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**ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT**

**DIRECTORATE FOR FINANCIAL AND
ENTERPRISE AFFAIRS**

WORKING PARTY ON DEBT MANAGEMENT

**Suggested Key Questions on Sovereign Asset and Liability Management
(SALM) – Country Experiences and Lessons**

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of this meeting.**

Background to [Agenda Item No 2](#) for the meeting of the Global OECD Forum on
Public Debt Management to be held on 3 and 4 December 2008, beginning at 9.30
am on the first day. Questions concerning this document can be addressed to Hans
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Joint OECD-IMF Project on Sovereign Asset and Liability Management (SALM)

Suggested Key Questions

- Definition of a sovereign balance sheet and objectives of SALM approach
 - ✓ What are the most relevant items on the asset and liability sides of a sovereign balance sheet from DM perspective?
 - ✓ Which assets should therefore be taken into consideration in SALM? Which items need to be distinguished separately?
 - ✓ What are the principal risks associated with a sovereign balance sheet?
 - ✓ What would be the main objectives for SALM?
 - ✓ What constitute the key prerequisites in instituting an SALM framework?
- Benefits of adopting sovereign ALM approach
 - ✓ How sub-optimal is it for sovereigns to govern the risk-, cost- and return profile of sovereign balance sheets based on isolated strategies for assets and liabilities?
 - ✓ Who should have overall responsibility for the management of the risks inherent in the sovereign balance sheet?
 - ✓ Is there a major role for debt managers? Are they the ultimate sovereign risk managers?
 - ✓ Why would debt managers care about integrating balance sheet risks?
 - ✓ What would be the potential positive influence of comprehensive balance sheet risk analysis on borrowing strategies?
- Concerns raised by OECD debt managers about SALM approach
 - ✓ What are the organizational and governance considerations in managing balance sheet risks?
 - ✓ What should be the degree of coordination between agencies having responsibility for the management of different elements of the sovereign balance sheet?
 - ✓ The management of each asset and liability in a SALM context has its own risk preferences. What are the determinants of risk preferences?
 - ✓ How can the risk preferences of the government as a whole be articulated?
 - ✓ What is the optimal degree of centralizing the management of balance sheet risks?
- Practical challenges of implementing of SALM approach
 - ✓ Integration of balance sheet items: Unlike private companies, governments in general do not produce comprehensive balance sheets. The balance sheet of the

general government represents by definition the consolidation of individual balance sheets of various public institutions that are being managed on a sub-portfolio basis.

- ✓ Calculation of balance sheet items: Besides forecasting macroeconomic variables, estimation of future cash flows of certain balance sheet items like revenues can be another important source of complexity.
- ✓ Coordination among financial government institutions: These sub-portfolio balance sheets are being managed on the basis of each individual institution's objectives and functions, based on legally and politically sanctioned mandates. Therefore, application of this framework may pose some important challenges in practice. How can these challenges best be addressed?