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This newsletter is a new tool, a twice-yearly publication intended to inform readers regularly about international technical cooperation at the Bank of Italy, especially seminars and workshops.

The Bank of Italy is engaged in technical cooperation activities (i.e. seminars and workshops, bilateral staff training and institution building) to strengthen the institutional capabilities of the beneficiaries. The beneficiary institutions are generally in new EU member states that have not yet adopted the euro, EU candidate and potential candidate countries, Mediterranean countries, Eastern European and Caucasian countries within the European Neighbourhood Policy area, BRICS, and other emerging countries.

The areas of cooperation relate to the Bank's institutional functions (central banking including payment systems and treasury services, economic research and statistics, banking and financial supervision, and currency circulation) and some support activities (IT, internal auditing, controls).

Further details on https://www.bancaditalia.it/studiricerche/coop_intern/coop_bancen_altri

2014 (1st semester)

Highlights

During the first half of the year the Bank of Italy's activities in the field of technical cooperation with other central banks ranged from statistics, portfolio and public debt management, operational risk management, and communications to oversight on payment systems, financial supervision and the fight against money laundering. Most beneficiaries were from Mediterranean countries and non-euro-area EU members, followed by EU candidate and potential candidate countries and other Eastern European countries. We also cooperated with the ECB and some Eurosystem national central banks in a new Eurosystem technical cooperation program with central banks in the Western Balkans.

Seminars & Workshops

Seminar on “Portfolio Management for Central Banks”

(Rome, 26 – 28 March 2014)

The three-day seminar offered an in-depth view of the Bank of Italy’s investment approach within the new framework in which financial assets and financial liabilities are managed together. Starting with an assessment of developments in financial markets, our experts described the workflow by which the strategic asset allocation formulated by the top management is translated into investment decisions. This process has now become more challenging, as central banks’ more conservative investment approach in



A seminar group posing on the Grand Staircase in Palazzo Koch

response to the global financial crisis has shown that policymakers’ investment decisions may aggravate procyclicality. A sharp reduction in risk exposure, though reasonable from the standpoint of the single institution, may, in the aggregate, exacerbate

the “flight to quality” and so amplify trends during financial turmoil. Central banks should accordingly carry out a comprehensive ex-ante risk assessment in order to obviate the need for rapid asset reallocations afterwards, at the cost of fuelling additional market volatility.

[\[Read more on page 8\]](#)

Seminar on “Public Debt Management and the Contribution of Banca d’Italia”

(Rome, 16 – 18 June 2014)

The surge in euro area sovereign debt spread volatility since 2010 has revealed the importance of sound public debt management. This requires a combination of tools and skills, such as state-of-the-art IT procedures and operations, in-depth knowledge of financial markets, and the ability to model and assess alternative refinancing strategies. A central bank can contribute in several ways: conducting auctions on behalf of the Treasury, carrying out government securities financial service, and performing theoretical and empirical research. A central bank that conducts such activities is uniquely placed to assess the links between debt management, monetary policy and financial stability. The three-day seminar offered an overview of the main issues related to public debt management. [\[Read more on page 8\]](#)

Bilateral Activities

(study visits to Italy & missions)

Study visits and missions are organised at the direct request of the beneficiary central bank/supervisory authority or other supranational entities, such as the European Commission and the IMF, which sometimes finance the initiatives.

The number of bilateral activities in the first half of 2014 was in line with that in the first half of 2013. Most of the requests concerned statistical data collection. The largest share involved central banks in the Mediterranean

(31 per cent of all bilateral actions), as part of an initiative supported by the World Bank on credit reporting.

Bilateral Activities (in figures)

(1st January - 30th June 2014)

Study visits: 8

On-site missions: 4

Number of participants in study visits: 33

Number of central banks benefiting from study visits and missions: 15

Institution-building Projects

The Eurosystem Needs Analysis Project for Central Banks in the Western Balkans

The project, launched in April, is financed by the EU and coordinated by the ECB, with expert contributions from a number of Eurosystem national central banks. It is part of a broader ECB/Eurosystem strategy to strengthen the macroeconomic and financial stability of EU candidate and potential candidate countries in the Western Balkans. Reinforcing the institutional capacity of their central banks is fundamental to this purpose.

The project is essentially designed to examine the beneficiary central banks' current institutional and operational frameworks and bring out the shortcomings that must be remedied in order to meet EU standards. The main product of the project is a Report specifying the needs and setting out recommendations for action. When the needs analysis project is completed, the likely next step will be a technical assistance program for the implementation of the recommendations by the partici-

pating central banks.

This project is addressed primarily to the Bank of Albania and the Central Bank of the Republic of Kosovo, covering 13 business areas with the former and 7 with the latter. In both cases, the Bank of Italy is responsible for banking supervision and payment system oversight.

The project with the Bank of Albania has been recently concluded, and that involving the Central Bank of the Republic of Kosovo should be completed within the next six months.

A new Eurosystem Needs Analysis Project has been just launched with the Central Bank of Montenegro. The Bank of Italy will be responsible for payment system oversight, within the macro-area of financial stability, and balance-of-payments statistics, within the macro-area of statistics. The project will last seven months.



The ECB/Eurosystem strategy towards EU candidate and potential candidate countries central banks

This strategy is part of the broader EU enlargement policy framework (<http://ec.europa.eu/enlargement/index.en.htm>). For the Western Balkans in particular, in the aftermath of the devastating conflicts of the 1990s, the EU has followed a comprehensive strategy of engage-

ment, with the ultimate goal of enlarging EU membership to the entire region. The declaration of the European Council of Feira, in 2000, formally granted all Western Balkan countries the status of potential candidates for EU membership. Since then, accession-driven political, institutional, and economic reforms have become crucial in these countries.

Since 2007, the ECB and the EU national central banks have carried out a number of projects with:

Central Bank of Bosnia and Herzegovina - Needs analysis project (2007) and technical cooperation project (2010-2011);

Western Balkans and Turkey - Assistance program to strengthen macro- and micro-prudential supervision (2010-2012);

National Bank of Serbia - Needs analysis project (2008-2009) and technical cooperation project (2011-2013);

National Bank of the Republic of Macedonia - Needs analysis project (2012-2013).

For details on these projects and other activities, see <https://www.ecb.europa.eu/ecb/tasks/international/assistance/html/index.en.html>

2014

Forthcoming Seminars**“Accounting, Budgeting and Tax Issues: Activities, Controls and Risk Monitoring System”****(Rome, 5-7 November 2014)**

Financial independence is a cornerstone for central banks which incur operational costs and risks in the course of their activities. Central bank independence and credibility depend also on capital adequacy and operational efficiency, which in turn follow from effective risk management, proper use of resources, and accountability to the general public.

In addition to its activities and controls to ensure compliance with the accounting expenditure and tax rules, the Bank of Italy has stepped up its management control and the monitoring of legal, reputational and financial risks.

The seminar will describe and discuss the relevant processes, methodologies, tools and control techniques. The results obtained will be shared, in order to provide participants with an overview of the practices adopted.

“The Evolution of Payment and Securities Clearing and Settlement Systems in**the EU: the Banca d'Italia Experience”
(Rome, 17-19 December 2014)**

The seminar will address the main issues related to the evolution of the payment and securities clearing and settlement systems in the EU from a policy, operational, technical and legal point of view. Within the framework of the role played by the European System of Central Banks (ESCB) in this field, the seminar will cover:

- the services offered in large-value payment systems, TARGET2, and in the near future in Securities clearing and settlement systems, TARGET2-Securities (T2S). Presentations will be complemented by a visit to the Service Desk for the “TARGET2-T2S Single Shared Platform (SSP)”;
- the oversight functions performed by Banca d'Italia and its involvement in the field of retail payment services and instruments, within the Single Euro Payments Area (SEPA). A specific focus will be dedicated on the legislative initiatives currently carried out at the European level and to the services Banca d'Italia offers to the banking community for retail payments and to central banks to facilitate cross-border payments and the investment of Euro-denominated foreign reserves.



2015

Seminar & Workshop Catalogue Preview

Seminar on “Balance of Payments Data Production According to BPM6: the Bank of Italy’s Experience” (Rome, first half 2015 - date to be decided)

The ECB has recently revised the external statistical data requirements according to the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). The new Guidelines should be adopted in the euro area by mid-2014.

Against this background, the Bank of Italy has re-engineered its balance-of-payments data production process according to the new international standards.

The seminar will illustrate our methodology of data collection and production for the main balance-of-payments items; for each item, the transition to the new BPM6 standards will be specifically treated.

Seminar on “Information Systems Auditing in a Central Bank: Practical Experience and New Challenges” (Rome, first half 2015 - date to be decided)

The rapid evolution of information technology – essential to practically all central bank processes – poses new challenges for auditors and requires skills that are not easy to develop or maintain. Internal audit functions will have to pay more attention to IT risks and guarantee the effectiveness, efficiency and security of operational processes, considering the integration between administrative and IT controls.

The seminar will explore methods and techniques of information systems auditing. Interactive sessions are planned to share experiences in IT audit, such as the IT security and cybersecurity risks.

Representatives from the Bank of Italy Directorates that have been audited will describe their experience with IT auditors.

Seminar on “Innovation, Retail Payment Instruments and Systems: Market Developments, Regulatory Initiatives and Effects on Oversight” (Rome, second half 2015 - date to be decided)

In the Single Euro Payments Area (SEPA) framework, the seminar will describe market tendencies and regulatory initiatives to steer the development of payment systems. The main driver for change is standardization and harmonization of the chief traditional payment instruments (credit transfers and direct debits), as well as the adaptation of infrastructures. A second topic will be the increasing number of stakeholders, including non-banks, that can provide payment services, which should heighten competition and foster efficiency. A third theme will be the acceleration of technological innovation, which implies a growing influence of technological players and contributes to the diversification of means of payment (mobile, internet, etc.) based on protocols that are not yet fully standardized. Another implication of technological progress is the impact on public payments, for both local and central administrations.

Public oversight at European and national level must closely monitor market developments, conduct detailed analysis, and manage the tools for intervention.

Seminar on “The Quality of Banknote Circulation and the Bank of Italy’s Monitoring Activity on Professional Cash Handlers” (Rome, second half 2015 - date to be decided)

The seminar will take a broad view, including a description of the Italian cash cycle (actors involved and some data on the cash handling industry). An overview of the role of a central bank in preserving the quality of banknote circulation will be offered, as well

as a description of the Eurosystem regulations and their implementation in Italy. Participants will be introduced to the Bank of Italy's testing of banknote sorting equipment and monitoring of professional cash handlers – off-site monitoring and especially on-site inspection.

Workshop(*) on “Macroeconomic Modeling and Forecasting”

(Rome, second half 2015 - date to be decided)

The workshop will provide an overview of the techniques and models used at the Bank of Italy for short- and medium-term forecasting, for the analysis of economic policy issues, and for counterfactual simulations. First, the quantitative tools in use at the Bank of Italy will be described; then the workshop will focus on the main applications of the econometric models that support some of our institutional activities, such as short- and medium-term forecasting, constructing risk scenarios, assessing the possible use of macropru-

dential policy tools, evaluating structural reform programs, and estimating the effects of alternative fiscal policies.

Workshop(*) on “Macroprudential Analysis and Supervision”

(Rome, second half 2015 - date to be decided)

The workshop will focus on some aspects of the methodology and application of the Italian and EU framework for macroprudential analysis and supervision. The program includes:

- overview of the Italian and EU Framework for financial supervision;
- macroprudential policy framework and application;
- macroprudential capital requirements;
- macroprudential analysis and tools (financial risk outlook);
- system-wide stress tests;
- supervisory stress tests;
- system-wide analysis of the non-bank financial sector and financial innovation.

(*)Workshops are organized as short seminars with a narrow thematic focus, addressed to small groups of specialists.



The Bank of Italy Money Museum: Cuneiform Mesopotamian tablet - contract for a loan of silver

General Information

Participation in seminars and workshops is by invitation.

Requests from Institutions other than the regular beneficiaries are considered on a case-by-case basis.

The working language is English.

Participation is free of charge.

In some cases hotel accommodation is provided by the Bank of Italy.

Travel expenses to and from Rome are not reimbursed.

Seminar duration is usually 3 days; workshops last 2 days at the most.

Lunches are covered for the duration of the seminar/workshop. A courtesy dinner is also offered.

We usually accept up to 25 participants in the seminars and only one representative from each institution. As far as workshops are concerned, groups are not larger than 15 participants.

Our seminars and workshops are as interactive as possible. Short presentations by selected participants are usually invited in order to stimulate discussion and debate.

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Seminars & Workshops (...continued)

(Seminar on “Portfolio Management for Central Banks”, continued from page 2) This was the main theme of the first day of seminar, with an analysis of the Bank of Italy’s strategic investment process, which factors in all the institutional and financial stability objectives to determine the optimal asset allocation. As a key part of the assessment process, the seminar discussed the global macroeconomic outlook and recent developments in euro-area financial markets, where new issuers have emerged amidst the sovereign debt crisis.

The second day, participants had the opportunity to examine the Bank’s investment strategy, focusing on the different asset classes on the list of eligible instruments. The three-layer management framework for the foreign reserves (strategic, tactical and real portfolios) was explained and the time horizon for each benchmark specified. One session was given over to describing the management of the Bank of Italy’s own funds, where the investment style is more passive. The typical long-term “buy and hold” approach suits the domestic investment strategy of a central bank, avoiding fluctuations of holdings based on current market prices. In addition, the management of euro-denominated assets is subject to some Eurosystem constraints to avoid potential conflict with monetary policy operations. The expansion of central banks’ balance sheets, due in part to accommodative monetary policy, has highlighted the need for a new risk management framework, i.e. a more diversified investment strategy to minimize the correlation between investment and monetary policy decisions. Return on investment is an important factor as well, since adequate remuneration of its own funds is the prerequisite for a central bank’s independence and credibility. In this context, the new asset classes recently introduced by the Bank of Italy for purposes of instrument diversification were listed; the management of these assets is currently being outsourced, until the Bank can acquire the expertise for eventual inter-

nalization. The afternoon session benefited from a participant’s account of the Bank of Lithuania’s experience with financial asset management. An additional session was given over to the Eurosystem’s Reserves Management Services (ERMS), the investment activities that the Bank of Italy carries out on behalf of non-European central banks that invest in euro-denominated assets.

The last day dealt with financial risk management and settlement issues. The first part was dedicated to risk budgeting and risk control at the Bank of Italy. Considering the various activities of central banks (monetary policy, investment management, banking supervision), our risk managers explained how they measure the impact of each of those tasks on the overall risk for the Bank’s balance sheet and how the probability of extreme losses can be minimized. The last part of the meeting centered on more practical back-office issues, such as clearing, settlement and post-trading. Speakers emphasized the great potential complexity of collateral management and corporate action tasks.

The seminar was attended by 21 foreign participants with a variety of capacities and responsibilities in their own banks, most of them in the market operations or investment department. They showed their keen interest in the seminar topics, raising a series of very pertinent questions. The gathering definitely confirmed the widespread interest among many other central banks in cooperating with the Bank of Italy with a view to a permanent interchange of experiences in the field of investment management.

(Seminar on “Public Debt Management and the Contribution of Banca d’Italia” continued from page 2) The topic was new to our seminars, and the approach was innovative. The first day focused on financial market developments, sovereign risk pricing and the connection with the monetary policy channel. One

session was dedicated to the strategy of public debt issuance, with presentations by Bank of Italy researchers and an account of the Bank's institutional experience in the formulation of public debt strategies. The discussion was enriched by the contribution of an expert from the Italian Treasury, which is one of the world's largest issuers of euro-denominated government instruments. Special attention was paid to the factors that drive government bond yields in financial markets and to the feasible policy actions and strategies for steering yields.

The second day dealt with long-term choices in public debt management, such as defining sustainable trajectories of deficit and debt, and with issues relating to foreign loan financial service and the conduct of auctions. The latter topic was discussed by Bank of Italy experts and enriched by the contribution of the Bulgarian National Bank, whose representative explained how they conduct their auctions and deal with operational risk. A completely new feature on this day was role playing, in which participants had to select a long-term issuance strategy and seek to manage operational risk. Participants were involved in a stimulating debate and actively participated in the role playing. The games provided a chance to test the capacity to make strategic and tactical decisions, which may prove critical when it comes to actual public debt management.

During the last day the discussion broadened to various "ancillary" topics, such as sovereign risk exposure in a central bank's balance sheet, particularly in a scenario of impairment of sovereign bond markets. The discussion also touched on the structure of the Italian government securities markets, the regulatory and supervisory framework and market monitoring. Finally, tax issues related to sovereign bonds were discussed. As on the first day, the presentations by our own experts were supplemented by a presentation from a Treasury expert on the

relationship between public debt managers and primary dealers (market makers) and one by the Central Bank of Hungary on their experience in modelling short-term interest rate expectations and term premia.

The seminar was attended by 16 foreign participants with different technical backgrounds and operational tasks in their banks, such as compilation of debt, analysis of government bond markets, forecasting the public debt, and fiscal accounting; they participated actively, showing deep and broad interest in the range of issues dealt with. The seminar helped to deepen understanding of the complex interconnections among the various themes handled.



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