



IMPROVING EFFICIENCY IN RESERVE MANAGEMENT OPERATIONS

Reserves and Domestic Market Management Department
Central Bank of Trinidad and Tobago
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AGENDA

- Rationale for Foreign Currency Reserves
- Governance Framework
- Reserve Management Operations
- Current Challenges
- Moving Forward

RATIONALE FOR RESERVES

- The Central Bank of Trinidad and Tobago holds Foreign Currency Reserves:
 - **To limit external vulnerability** by providing foreign exchange liquidity in times of crisis when access to borrowing/credit may be curtailed.
 - **To provide confidence** to markets that the country has the capacity to meet external obligations.
 - **To support and maintain confidence in monetary and exchange rate policies**, including the ability to support the national currency.

GOVERNANCE FRAMEWORK

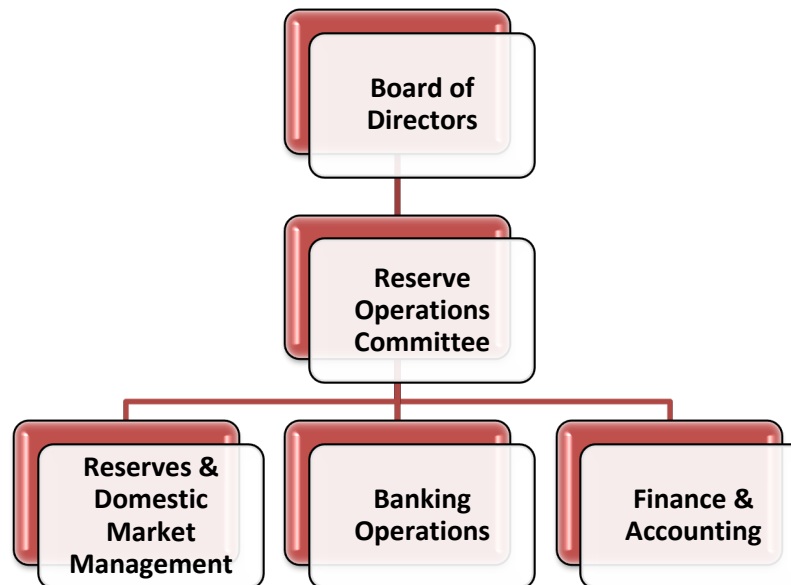
- The current Framework governing the Management of the Foreign Currency Reserves is based on best practices and principles supported by the International Monetary Fund and the World Bank Treasury. These principles include:
 - A Sound Legal and Governance Structure;
 - Prudent Management of Risks (financial and operational); and
 - Efficient Reserve Management Operations.

GOVERNANCE FRAMEWORK

- The legal responsibilities and authority for the Management of the Foreign Currency Reserves are outlined in the **Central Bank Act No. 23 of 1964**.
- The Governance Structure for Foreign Currency Reserve Management reflects a **clear separation of responsibilities and accountabilities** so as to facilitate efficient decision making, as well as mitigate and control risks.
- The **Board of Directors** approves the broad operating and investment framework for the Foreign Currency Reserves.
- The Board of Directors is supported by the **Reserve Operations Committee**. This Committee is chaired by the Governor and comprises of the Deputy Governor of Monetary Operations and Policy, Senior Manager of Operations, Senior Manager of Finance & Accounting and Support Services and the heads of Research and Reserves & Domestic Market Management departments.
- The Reserves Operations Committee meets bi-monthly to review the performance and risks of the Reserves Portfolio, developments in the international market, and approve new counterparties.

GOVERNANCE FRAMEWORK

- The bottom of the three-tier structure is the operational level, the departments responsible for the day-to-day reserve management operations.



GOVERNANCE FRAMEWORK

- Furthermore, the Bank's **Risk Management and Information Technology Governance Department** assists with the identification, assessment and mitigation of risk. The department also coordinates the Bank's Business Continuity Arrangements and monitors Information Technology performance.
- The **Internal Audit and Corporate Governance** Department regularly assesses the internal controls and procedures for Reserve Management. This department reports directly to the Audit Committee of the Board of Directors.
- Reserve Management activities are also verified by the external auditors, the **Auditor General Department** of the Ministry of Finance, on an annual basis.

RESERVE MANAGEMENT OPERATIONS

- Reserve Management Operations are segregated into four principle functions:
 - **Front Office** (part of the Reserves & Domestic Market Management Department): responsible for the development of trading strategies and conducting trades in the international money, fixed income and foreign exchange markets.
 - **Middle Office** (also part of the Reserves & Domestic Market Management Department): responsible for investment performance measurement, risk management, compliance monitoring, and reporting to the Reserve Operations Committee and Board of Directors. This area is also responsible for developing the performance benchmarks, investment guidelines and the strategic asset allocation which must be approved by the Board of Directors.

RESERVE MANAGEMENT OPERATIONS

- **Back Office** (part of the Banking Operations Department): responsible for the confirmation, settlement and reconciliation of transactions; updating of transactions to the Bank's General Ledger; as well as the maintenance of the foreign bank accounts.
- **Accounting**: maintenance of accounting records and generation of financial reports in accordance with International Financial Reporting Standards.

RESERVE MANAGEMENT OPERATIONS

- External Parties that assist with Reserve Management Operations include:
 - **External Asset Managers:** governed by Investment Management Agreements and various international investment laws, the external asset managers are responsible for investing and managing a portion of the Foreign Currency Reserves.
 - **Global Custodian:** clearing, settlement and safekeeping of reserve assets; as well as the provision of investment accounting, performance and compliance reports for the externally managed portion of the Foreign Currency Reserves.
 - **World Bank Treasury:** provide advise on reserve and sovereign wealth fund management in accordance with the Reserves Advisory Program (RAMP).

CURRENT CHALLENGES

- Low energy receipts continue to be a challenge for Reserve Management Operations, particularly as it pertains to ensuring sufficient liquid assets to satisfy public sector external debt and to support the domestic foreign exchange.
- Rising U.S. Treasury Yields has resulted in an increase in credit risk so as to maintain an acceptable level of return.
- Deficiencies in the current Portfolio Management System have resulted in a heavy reliance on manual procedures and associated increase in operational risks.
- Keeping pace with new regulations and accounting standards (IFRS9).
- Global Custodian operational issues including the timely provision of investment accounting reports.

MOVING FORWARD

- The plan for 2018/ 2019 is to continue to improve Reserve Management Operations:
 - Review the Central Bank Act to take into considerations developments in the financial market since the 2008 financial crises.
 - Implement a new Portfolio Management System.
 - Establish a sound Service Level Agreement with the current Global Custodian and add a new Custodian to the approved list.
 - Continue to train and build staff competency through the various workshops offered under RAMP and by the external asset managers.

THANK YOU!