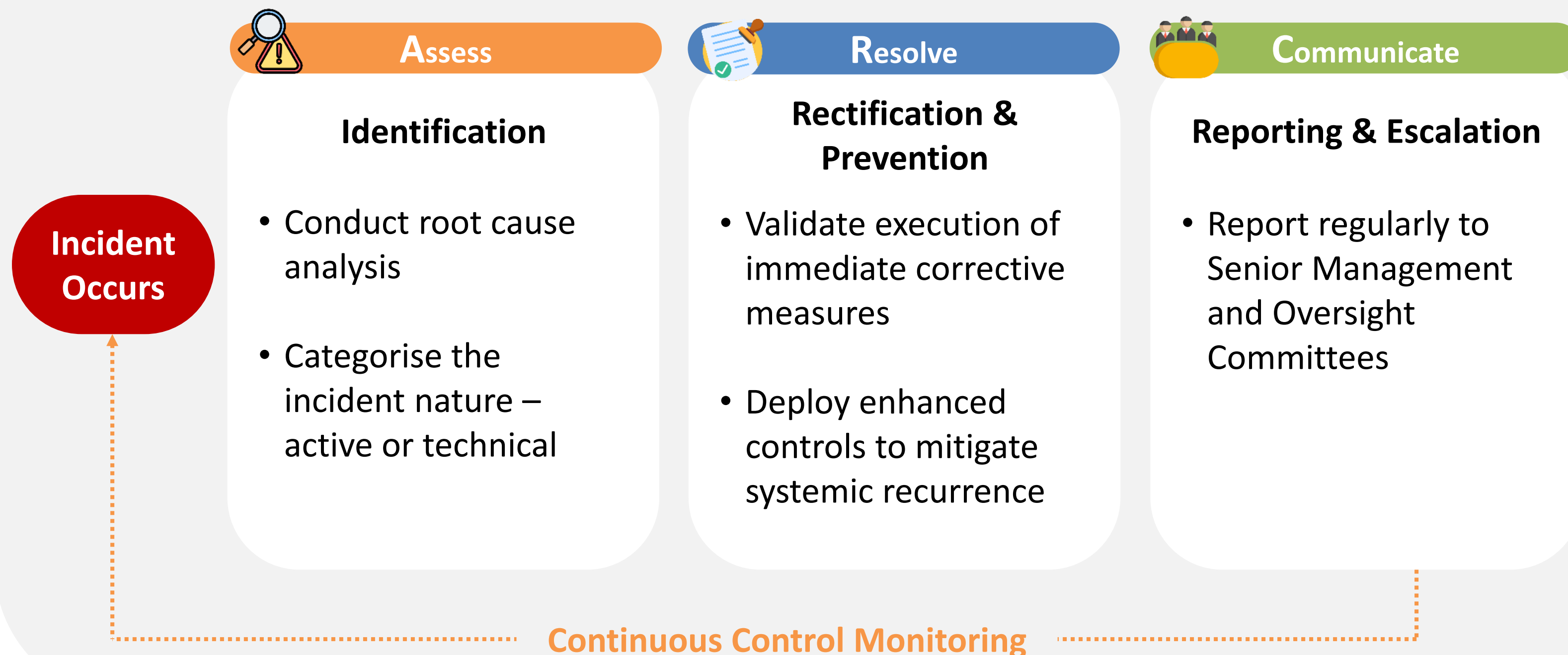


3rd Line of Defence: Independent Audit



The A.R.C. Framework for Breach Management

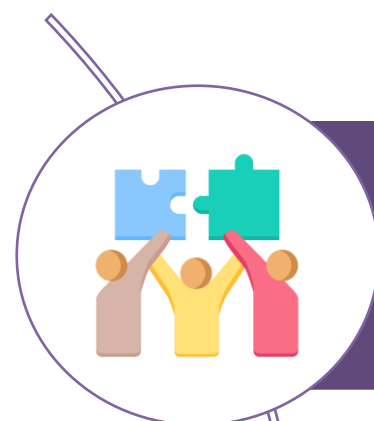
An integrated approach to **assess** incidents, **resolve** compliance gaps, and **communicate** outcomes.





Concluding Remarks

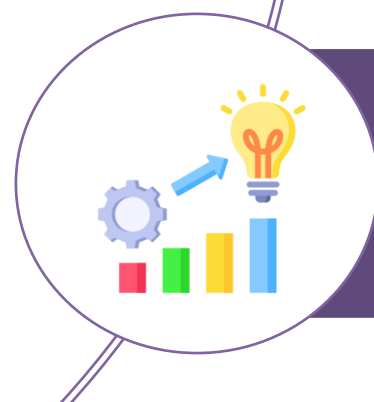
High level of
governance
standards and
sound risk
culture



Strong risk culture is essential



Be agile – principle-based approach with flexibility



Risk-based approach in response to market development



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