



BANCA D'ITALIA
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INTERNATIONAL TECHNICAL COOPERATION
NEWSLETTER



This newsletter is 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 market operations, 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/compiti/ricerca-economica/cooperazione-tecnica-internazionale/index.html>

2016 (1st Semester)

Highlights

The Bank of Italy's training activities have been further expanded in 2016, by providing 4 seminars and 4 workshops, half of which were held in the first part of the year. Our activities also included 12 bilateral activities (study visits or meetings in Rome and missions abroad) involving 106 external participants in total, from almost all the continents. Most of them came from EU candidate and potential candidate countries (Western Balkans and Turkey, 23%), followed by North Africa and the Middle East (19%), G20 countries (18%, Turkey not included), non-euro area EU Member States (15%), CIS (13%, Russia not included), Sub-Saharan Africa (8%), and others. Activities focused mainly on human resources management and central bank organizational matters; economic research, statistics, and banking supervision played also an important role.

Details concerning seminars and workshops of the first semester of 2016 are inside.

Seminars & Workshops

Workshop on 'Building the Backbone of the Organisation: Internal Rules, Processes and Procedures'

(Rome, 10-11 March 2016)

Participants: 21

The first workshop on *Organization and Human Resources (HR)* organized by the Bank of Italy (BoI) aimed at discussing how to shape a central bank as a modern and flexible organization. The spirit of the event was not to give a one-size fits all recipe but to provide a general framework and a variety of solutions. In line with Brandon Mull's quotation by one of the participants - 'smart people learn from their own mistakes. However, the real sharp ones learn from the mistake of others' - the workshop aimed at favouring debate among participants so that insights could be drawn from a variety of experiences. [\[Read more on page 6\]](#)

Seminar on 'Internal Audit in a Central Bank'

(Rome, 6-8 April 2016)

Participants: 28

Internal auditing has been deeply and quickly evolving over the recent years. Its development has been significant both in terms of the profession as a whole and in terms of the role of internal auditors in central banks. Central banks are increasingly facing new challenges, due to both the recent financial crisis and a more dynamic environment. In some contexts, such as the European System of Central Banks, a new way of cooperating among central banks is arising in the internal Audit field also.

[\[Read more on page 7\]](#)

Workshop on 'Euro Banknote Production with a Focus on Design and Origination: The Experience of the Bank of Italy'

(Rome, 26-27 May 2016)

Participants: 10

Despite the development in recent years of different payment instruments, banknotes and cash in general still play an important role in making transactions. The public's confidence in cash is essential to safeguard the smooth functioning of the payment system and it basically relies on the integrity of the notes, in terms of both authenticity and quality. To this end, not only are a resilient supply of banknotes and a constant control of their quality in circulation necessary but also a proper Design and Origination (D&O): this phase defines the note layout, its security features and the related production processes as well, and affects the notes' performance/integrity significantly throughout their life cycle. [\[Read more on page 9\]](#)

Seminar on 'Financial Risk Management for Central Banks: Implementing a Comprehensive Framework to Deal with Institutional and Investment Challenges'

(Rome, 15 -17 June 2016)

Participants: 20

During the current crisis, the topic of financial risk management for central banks has gained momentum, as well as the awareness of the need to identify, measure and handle risks.

Financial risk permeates all functions of central banks: monetary policy as well as managing different investment portfolios (foreign reserves and domestic currency assets). Even though central banks are not subject to liquidity constraints, because of their ability to create money, and are not subject to bankruptcy procedures, financial losses may undermine central banks' credibility and reputation.

[\[Read more on page 10\]](#)

'Smart people learn from their own mistakes. However, the real sharp ones learn from the mistake of others'

*Brandon Mull
(American writer)*

2016

Forthcoming Seminars

Seminar on 'Regulatory and Supervisory Issues of Small Banking and Financial Entities, with Special Focus on SME and Household Financing'

(Rome, 14-16 September 2016)

The seminar provides a comprehensive overview of the main and most common regulatory and supervisory aspects of SME and household financing, with special focus on a) the scope of regulation and supervision: the main types of intermediaries involved in SME/household financing (small banks, mutual funds and non-bank intermediaries), licensing, activities, instruments, and shadow-banking issues; b) prudential regulation and supervision, especially the application of Basel requirements concerning SME and retail financing; c) supervisory approaches and tools used with small banks and financial intermediaries; d) macroprudential issues; and e) transparency requirements and customer protection.

Seminar on 'Payment Systems and Market Infrastructures in the EU; Policy, Operation, Oversight: the Bank of Italy's Experience'

(Rome, 14-16 December 2016)

The seminar aims to improve participants' knowledge of EU payment systems and market infrastructures from a policy, operational, technical and oversight point of view. Considering the role played by the European System of Central Banks (ESCB) in this field, the seminar will look at the services offered in large-value payment systems, TARGET2, and in the securities clearing and settlement systems, TARGET2-Securities (T2S), as well as the oversight functions performed by the Bank of Italy and its involvement in retail payment services and instruments within the Single Euro Payments Area (SEPA). Presentations will be supplemented with a visit to the Service Desk of the TARGET2-T2S Single Shared Platform (SSP), the Eurosystem's Financial Market Infrastructure jointly operated by the Bank of Italy and the Deutsche Bundesbank.

The 2017 seminar and workshop catalogue will be published soon on the Bank of Italy website

2016

Forthcoming Workshops

The 2017 seminar and workshop catalogue will be published soon on the Bank of Italy website

Workshop on ‘ Financial Statistics in Central Banks’ (Rome, 13-14 October 2016)

The recent financial crisis and responses to it have raised the analytical interest of sound and reliable information on sector balance sheets and transactions, the interconnectedness of financial systems and the national economy’s financial exposure with the rest of the world. Statisticians and national accountants are called upon to provide suitable and timely statistical data to support policy decisions. Against this background, the workshop aims at describing the latest developments in methods and scope of financial statistics produced by central banks. Topics will include an overview on the current Italian Financial Accounts framework as part of the Eurosystem, with a focus on sources, methods and uses of financial accounts developed by the Bank of Italy. The Bank of Italy IT platform for financial statistics will also be illustrated. Specific attention will be devoted to the interrelation between financial accounts and other statistics, including Balance of Payments.

Workshop on ‘Anti-Money Laundering’ (Rome, 17-18 November 2016)

The workshop on anti-money-laundering will provide an overview of the actions taken by the Bank of Italy to prevent supervised entities from being used for criminal purposes. Following a general presentation of the supervisory activities for the prevention of criminal activities, the workshop will focus on Italian legislation on anti-money-laundering and counter-terrorism-financing (AML/CTF), describing the competencies of the different authorities involved. A description of the Bank of Italy’s risk-based supervisory model on AML will be provided, and case studies will be presented. The workshop will also include an overview of the anti-money-laundering regime following the introduction of the new payment methods. The workshop will feature a contribution from the Italian Financial Intelligence Unit (FIU), which will illustrate its activities and the results of its analysis of suspicious transaction reports.

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

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 institutions. 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.

Contacts

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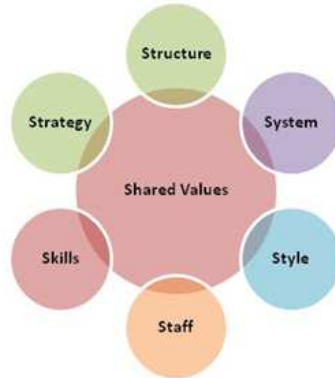
The Bank of Italy's new conference center

Seminars & Workshops (...continued)

(Workshop on 'Building the Backbone of the Organisation: Internal Rules, Processes and Procedures', continued from page 2) The underlying conceptual framework was McKinsey's 7S model according to which interdependent factors of an organization need to be aligned for it to be successful (Peters and Waterman, 2004)¹.

Many questions were raised and various possible answers were discussed. The participants' varied backgrounds testified to the number of issues at stake and how interwoven all the variables are. BoI speakers drew from their experience of the many organizational changes in the fields of organization, HR and ICT. The workshop also benefited from a speech on HR issues given by the Czech Republic's Central Bank participant.

The first day focused on the 'hard' variables starting from the structure. How do we draw the boundaries of units? How big or small should units be? How should responsibilities be assigned and coordination promoted? Despite differences in functions and size, central banks show a common evolution in the direction of higher levels of specialization, internal and external coordination, decentralization and delegation.



BoI is currently investing in a process-driven view to increase cross-functional coordination, offer a better understanding of the operations performed, pay attention to outcomes and impacts on final stakeholders.

The floor was opened to a comparison between coordination mechanisms and the rules system. How do we tailor an efficient internal system of rules? Should rules be binding or flexible? Detailed or principle based? Once again one size does not fit all but it all depends on the organization and the type of process they are ruling. Nevertheless there are common *better regulation policies* that help to draw up and maintain rules. How to go from better regulation to housekeeping and responsiveness was also debated.

The role of technology, the methodologies to analyse and re-engineer processes as well as examples of dematerialization benefiting from the widespread use of digital signatures were highlighted and discussed. The 'simplification box', an application through which staff can post their ideas for streamlining processes, stimulated debate: a way to compensate for bad commu-



Workshop on Building the Backbone of the Organisation - Working in group

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nication or an empowerment tool?

Participants were led into a virtual world of real time meetings and communication. In BoI teleconferences, also with external users, are within everyone's reach by means of their personal devices.

The experiences and the pros and cons of adopting Enterprise Resource Planning (ERP) solutions were shared. The use of ERP systems has been at the base of a 'management dashboard' with trusted information and data on resources, activities and outputs presented in an easy-to-read way.

A case study on the organization of the procurement function taken from real BoI experience challenged the participants by giving them the opportunity to play with key variables of the organization.

Moving on to human capital, the second day was devoted to skills, staff and style and the role of HR management and culture to keep (or make) the organization simple.

In the Czech National Bank, HR has been recently involved in supporting the vast number of organizational reforms across the bank, reinforcing corporate culture as well as defining new training and rewarding systems.

In the Bank of Italy there is currently an enormous change under way in the management of human resources.

A new, flexible time management framework allows employees to customize their timetable. Teleworking aroused great interest and a lot of information was shared on how it works.

A reform of the managerial sector has just been launched. The new system reduces the number of hierarchical levels, introduces vacancies for managerial positions and a performance management system based on work by objectives. Participants were very curious about the feedback system between line managers and employees and how to implement it in an effective way.

The impressive cultural change under way stresses the crucial role of managers, called upon to promote new working practices - planning work, extending delegation, managing by objectives - to support a better work-life balance, reward collaborators as well as sustain their involvement and gear the organization towards a results-based approach. Managers need to be consistently supported in strengthening skills

such as human resources management, constructive relations with stakeholders and their attitude to innovation. What is BoI doing to meet this challenge? The system of managerial training makes innovative training tools permanently available and promotes a managerial culture.

In the end...it was a shame to say goodbye! It was an 'arrivederci' though: in light of the many challenges that central banks face nowadays, the role of support functions in empowering institutional functions and contributing to organizational wellbeing becomes crucial. To this end, we need to be on the cutting edge of knowledge and immerse ourselves in our peers' experiences, intertwining organizational variables as well as people to get added value and take up the challenges!

¹ T. Peters and Robert H. Waterman Jr., *In search of excellence*, 2004, HarperCollins, HarperBusiness Essentials series.

(Seminar on 'Internal Audit in a Central Bank', continued from page 2)

Nowadays, internal auditors required to be primary players in this context, protecting the values and reputation of an organization as well as supporting the achievement of its goals. To this end, internal auditing should play a new role in a central bank's governance, aiming at improving internal control and risk management systems by disseminating risk culture and promoting innovation.

The seminar offered a representation of how this role has been interpreted by the Internal Audit Directorate (IAD) at the Bank of Italy. Over the span of a few years, the IAD basically did a small revolution: all the methodologies have been updated, Audit Charter has been reissued, new audit procedures have been put in place and the processes have been re-engineered.

Bank of Italy's speakers shared what roles the IAD played at the different stages of such journey and which lessons have been learned with the participants. Furthermore, the various



Seminar on Internal Audit - Self introduction of the participants

points of view, offered by participants coming from many different backgrounds, contributed enormously to animating an already lively debate. The long journey that led the IAD to change its role from a more compliance-oriented function to a modern and risk-based Internal Audit function, triggered a discussion about what role fits better in a changing environment for internal auditors. The debate was also enriched by the comparison with the experience of the Central Bank of the Republic of Turkey and the Bank of Thailand.

Three roles for the internal auditors were highlighted during the seminar. First role: internal auditors as promoters of a risk-culture for the organization both in terms of risk awareness and of cultural adaptation to changes such as the digital revolution and the Internet. The impact of these changes has been significant, and so are the related risks, first and foremost the risk of cyber-frauds and cyber-attacks, for example. The IAD at the Bank of Italy bases its methodologies and techniques on risks. This makes the internal audit activity more effective and efficient by pursuing an optimal alignment with organizational strategies. In this way, IAD is able to provide value-for-money services to the organization, whilst also improving risk awareness within the Bank.

The second role relates to innovative ability which in our view is another key feature of a modern internal audit department. The IAD, af-

ter having facilitated the introduction of an operational risk management framework and policy in the Bank, started to promote the adoption of the three lines of defence model. This is because, in the IAD's opinion, a better clarification of roles and responsibilities in risk management is crucial in order to effectively and efficiently pursue the Bank's goals. In this vein, the Bank of Italy's IAD, as the main assurance provider on internal control and risk management systems within the Bank, is an ideal facilitator in the organization, in order to foster a broader awareness of the topic and to map and promote coordination among the various assurance providers. To achieve this, the Bank of Italy's IAD assists in gathering as much information as possible to eventually combine the different assurances and to use them to build an overall opinion on the internal control system and risk management. The latter will help the decision-making bodies in making informed and strategic decisions. In our view, it will be one more value-added product that the IAD is able to provide to the Bank.

At this point in time, having built sound processes and methodologies, and been recognized as a point of reference within the Bank, the Bank of Italy's IAD is striving to become a strategic advisor for Board and Senior Management on the hot topics for the Bank (third role). To this end, we believe it to be crucial for an internal audit function to act on five elements: com-

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munication and inclusiveness, a rigorous professional approach, awareness of its abilities, innovative ability and enhancing the perception of the internal audit and its value for the organization. A sound combination of these drivers must be maintained over time so that the IAD can successfully face new challenges and add more and increasing value to the Bank.

(Workshop on 'Euro Banknote Production with a Focus on Design and Origination: The Experience of the Bank of Italy', continued from page 2)

The Bank of Italy's (BoI) Banknotes Directorate is a full 'in-house' Printing Works (PW) whose mission is, on the one hand, to produce the quota of euro banknotes assigned yearly to BoI by the ECB and, on the other hand, supporting the Eurosystem in developing new denominations by carrying out both R&D and D&O activities. The BoI's PW can count on a great deal of experience in this field, up-to-date machinery, a skilled workforce and recognized expertise. This has made it possible for the BoI's PW to play a major role within the Euro Second Series project (ES2) from the very beginning, to have been appointed as the Main R&D Test Print Centre of the euro area since 2012 and, as such, to now be in charge of the

D&O of new euro High Denominations.

The workshop was therefore aimed at providing a focus on the main issues of D&O activity within the framework of euro banknotes production.

An overview of the reference scenario and of Eurosystem working principles was provided, outlining the organization of euro banknotes production (decentralized scenario with pooling), the ECB and the national central banks' (NCBs) roles and the set of requirements to comply with (security, quality, environment and health and safety). The background information was integrated with the description of the BoI Banknotes Directorate's main resources and activities (organizational set-up, machinery and equipment and workforce) and of the main manufacturing steps (printing stages, cutting and finishing), also to prepare for a visit to the plant. These topics aroused considerable interest among the attendees, who raised questions on the allocation of euro banknote production among NCBs, on the forecasts of euro banknote requirements and their fluctuations, on the recent decision to stop issuing the €500 note and so forth. A major contribution to the discussion came from the representative of the Banco Central do Brasil, who presented the Brazilian experience in dealing with the issuance of the new series of Real, revealing a number of similarities with the Eurosystem approach in series replacement.

The workshop then got straight to the heart of the matter and focused on the BoI's D&O facilities and know-how, with a comprehensive description of the underlying processes and a sound explanation of key achievements and challenges in the field; an overview of the BoI's contribution to the ES2 project was also given. The production of offset and intaglio plates using the most advanced 'computer-to-plate' techniques was illustrated, highlighting the transition from 'analogue' to 'digital' technology; the BoI's PW adopted such a system as a forerunner in early 2000s, thus assuming leadership at the Eurosystem level. Innovative pre-press activities were outlined, with specific reference to Physical Vapour Deposition (PVD), a smart technology for coating intaglio plates. Developed as a BoI-ECB joint project, in partnership with the 'Politecnico di Milano', a renowned scientific



Workshop on Euro Banknote Production - Greetings

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University based in Milan, and the Italian company 'Protec Surface Technologies', among other benefits this technique replaced the chromium galvanic bath, a traditional process that was quite risky in terms of health and safety.

Some of the most successful communication initiatives on euro banknotes were also shared with the participants, namely the e-book on banknote production and the interactive exhibition 'The ideas behind the banknote: creativity, technology and security'. Finally, the competition for schools 'Let's design a banknote' was illustrated: it falls within the scope of financial education initiatives and is organized every year by the BoI and the Ministry of Education, with the cooperation of the Ministry for Foreign Affairs (specific information can be found on the BoI's web site).

(Seminar on 'Financial Risk Management for Central Banks: Implementing a Comprehensive Framework to Deal with Institutional and Investment Challenges', continued from page 2) The seminar was aimed at sharing state-of-the-art knowledge about financial risk man-

agement and to present two important analytical tools recently developed by the BoI has: (i) the integrated risk management framework based on an asset and liabilities management approach (ALM) and (ii) the In-house Credit Assessment System (ICAS) for the assessment of the riskiness of credit claims accepted as collateral for monetary policy operations.

The integrated risk management framework aims to identify an investment portfolio that maximizes wealth in adverse events. These are contingencies where central banks could be required to take on additional risks because of their institutional functions. In other words, the framework assesses optimal portfolio management, giving priority to policy objectives and to the unavoidable risks thereof.

The seminar focused specific attention on how to develop an integrated view of risks over the whole spectrum of activities, thereby overcoming the traditional approach of segregating monetary policy and investment assets from a risk management perspective. The illustrated framework includes both explicit and implicit items, mainly seigniorage and contingent liabilities related to financial stability. The latter entails support to illiquid but solvent banks or other functions specific to a single jurisdiction,



Seminar on Financial Risk Management - A snapshot

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which were extensively discussed in the Q&A sessions.

Implicit items expose central banks to non-alienable risk-return factors. To provide participants with practical tips on how to incorporate such items in a risk analysis, part of the seminar was dedicated to the main operational tool for Strategic Asset Allocation (SAA): a comprehensive representation or risk-adjusted balance sheet (RABS). By explicitly recognizing implicit and explicit assets and liabilities, the RABS encompasses the interdependence between different sources of risks, originating from investment portfolios and policy functions. Thus, it is a fundamental tool for making investments, as far as possible, a source of financial strength of the central bank, especially under adverse external conditions.

On this subject, the Central Bank of Brazil made a valuable presentation concerning its experience with SAA for international reserves and the efforts made to introduce an integrated ALM approach, which goes beyond the boundary of the central bank to encompass public as well as private foreign liabilities. Participants agreed about the importance of a well-defined strategy in risk management to ensure transparency and accountability in the management of public funds.

The second part of the seminar focused on the ICAS, which is a system used to assess the riskiness of credit claims pledged by Italian banks for monetary policy purposes, enabling them to

expand available collateral and enhance the implementation of monetary policy since July 2013. The ICAS is also an important source of information not only for the Financial Risk Management Directorate but also for the central bank as a whole, as a tool for monitoring the development of the Italian real economy, thereby fostering synergies with the Financial Stability Directorate. The ICAS has been developed by leveraging the experience of several Bank of Italy Directorates General (Markets and Payment Systems, Financial Supervision and Regulation and Economics, Statistics and Research). How ICAS functions was illustrated during the seminar: it envisages a preliminary statistical assessment (ICAS Stat) followed by a qualitative assessment by financial analysts (Expert System).

An interesting presentation by the Bulgarian Central Bank stressed the importance of financial protection ensured by building up a system of quantitative limits and rules concerning issuers, asset classes and concentration. The Central Bank of Ukraine's constructive presentation showed the new Ukrainian integrated credit risk assessment framework where the role of credit experts is essential.

Participants showed great interest in the topics and shared their national experiences, providing valuable insights. The spontaneous and collaborative exchanges of views among delegates and speakers contributed to the effectiveness of the seminar and laid down the foundations for further collaboration.




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