

IV Meeting of Heads of Financial Risk Management in Central Banks

Banco Central de Chile / Santiago de Chile

April 26-27, 2023

Agenda

Tuesday

25
APRIL
2023

(UTC - 4)

19:00 – 21:00

Welcoming reception

Location: **AC Hotel by Marriot** (Av. Vitacura 130, 7510605 Providencia, Región Metropolitana, Chile)

As a kick-off event, participants are invited to attend a welcoming reception ahead of the IV Meeting of Heads of Financial Risk Management in Central Banks.

Note: Hosted by Banco Central de Chile

Wednesday

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08:30 – 09:00

Welcome coffee break

09:00 – 09:15

Opening address (Livestream)

Rosanna Costa, *President*, Banco Central de Chile

Manuel Ramos Francia, *Director General*, CEMLA

09:15 – 10:00

Central Bank Finances (Livestream)

Chair: Matias Ossandon Busch, *Director of Financial Stability*, CEMLA

Speaker: Manuel Ramos Francia, *Director General*, CEMLA

10:00 – 11:00

Risk-management considerations in strategic asset allocation

Over the last decades, the use of Enterprise Risk Management tools covering multiple operational functions in central banking has become a key element in central banks' financial risk-management design. As part of this effort, the use of strategic asset allocation (SAA) has also become a commonplace approach in reserves' management. This session invites to an open discussion of key risk-management considerations when designing and managing an SAA model. The presentation will be focused on three central aspects:

- *How can portfolio optimization methods within an SAA framework incorporate risk-management considerations?*
- *How can central banks define their objectives, constraints, and risk-tolerance criteria when managing an SAA framework?*
- *Governing rules and organizational aspects of SAA.*

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11:00 – 11:30

Chair: Diego Ballivián, *Head of the Corporate Risk Division, Banco Central de Chile*

Speaker: Antonio Marcelo, *Head of Risk Measurement Division, Banco de España*

Coffee break

11:30 – 13:15

Risk management working groups — Session 1**Financial risk management and capital preservation strategies**

This high-level interactive session aims at discussing pressing challenges for central banks when incorporating risk-management objectives within capital preservation strategies (CPS), focusing on issues related to the preservation of investments' capital, ensuring the liquidity of assets, and achieving a risk-return objective. Following an introductory presentation, participants will be divided into working groups to compare central banks experiences. This discussion further aims at highlighting differences between CPSs in advanced economies - which often issue reserve currencies - vs. EMEs - which are more dependent on international reserves. Working groups are invited to discuss how these differences impact central banks' capital structure.

Chair: Matias Ossandon Busch, *Director of Financial Stability, CEMLA*

Speaker: Fernando Monar Lora, *Director of Risk Management, European Central Bank*

Working Groups Facilitators:

Pablo Villamichel Morales, *Director of Risk Management, Banco Central de Costa Rica*

Luis González Mosquera, *Director of Financial Risk, Banco de España*

Francisco Chamú Morales, *Director of Risk Management, Banco de México*

Diego Ballivián, *Head of the Corporate Risk Division, Banco Central de Chile*

13:15 – 14:15

Lunch

14:15 – 16:00

Risk management working groups — Session 2**Designing stress tests for central banks' balance sheets**

Stress testing exercises can be used to address the exposures derived from central banks' policy interventions, helping to articulate a bank's risk tolerance and the readiness of its balance sheet to face adverse scenarios. This session begins with an introductory presentation addressing the question of why and how central banks can make use of forward-looking stress testing for financial risk management.

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Participants will be then divided into working groups to discuss key questions about the design of an internal stress test in a simulation-like exercise. Working groups are invited to identify differences in risk exposures faced by banks in EMEs vs. advanced economies (AE) considering, for instance, the importance of risks derived from QE/QT interventions in AE vs. EMEs exposure to FX risk given their reliance on international reserves.

Chair: Matias Ossandon Busch, *Director of Financial Stability, CEMLA*

Speaker:

Sophie Faber, *Head of Risk Management, Swiss National Bank*

Working Groups Facilitators:

Pablo Villamichel Morales, *Director of Risk Management, Banco Central de Costa Rica*

Luis González Mosquera, *Director of Financial Risk, Banco de España*
Francisco Chamú Morales, *Director of Risk Management, Banco de México*

Diego Ballivián, *Head of the Corporate Risk Division, Banco Central de Chile*

16:00 – 16:30 **Coffee break**

16:30 – 17:45 **Round table on risk management governance**

A risk management governance aims at establishing institutional arrangements to minimize factors that can put central banks' objectives at risk. Despite this clear objective, risk-management governance structures can significantly differ across countries considering, for instance, EMEs banks objectives related to international reserves and monetary policy operations or AEs recent focus on risk exposures derived from QE/QT interventions. This session aims at drawing lessons from risk-management governance in different central banks both in AE and EMEs. The discussion aims at addressing three key questions on the implications of different governance structures:

- How do central banks implement and adapt models based three separate lines of defense within a risk-management framework?
- Which institutional arrangement can enhance cooperation across units within central banks to establish and disseminate financial risk-management objectives?
- Which role play the investment guidelines and the lines of communication with the board in affecting risk-taking attitudes across a central bank's units?

Chair: Pablo Villamichel Morales, *Director of Risk Management, Banco Central de Costa Rica*

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Speakers

Experiences from Advances Economies

Rachel Lu, *Head of Financial Risk Oversight*, Federal Reserve Bank of New York

Sophie Faber, *Head of Risk Management*, Swiss National Bank

Jorge E. Marcal, *Deputy Head, Risk Management Department*, Banco de Portugal

Experiences from Emerging Markets

Diego Rodríguez Benítez, *Director of Financial Risk*, Banco de la República

José Luiz B. Fernandes, *Head of the Risk Department*, Banco Central do Brasil

18:00

End of day 1

19:30 – 22:00

Dinner – Mestizo Restaurant

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08:30 – 09:00 **Coffee break**09:00 – 10:00 **Keynote Address (*Livestream*)**

Liquidity Dependence and the Waxing and Waning of Central Bank Balance Sheets

Chair: Matias Ossandon Busch, *Director of Financial Stability*, CEMLA

Speaker: Sascha Steffen, *Frankfurt School of Finance & Management*

10:00 – 10:30 **Coffee break**10:30 – 11:15 **Setting the stage – Climate change uncertainty and central bank risk management**

The challenge represented by climate change and environmental degradation has become a key concern for financial risk managers at central banks. Central banks' risk is affected by climate change through channels including their own assets' credit risk and through the impact of climate change in the real economy. This session discusses central lessons on how central banks' risk managers can incorporate climate-related risks in their policy frameworks.

Chair: Matias Ossandon Busch, *Director of Financial Stability*, CEMLA

Speaker: Fernando Monar Lora, *Director of Risk Management*, European Central Bank

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11:15 – 12:15 Panel – Addressing climate-related balance-sheet risks

This panel wraps up the discussion by addressing questions on how central banks are facing the increasing need to assess climate-related financial risk. Panelists will discuss in an open round with the audience the role of climate-related financial disclosures, data challenges, and relative importance of multiple sources of climate financial risk.

Chair: Matias Ossandon Busch, *Director of Financial Stability, CEMLA*

Speakers:

José Luiz B. Fernandes, *Head of the Risk Department, Banco Central do Brasil*

Pablo Villamichel Morales, *Director of Risk Management, Banco Central de Costa Rica*

12:15 – 12:30 Closing remarks

Final remarks and discussion of future steps by the organizers

Speaker:

Diego Ballivián, *Head of the Corporate Risk Division, Banco Central de Chile*

Matias Ossandon Busch, *Director of Financial Stability, CEMLA*

12:30 – 18:00 Closing social activity – Lunch, tour, and wine tasting

Location: Viña Santa Rita