

ARTICLE – Measures needed for a safer and more efficient infrastructure

The Riksbank's oversight of the financial infrastructure² is founded in the Sveriges Riksbank Act's mandate to promote a safe and efficient payment system and is based on CPMI-IOSCO's international principles.³

The financial infrastructure consists of systems that manage payments and transactions with financial instruments. If problems arise in the infrastructure, they can have serious negative consequences for the functioning of the financial system, with substantial costs to society as a result. A well-functioning infrastructure is thus crucial for the stability of the financial system. At the same time, the companies providing infrastructure systems are often alone in offering their services. All in all, this means that these companies and systems are very important for the financial system to function. The Riksbank's oversight involves analysing risks in the financial infrastructure and acting to reduce these risks. The Riksbank sees risks in several of the infrastructure systems and considers it important that the work on reducing these risks continues.

Nasdaq Clearing should, to a greater extent, include liquidation costs⁴ when calculating requirements for the capital that must exist to cover losses

Nasdaq Clearing is the only Swedish central counterparty that clears derivatives and repos in Swedish kronor and thus plays an important role in various companies' risk management.⁵ If Nasdaq Clearing sufficiently allows for liquidation costs to a greater extent, it will increase the likelihood that there will be enough money to cover the costs that could arise due to the default of a participant. Particularly when participants with large and concentrated portfolios default, liquidation costs can be considerable. It is important that participants contributing to the risk for major liquidation costs also contribute, in advance, capital corresponding to the risk. This will reduce the risk that other participants and the central counterparty itself will have to stand for the potential losses. After the participant default in the autumn of 2018, Nasdaq Clearing has adopted several measures to

strengthen its resilience and it is important that this work continues.

Euroclear Sweden should continue implementing measures to modernise its platform for securities settlement

Euroclear Sweden is Sweden's only central securities depository and is thus decisive for trade in securities to work. Euroclear Sweden has adopted measures to reduce the risks associated with obsolete technology and complex structures in the system for securities settlement, for example via expanded processes for the development and testing of the system. It has also decided to modernise the system to achieve a higher degree of flexibility. However, continued risks remain, among other things associated with modernisation. It is therefore essential that Euroclear Sweden promptly pushes the work of modernising the system for securities settlement forwards via concrete measures that will further reduce the risks.

Internal governance and control of the RIX payment system needs to continue to be strengthened

The Riksbank's system for large-value payments, RIX, forms the hub of the Swedish payment infrastructure. RIX is run by the Riksbank as one among many of its activities.⁶ It is important that RIX is organised and governed in such a way that there are well-documented routines and resources allocated for focused governance, control and risk management. The Riksbank has observed shortcomings within this area.⁷ Work is under way in the Riksbank to mitigate these shortcomings and ensure that the governance and control of RIX are in line with the international standards applicable to systemically important financial infrastructure. It is important that the Riksbank promptly continues with this work.

² For more information, see Billborn, J. (2018), The Riksbank's oversight of the financial infrastructure, *Economic Commentaries* No. 7. Sveriges Riksbank.

³ CPMI/IOSCO (2012), *Principles for financial market infrastructures*. Bank for International Settlements (BIS).

⁴ Liquidation costs are costs for settling a defaulting participant's portfolio. Liquidation costs can arise in the form of a risk premium over and above the market price that must be paid when a defaulting participant's portfolio is sold off. When calculating liquidation costs, account must be taken of the financial instruments included in the portfolio.

⁵ Clearing signifies all activities from the moment an agreement on a transaction is entered into until it is settled, and is, in practice, a summary of two or more parties' payment commitments.

⁶ The part of the Riksbank's activities that is responsible for the operation of the RIX system is organisationally separate from the Riksbank's oversight of the system (see the box "The Riksbank's different roles in relation to the RIX system").

⁷ See *Financial Stability Report 2018:1*. Sveriges Riksbank.