



Proposal to amend the Sveriges Riksbank Act (1988:1385) to support cooperation with international bodies

Summary

The development of technological financial innovations is rapid and the payment market in Sweden is undergoing major change. A clear sign of this is the decline in the use of cash in Sweden, which is proceeding more rapidly than anywhere else in the world. The marginalisation of cash is challenging both the state's role in the payment market and the Riksbank's ability to uphold its mandate of promoting a safe and efficient payment system.¹ The Riksbank is following developments closely and working actively – both nationally and internationally – to develop and adapt its operations to the new technical solutions.

The rapid changes make it important, both in Sweden and globally, to analyse how to uphold general social policy objectives and provide financial services that are efficient, safe and inclusive for all. It has also become clearer than ever that central banks around the world need to collaborate to meet the challenges that exist and to take advantage of the opportunities digitalisation offers to the global financial system. The Riksbank actively participates in such collaboration.

The Bank for International Settlements (BIS) has recently begun to establish innovation hubs in a few countries to analyse technological financial innovations more closely. The Riksbank wishes to put itself forward as a candidate for the establishment of such an innovation hub in Sweden and needs to undertake to co-finance the hub's activities. As the Riksbank cannot currently finance such activities, the Riksbank proposes an amendment to the Sveriges Riksbank Act, so that the Riksbank, upon the approval of the Riksdag, can finance such activities in Sweden.

¹ See the Riksbank's petition to the Riksdag, 2018/19:RB3, on the need to investigate the state's role in the payment market.

Moreover, Sweden would need to meet the BIS requirements regarding immunity for the hub's activities and employees in Sweden. This requires certain measures to be taken by the Swedish Government. The Riksbank proposes that the Riksdag supports the Riksbank's petition regarding the need for certain measures and notify the Government to this effect.

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1 Proposal for decision by the Riksdag

The Riksbank proposes that:

1. The Riksdag adopts the Riksbank's proposal for legislation amending the Sveriges Riksbank Act (1988:1385).
2. The Riksdag approves that the Riksbank, for a period of five years and at a maximum cost of SEK 30 million a year, may finance such activities as conducted by the Bank for International Settlements (BIS) from an innovation hub established in Sweden, if BIS chooses to establish such a hub in Sweden.
3. The Riksdag supports the Riksbank's request for the Government to enter into a host country agreement with BIS and to notify the Government of this.
4. The Riksdag supports the Riksbank's request that the Government should revert to the Riksdag with a proposal for legislation amending the Act on Immunity and Privileges in Certain Cases (1976:661) and that the Riksdag shall notify the Government of this.

Stockholm, 4 March 2020

On behalf of the Executive Board

STEFAN INGVES

/ Sophie Brauner

Stefan Ingves (Chairman), Anna Breman, Martin Flodén, Per Jansson, and Henry Ohlsson have taken part in the decision.

Report presented by Dilan Ölcer.

2 Proposal for legislation amending the Sveriges Riksbank Act (1988:1385)

The Riksbank has the following proposal for the wording of the act.

It is hereby prescribed that a new paragraph be introduced into the Sveriges Riksbank Act (1988:1385), in Chapter 8, Article 7 with the following wording.

Chapter 8

Article 7 The Riksbank may, after receiving the approval of the Riksdag, finance the activities of international bodies if such activities are connected to the Riksbank's activities.

3 Preparation of the matter

The Riksbank's petition to the Riksdag has been referred for consultation to the bodies listed in *the Appendix*.

The European Central Bank (ECB) has been given the opportunity to express an opinion pursuant to the second and third indents of Article 2.1 in Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions, as the legislative proposal applies to the Swedish central bank. However, the ECB has refrained from submitting a formal opinion.

The draft and the consultation responses are available in Riksbank case no. 2020-00113 and the ECB's comments are available in Riksbank case no. 2020-00296.

4 Background

4.1 Rapid development of technological financial innovations

The development of technological financial innovations is rapid and the payment market in Sweden is undergoing major change. A clear sign of this is the rapid decline in the use of cash, which is proceeding at faster pace in Sweden than anywhere else in the world. This development, which is partly due to the digitalisation of payment services, combined with much of the retail trade accepting cash to a lesser extent, means that the general public is finding it increasingly difficult to use cash. Instead, private banks have taken on a larger role in that they offer private money, primarily in the form of deposits in bank accounts. The marginalisation of cash is challenging both the role of the state in the payment market and the Riksbank's ability to continue to uphold its mandate of promoting a safe and efficient payment system in Sweden.²

The rapid digital developments are also a challenge to the work of central banks in the rest of the world. Many central banks have, for instance, begun to investigate Central Bank Digital Currencies (CBDCs) as a complement to cash. After Facebook announced its intention, in partnership with a large number of companies³, to introduce a global digital currency – Libra – central banks around the world have understood even more the need to cooperate to meet the challenges faced and take advantage of the opportunities offered by digitalisation to the global financial system.

The rapid changes make it important, both in Sweden and globally, to analyse how to uphold general social policy objectives and supply financial services that are efficient, safe and inclusive for all, and which facilitate cross-border transactions. Furthermore, the Council of the European Union and the European Commission issued a joint statement in 2019 welcoming cooperation between central banks and other agents with regard to the opportunity to produce efficient, rapid and inexpensive solutions for cross-border payments.⁴

It is important for the Riksbank to ensure that it has the capacity to follow this technology shift, to understand the opportunities and risks entailed and where necessary to take appropriate measures. BIS has now taken the initiative for such work at the global level, to which the Riksbank is interested in contributing.

² See the Riksbank's petition to the Riksdag, 2018/19:RB3, on the need to investigate the state's role in the payment market.

³ Including Swedish Spotify.

⁴ Press release 792/19 from the Council of the European Union on 5 December 2019.

4.2 The Bank for International Settlements (BIS)

BIS⁵ is an international organisation and a body for cooperation between central banks and was established in 1930. One of its tasks was to regulate war damages between member states following the First World War.⁶ It is a public limited company domiciled in Switzerland and is owned by 60 central banks, from countries that together account for around 95 per cent of global GDP. The Riksbank has been one of the owners since 1930.⁷

The primary task of BIS nowadays is to promote international monetary and financial cooperation between the participating central banks and assist them in various ways in international financial issues. The latter task entails, for instance, BIS acting as a representative for its member banks in different respects. It can thus be primarily regarded as a cooperative body for central banks.⁸

BIS also functions as a discussion forum for central banks as well as provides support for a number of committees and groups working as global standard-setters, including the Basel Committee for Banking Supervision and the global Financial Stability Board (FSB).

BIS also has a Committee on Payments and Market Infrastructures (CPMI)⁹ which was formed in 1980 and of which the Riksbank is a member. One of the tasks of CPMI is to promote safety and efficiency in connection with payment, clearing, settlement and related arrangements. There are a number of working groups under CPMI that work on issues such as technological innovation and digital currencies, and in which the Riksbank takes an active part.

4.3 Opportunity for Sweden to host a BIS innovation hub

During 2019, BIS began to establish innovation hubs (centres for innovation) in various parts of the world. These have the task of promoting international cooperation on innovative financial technology that is relevant to central banks. By focusing research on this area, the functioning and efficiency of the international financial system can be improved, as can central banks' capacity to manage these innovations.

BIS innovation hubs have the following mandate:

1. Identify in a structured and systematic way critical trends in technology affecting central banks and develop in-depth analyses and insights on these technologies.
2. Develop public goods on the basis of technological changes aimed at improving the functioning of the global financial system.

⁵ https://www.bis.org/about/profile_en.pdf

⁶ BIS was established within the framework of the so-called Young Plan, which was adopted on 20 January 1930 at the Hague Conference.

⁷ See SOU 2019:46, p. 1141, A new Sveriges Riksbank Act.

⁸ General Council of the Riksbank proposal 1984/85:17, p. 3.

⁹ See: <https://www.bis.org/cpmi/charter.pdf>

3. Serve as a focal point for a network of central bank experts on innovation, with regular events to promote an exchange of opinions and ideas.

Organisation

The BIS Innovation Hub Secretariat will be located in Basel, with some regional hubs located at strategic sites around the world. To begin with, these will be located in Hong Kong, Switzerland and Singapore, but further hubs are expected to be established within the near future. The Riksbank consider this to be a great opportunity for Sweden and would like to put itself forward as a candidate for one of the hubs to be established in Sweden.

The BIS Board of Directors (of which Riksbank Governor Stefan Ingves is a member) will be ultimately responsible for the allocation of resources to BIS innovation hubs. The Economic Consultative Committee (ECC) is responsible for the hubs' overall strategy and priorities, with the BIS General Manager having ultimate executive responsibility. The hubs will also have an advisory committee that will review and discuss their work. Each hub will have an executive head who will ensure that the hub's work plan is followed and that the hub collaborates closely with public and private actors, academics and central banks in the region.

5 The Riksbank's considerations and proposal

The Riksbank's proposal: The Riksbank proposes that the Riksdag adopts the Riksbank's proposal for an amendment to the Sveriges Riksbank Act (1988:1385), allowing the Riksbank, after approval from the Riksdag, to finance the activities of international bodies, if such activities are connected to the activities of the Riksbank. It is simultaneously proposed that the Riksdag gives its approval to the Riksbank to finance BIS activities with regard to the establishment of an innovation hub in Sweden. The consent will apply on condition that BIS chooses to establish an innovation hub in Sweden.

In addition, it is proposed that the Riksdag supports the Riksbank's request for the Government to enter into a host country agreement with BIS and to notify the Government of this.

Finally, the Riksbank proposes that the Riksdag supports the Riksbank's request that the Government should revert to the Riksdag with a proposal for amendments to the Act on Immunity and Privileges in Certain Cases (1976:661) and that the Riksdag shall notify the Government of this.

The amendments should enter into force as soon as possible

The draft's proposal is consistent with the Riksbank's proposal.

Referral bodies: The majority of the referral bodies support the proposal or have no objections to it. *Finansinspektionen* would like to see more detailed decision basis that clarifies why this investment in an innovation hub in Sweden in particular should be prioritised and how a collaboration with other authorities in Sweden and abroad, including supervisory authorities, is intended to function. *Finansinspektionen* also questions whether the proposal is compatible with the prohibition against monetary financing and thinks it should be clarified whether the financing of international bodies may also be extended to activities located abroad. *The Swedish Savings Bank Association* is of the opinion that any financing shall exclusively be given to activities located in Sweden and that the BIS requirement for immunity and privileges should be limited to an extent that is proportional and reasonable. *The Swedish National Debt Office* would prefer any innovation hub to have a broader perspective than developing central bank money and the *Swedish Institute for Standards* is of the opinion that the work of the innovation hub should also include standardisation.

The ECB's comments: The ECB has decided not to adopt a formal opinion on the legislative amendment proposal, as it only relates marginally to the ECB's areas of jurisdiction. According to the ECB, the proposal is only a technical amendment of the Sveriges Riksbank Act and does not therefore imply the allocation of new tasks to the Riksbank. Moreover, the ECB's

interpretation is that the approval of the Riksdag is being sought to allow the Riksbank to finance certain activities conducted by international bodies in Sweden, and not to finance the Riksbank's own activities.

5.1 The Riksbank wants Sweden to host a BIS innovation hub

Sweden is a leading innovation nation.¹⁰ In this capacity the Riksbank could contribute to global developments. The Riksbank considers that a BIS innovation hub could provide a positive contribution to Sweden remaining in the forefront of technical financial services. This is why the Riksbank wishes to be a candidate for BIS to establish an innovation hub in Sweden. In addition to Sweden, there are a number of other central banks in the world that are also interested in hosting a BIS innovation hub. In other words, there is tough competition for the other hubs that BIS will establish.

There is close collaboration between the central banks in northern Europe, all of whom are members of BIS. Given the collaboration that already exists in most central bank-related areas and the strong financial integration in the region, the Riksbank considers that a candidacy with a northern European perspective would be preferable. Moreover, the region as a whole is strong with regard to driving technological financial innovations and the hub in Sweden could raise questions that are relevant to the entire region and draw on the competence within the region.

Finansinspektionen calls for clarification of why the investment in a BIS innovation hub in Sweden should be prioritised.

The Riksbank notes that there are other initiatives in the fintech area and that *Finansinspektionen* started a centre for innovation based on a special government assignment. While the aim of *Finansinspektionen*'s centre for innovation is to provide information and guidance to individual companies that have innovative ideas and wish to make progress in their process towards a market launch, the aim of a BIS innovation hub is to follow trends on the global macro level and to understand the potential opportunities and risks of technical innovations to central bank operations. They therefore have a different focus and their activities satisfy different needs. If Sweden does not have the opportunity to be the host country for a BIS innovation hub, the need to analyse fintech development linked to the payment market and the Riksbank's activities will still remain.

What issues could a potential Swedish hub work on?

With regard to the topics the different hubs work on, priority is given to issues that are relevant for central banks' responsibilities and where the host country

¹⁰ According to Eurostat, Sweden was the EU innovation leader in 2019. Other ratings also show that Sweden is in the forefront with regard to technological innovations and has a prominent fintech sector.

has special competence. If Sweden were to become host for a hub, the Riksbank proposes that it analyse issues relating to how to uphold confidence in money and maintain resilience and competitiveness in the payment market in the digital era. As the Riksbank's analyses of central bank digital currency (CBDC) and the work on the e-krona pilot have aroused such interest internationally, particularly with regard to the speed of transformation of the payment market in Sweden, the hub could also work on these issues, as the Riksbank has a comparative advantage in relation to other central banks. Given that the Riksbank has already come a long way in analysing CBDC, it can, just as BIS requires from a hub, quickly supply analyses on the basis of already established collaboration between the public sector, private sector, academics and other central banks. Moreover, the Riksbank proposes that the hub work with technological solutions and a road map to enable instant payments across national boundaries.

In its consultation response, *Finansinspektionen* has called for clarification of how a collaboration with other authorities in Sweden and abroad, including supervisory authorities, is intended to function. The *Swedish National Debt Office* would prefer any innovation hub to have a broader perspective than developing central bank money and the *Swedish Institute for Standards* is of the opinion that the work of the innovation hub should also include standardisation.

It can be noted, however, that the work programme and tasks for the innovation hub are decided by BIS. In other words, the host country's central bank does not make these decisions itself, but can only put forward proposals and requests regarding the issues dealt with by any innovation hub. Like *Finansinspektionen*, however, the Riksbank is of the opinion that the innovation hub should enable cooperation and the exchange of knowledge with other authorities. This can be achieved by offering secondments.

Why is it important that BIS establishes an innovation hub in Sweden?

If BIS chooses to establish an innovation hub in Sweden, it would entail a major recognition for Sweden as a prominent innovation nation and further strengthen Sweden's international attractiveness. Such recognition would also be valuable for the Swedish economy and especially for the continued development of the fintech sector. It would also give Sweden the opportunity to be included in an international collaboration, become part of a unique global knowledge base and actively participate in the global reform agenda. This would in turn benefit Sweden's work on maintaining monetary and financial stability in an increasingly digitalised society. An innovation hub could also support the inquiry "The role of the state in the payment market", which the Riksdag has asked the Government to appoint.

If BIS establishes an innovation hub in Sweden that represents the northern European countries, it could lead to the region becoming more important to BIS in the future.

Budget

In its candidacy, the Riksbank proposes contributing a maximum of SEK 30 million per year for a five-year period. This sum includes the cost of full-time employees, secondments and other contract-based employees, as well as physical and technical infrastructure (premises, IT, security, etc.). This amount will be supplemented with financing from BIS. The SEK 30 million a year, proposed by the Riksbank as a maximum contribution, is less than three per cent of the Riksbank's budget for administrative expenses in 2020 and about half the annual dividend received from the Riksbank's equity holdings in BIS.

5.2 Need for legislative amendments and other measures

The Riksbank may only conduct or participate in such activities for which it has been authorised by Swedish law. The Sveriges Riksbank Act states that the Riksbank shall promote a safe and efficient payment system. One of the ways the Riksbank does this is by following developments on the financial markets and developments in general and by overseeing the financial system. The financial system and its stability and efficiency also affect monetary policy target attainment. The Riksbank also takes part in international collaboration that is connected to its activities as a central bank, including collaboration regarding the digitalisation of currencies. International collaboration contributes, among other things, to broadening the Riksbank's knowledge of international tendencies and measures to manage them.

However, the Riksbank is not permitted without legislative support to allocate funds or in any other way finance the running of the activities of other institutions – for instance, international bodies – in Sweden. Pursuant to Chapter 8, Article 2 of the Sveriges Riksbank Act, it is permitted for the Riksbank as part of its activities as the central bank to acquire equity, shares in economic associations and similar rights and to take on the obligations associated with these rights. This provision can be applied to the acquisition of shares in BIS and some obligations connected with this. However, allocating special financing to an innovation hub established by BIS in Sweden would not be covered by this provision. This is a special undertaking. There is no other legislative support for this financing, either. If the Riksbank is to be able to finance an innovation hub established by BIS in Sweden, an amendment to the law is required.

Finansinspektionen questions whether the proposal is compatible with the prohibition against monetary financing. Article 123 of the Treaty on the Functioning of the European Union and the Council Regulation (EC) No.

3603/93 of 13 December 1993, there are provisions that prohibit central banks from funding the undertakings of member states, what is known as monetary financing. Council Regulation (EC) No. 3603/93 of 13 December 1993 provides more specific definitions for the application of the prohibition against monetary financing. It states that the prohibitions cover all financing of public sector undertakings in relation to a third party. National legislation may not therefore require a national central bank to finance third-party activities if these activities are not part of a central bank's tasks, but instead fall within the remit of central government (see the ECB Convergence Report 2018, p 30 f.).

The Riksbank is of the opinion that the function a BIS innovation hub is intended to have, i.e. to follow trends and understand the opportunities and risks of technical innovations to central bank operations, does not fall outside the area of central banking. Such activities are actually well within the framework for the operations a national central bank typically pursues and could do itself. The proposal does not therefore contravene the prohibition against monetary financing. In this context, it can be noted that the ECB has not made any objections against the Riksbank being allowed to finance a BIS innovation hub or other such activities conducted by international bodies.

The Riksbank is therefore proposing that a provision be added to the Sveriges Riksbank Act, so that the Riksbank, after approval from the Riksdag (the Swedish Parliament) may finance the activities of international bodies, if these are connected to the Riksbank's activities. In the Riksbank's view, it is less appropriate to limit the wording to the exact current situation, i.e. the establishment of a BIS innovation hub in Sweden. A similar need to finance the establishment of special offices could arise in the future in other areas where there is a substantial need for central banks to cooperate. This can also apply to activities located outside Sweden. In light of this, the Riksbank, in contrast to the *Swedish Savings Bank Association*, is of the opinion that the scope for financing the activities of international bodies should not be limited to activities in Sweden. Moreover, the financing may only concern such activities that are linked to the Riksbank's activities. It is therefore proposed that the provision be given a general wording, at the same time as the financing is conditional on the Riksdag's approval in each individual case.

As the amendment to the law means that the Riksbank is not able to finance BIS activities without the approval of the Riksdag, the Riksbank further proposes that the Riksdag shall give its approval for the Riksbank to finance, for a period of five years and a maximum amount of SEK 30 million a year, BIS activities entailing an innovation hub in Sweden. The Riksbank further concludes that an extension to the financing cannot be ruled out.

In addition, Sweden needs to meet the BIS requirements regarding immunity through an amendment to the Act on Immunity and Privileges in Certain Cases (1976:661). Here, an amendment to the act needs to be made so that BIS is listed in the appendix of international bodies that can enjoy immunity in Sweden. The Riksdag therefore needs to ask the Government to enter into a host country agreement with BIS, which the Riksdag proposes to

support, and to produce proposals for amendments to the Act on Immunity and Privileges in Certain Cases. As the *Swedish Savings Bank Association* has stated in its consultation response, the BIS requirements for immunity and privileges should be limited to an extent that is proportional and reasonable.

5.3 Impact analysis

The legal amendments and measures proposed in this petition to the Riksdag mean that Sweden via the Riksbank will have greater possibilities to cooperate with international bodies and thereby be active in issues concerning the financial sector. The approval the Riksbank seeks from the Riksdag to finance BIS activities with regard to establishing an innovation hub will enable Sweden to be in the forefront of research into financial technological developments. At the same time, Sweden will have the opportunity to influence the international reform agenda created by digitalisation. For Sweden, an innovation hub would entail a greater exchange of knowledge with public and private agents, and with academics and central banks in other countries. This collaboration has positive consequences for research, the financial industry and public sector. Sweden is thus expected to experience considerable benefits from an innovation hub being established in Sweden.

At the same time, an innovation hub entails a cost to the Riksbank of a maximum of SEK 30 million a year, which the Riksbank must undertake to finance for at least five years. This in turn means that the Riksbank's dividend payments to the state, which in 2018 amounted to SEK 3.8 billion, will be affected. If Sweden is not selected to host a BIS innovation hub, there will still be a need to analyse financial technology developments in the payment market – work which nevertheless will involve substantial costs to the Riksbank.

5.4 Legislative comments

Legislative proposal to amend of the Sveriges Riksbank Act (1988:1385)

Chapter 8, Article 7

This paragraph, which is new, regulates the Riksbank's scope to finance the activities of international bodies. On condition that the Riksdag gives its approval, the Riksbank will be allowed to finance such activities that are connected to the Riksbank's activities. The Riksbank's scope for financing the activities of international bodies applies regardless of whether the activities are conducted in Sweden or abroad.

5.5 Time for implementation

As time is of the essence regarding this issue, it is urgent that the proposed measures are taken as quickly as possible.

Appendix

List of referral bodies

The proposal to amend the Sveriges Riksbank Act has been referred to the following bodies.

Bankgirocentralen AB
Bankomat AB
Swedish Data Protection Authority
Association of Swedish Finance Houses
Finansförbundet (financial sector trade union)
Finansiell ID-teknik BID AB (BankID)
Finansinspektionen (Swedish financial supervisory authority)
Getswish AB
University of Gothenburg School of Business, Economics and Law
Stockholm School of Economics
Swedish Competition Authority
Swedish Consumer Agency
Royal Institute of Technology
Lund University Faculty of Law
Lund University School of Economics and Management
The Dalarna County Administrative Board
The Swedish Agency for Participation
Agency for Digital Government
Swedish Civil Contingencies Agency
The Swedish Agency for Growth Policy Analysis
Swedish Post and Telecom Authority (PTS)
Parliamentary Ombudsmen
Swedish National Debt Office
Swedish National Audit Office
Swedish Tax Agency
Sparbankernas Riksförbund (Swedish savings bank association)
University of Stockholm, Institute for International Economic Studies (IIES)
University of Stockholm, Department of Political Science
Swedish FinTech Association
Swedish Institute for Standards
Swedish Trade Federation
Swedish Bankers' Association
The Swedish Securities Dealers Association
Swedish Association of Local Authorities and Regions
Swedish Consumers' Association
Swedish Commission on Security and Integrity Protection
Swedish Security Service

Swedish Agency for Economic and Regional Growth
University of Uppsala, Department of Economics
Verisec AB

Copies to:

Ministry of Finance

Ministry of Justice

Ministry for Foreign Affairs