



Policy

DECISION DATE: 05/11/2018
DECISION BY: Executive Board
APPLICABLE FROM: 01/01/2019
RESPONSIBLE DEPARTMENT: General Secretariat/Risk Division
RESPONSIBLE MANAGER: Chief Risk Officer
MANAGEMENT CLASS RB PUBLIC

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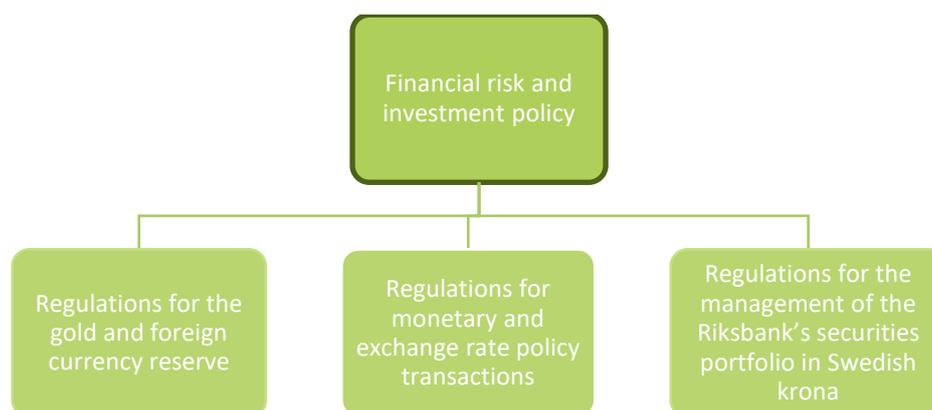
DNR 2018-00949

Financial risk and investment policy

Management of the Riksbank's financial assets and liabilities shall be conducted efficiently and in such a way that is judged not to damage the reputation of the Riksbank. This policy contains an overarching framework for investments and the handling of financial risks that arise in asset and liability management. The policy and supplementary regulations make it clear which principles are indicative, what is to be monitored, reported and measured and what is required in connection with decisions that involve significant changes in asset and liability management.

1. Purpose and application

- 1.1. The purpose of this policy is to set the outer limits for the risk that the Riksbank is prepared to take with regard to the Riksbank's financial assets and liabilities. The policy is supplemented by regulations for each management area.



- 1.2. This policy and underlying regulations describe the minimum requirements set for risk management and controls. The requirements do not cover all possible situations and do not limit the responsibility of the heads of department for identifying, measuring, managing, monitoring and reporting financial risks within their departments.
- 1.3. The limits and risk mandates specified in this policy and underlying regulations may need to be disregarded in connection with policy measures such as foreign exchange interventions and liquidity support in foreign currency and when making transactions on behalf of the Swedish state. Such deviations will be subject to a decision by the Executive Board.

- 1.4. This policy is not valid for loans provided for liquidity assistance purposes in accordance with Chapter 6, Article 8 of the Sveriges Riksbank Act (1988:1385). The financial risks that the Riksbank is exposed to in connection with such liquidity support shall, however, be monitored in accordance with the principles described in the *regulations for the gold and foreign currency reserve*. Furthermore, the risks shall be evaluated in the way described in 5.6 in this policy.
- 1.5. Point 6.4 applies to loans that are provided by the Riksbank and that are not covered by the regulations stated in 1.1 and do not refer to such loans as are stated in 1.4, such as intraday loans.

2. Guidelines for management of the gold and foreign currency reserve

- 2.1. Every year or when necessary, the Financial Stability and Monetary Policy Departments shall assess the size and composition of foreign currency that the Riksbank needs to hold for contingency purposes to be able to perform its tasks and meet its commitments.
- 2.2. The assessment of the need for contingency purposes shall be translated into a policy portfolio, which constitutes a basis for management of the gold and foreign currency reserve. The policy portfolio's currency composition excluding the gold reserve shall correspond to the currency composition in 2.1, and be defined annually in the *regulations for the gold and foreign currency reserve*. Management may deviate from the policy portfolio in accordance with the deviation mandates defined in the *regulations for the gold and foreign currency reserve*.
- 2.3. Management of the gold and foreign currency reserve shall contribute to safeguarding the Riksbank's financial independence. The reserve's market risk may therefore not exceed the policy portfolio's market risk, with the exception of minor deviations considered necessary by the Chief Risk Officer. In addition, the long-term returns on the gold and foreign currency reserve shall exceed the returns on the policy portfolio.
- 2.4. Considering the requirements imposed by the Riksbank's remit, management shall take sustainability into account when selecting assets in the foreign currency reserve.

3. Basic principles

- 3.1. Management of the Riksbank's financial assets and liabilities shall be conducted efficiently and in such a way that is judged not to damage the reputation of the Riksbank.
- 3.2. Management of the Riksbank's financial assets and liabilities can be performed by the Riksbank itself or by another institution ("external manager") on condition that it complies with the requirements in this policy and underlying risk regulations.
- 3.3. Transactions and business relationships shall be documented in the manner and form that is the best standard on the respective market. The division of responsibility between the parties shall be reasonably balanced with regard to the status of the Riksbank as a central bank and the documentation shall be adjudged to function in accordance with the applicable national legislation.

4. Definitions

- 4.1. Risk is uncertainty about future events and their negative effects on the Riksbank's operations, balance sheet or reputation.
- 4.2. The Riksbank's financial risks consist of credit, liquidity and market risk. These risk types are defined in more detail in the *regulations for the gold and foreign currency reserve*.
- 4.3. The risk management of financial risks entails identifying, measuring, monitoring and reporting the risks.

5. Risk management

- 5.1. Management of the financial risks in the Riksbank shall aim to limit potential losses of the Riksbank's financial assets and liabilities so that the Riksbank always can perform its tasks and meet its commitments.
- 5.2. The Basel Committee's principles shall guide the Riksbank's management and curtailment of financial risks.
- 5.3. All financial risks shall be quantified using the measurements that are most appropriate for each risk type. The principles for these measures are defined in the *regulations for the gold and foreign currency reserve*.
- 5.4. Stress tests and scenario analyses shall be used to identify high-risk areas and concentration risks, and to evaluate the combined effects of financial stress.
- 5.5. Limits shall be used where applicable to curtail the financial risks. Limits and who adopts them shall be made clear in supplementary regulations.
- 5.6. Decisions that entail fundamental changes in the management of the Riksbank's financial assets and liabilities shall be drafted jointly by all the divisions concerned. The Chief Risk Officer decides how this drafting takes place.

6. Organisation, reporting and control

- 6.1. The Riksbank shall have an organisation, a working method and systems that ensure good goal achievement, risk management and contingency planning.
- 6.2. The heads of department are responsible for ensuring that the financial risks inherent in their own department's operations are continuously identified, measured, monitored and reported to the Executive Board, the Riksbank's Management Group, the Chief Risk Officer and other relevant individuals.
 - 6.2.1. Infringements of limits and regulations shall be immediately reported to the setter of the limits/mandates.
 - 6.2.2. The overall level of risk and the utilisation of credit, liquidity and market risk mandates shall be reported monthly.
 - 6.2.3. The Head of the Markets Department shall submit four-monthly reports on risk exposure in terms of credit, liquidity and market risks, and on how the deviation mandate for the gold and foreign currency reserve has been utilised. The risks shall be reported for the management of the Riksbank's financial assets and liabilities as a whole and separately for the management of the gold and foreign currency reserve, monetary policy and foreign exchange policy transactions, and the Riksbank's securities portfolio in Swedish kronor.
 - 6.2.4. The Head of the Markets Department is responsible for monitoring management of the foreign currency reserve once a year based on consideration being shown for sustainability in the choice of assets.
- 6.3. The Head of Markets Department is responsible for ensuring that the assets managed by the Department where necessary shall be able to be converted to liquid funds within the time period required on each occasion to fulfil the Riksbank's tasks and commitments.
- 6.4. The Markets Department is responsible, in accordance with the Riksbank's instructions, for drawing up regulations on what collateral the Riksbank shall accept for intraday loans in RIX and in monetary policy lending. These regulations shall at least specify:
 - 6.4.1. eligible asset types

- 6.4.2. permitted categories of issuers of such assets
 - 6.4.3. credit rating requirements
 - 6.4.4. eligible countries
 - 6.4.5. eligible currencies
 - 6.4.6. haircuts
 - 6.4.7. forms of collateral provision.
- 6.5. The Chief Risk Officer is responsible, in accordance with the Riksbank's instruction, for the drafting of Executive Board decisions on the *regulations for the gold and foreign currency reserve*. These regulations shall at least specify:
- 6.5.1. the design of the policy portfolio
 - 6.5.2. permitted countries
 - 6.5.3. permitted currencies
 - 6.5.4. permitted asset types
 - 6.5.5. permitted issuers
 - 6.5.6. permitted counterparties
 - 6.5.7. permitted deviations from the policy portfolio
 - 6.5.8. limits for credit, market and liquidity risk.
- 6.6. The Chief Risk Officer is responsible, in accordance with the Riksbank's instruction, for the drafting of Executive Board decisions on the *regulations for monetary and exchange policy transactions*. These regulations shall at least specify:
- 6.6.1. focus of monetary policy liquidity management.
- 6.7. The Chief Risk Officer is responsible, in accordance with the Riksbank's instruction, for the drafting of Executive Board decisions on *regulations for the management of the Riksbank's securities portfolio in Swedish kronor*. These regulations shall at least specify:
- 6.7.1. permitted asset types
 - 6.7.2. maximum permitted holdings
 - 6.7.3. permitted interest rate risk
 - 6.7.4. permitted transactions.
- 6.8. The Chief Risk Officer is responsible, in accordance with the Riksbank's instruction, for an independent control and reporting of the Riksbank's financial risks.
- 6.8.1. The Chief Risk Officer shall decide on the method for financial asset and liability valuation.
 - 6.8.2. The Chief Risk Officer shall decide on the methods used for the calculation, valuation and consolidation of the financial risks.
 - 6.8.3. The Chief Risk Officer shall submit a four-monthly report to the Executive Board on the Chief Risk Officer's assessment of the financial risks.
 - 6.8.4. The Chief Risk Officer shall decide on the routines for reporting limit infringements.
 - 6.8.5. The Chief Risk Officer shall submit proposals for the revision of this policy and supplementary regulations, inform the relevant divisions of the Executive



Board's decisions and ensure that decisions are kept together and easily accessible.

- 6.9. The Chief Risk Officer shall immediately receive a report if circumstances arise that are of significance to the control of the financial risks inherent in the management of the Riksbank's financial assets and liabilities. The heads of department, and the head of the division in the Markets Department that, in accordance with the Riksbank's instructions, is responsible for results monitoring and regular control and valuation of risks, are responsible for ensuring that such reports are submitted.

7. Decisions

- 7.1. All decisions based on this policy and underlying regulations shall be documented and communicated internally.
- 7.2. Decisions on deviations from this policy are taken by the Executive Board.
- 7.3. The Riksbank's overall risk limit for the assets in the gold and foreign currency reserve shall be determined annually by the Executive Board in the *regulations for the gold and foreign currency reserve*.