

Memorandum of Understanding between the Government Offices (Ministry of Finance), Sveriges Riksbank and Finansinspektionen regarding co-operation in the fields of financial stability and crisis management

Purpose and background

The Government Offices (Ministry of Finance, hereinafter referred to as ‘the Ministry of Finance’), Sveriges Riksbank (hereinafter referred to as ‘the Riksbank’) and Finansinspektionen (the Swedish Financial Supervisory Authority) all have tasks related to the stability of the financial system. Each of them also has a role as regards the management of financial crises. The purpose of this Memorandum is to establish guidelines for co-operation and information sharing between the three parties in the areas of financial stability and crisis management.

In this document, financial stability means the ability of the financial system to maintain its basic functions without disruptions that entail significant economic costs. A threat or disruption to financial stability could, for example, be where one or more important financial institutions are threatened by bankruptcy or default, where the payment system is threatened or where there is a risk that important markets will not function. It is not feasible to define financial stability in more precise terms, however. Financial crisis management is taken here to mean making assessments of, informing about and, if necessary, taking measures in the event of acute problems in the financial system.

The background to this Memorandum is that a Memorandum of Understanding (MoU) has been concluded in the EU between the three corresponding parties in all EU member states.¹ The MoU deals with co-operation and information sharing as regards cross-border issues related to financial crisis management, which requires that there be co-operation mechanisms at national level. Such mechanisms have long been in place in Sweden on an informal basis, but against the background of the international developments these should be formalised.

The Memorandum consists of two sections. The *first* section comprises the part of the co-operation that concerns all three parties. This co-operation relates only to matters concerning financial stability and crisis management. The agreement does not cover other relations between the parties. An example of such a relation is that Finansinspektionen, as a public authority under the Ministry of Finance, is governed, among other things, by regulations and annual letters of instruction.

The *second* section of this Memorandum relates only to Finansinspektionen and the Riksbank. This section both covers the co-operation over and above that related to financial stability and crisis management, and provides a more detailed description of the division of labour and co-operation between these two parties.

This Memorandum supersedes the Memorandum agreed in February 2003 between Finansinspektionen and the Riksbank.

¹ “Memorandum of Understanding on co-operation between the Banking Supervisors, Central Banks and Finance Ministries of the European Union in Financial Crisis situations.”

Section I

Consultation and information sharing between the Ministry of Finance, the Riksbank and Finansinspektionen

The parties' functions regarding financial stability and crisis management

The respective authorities' functions as regards financial stability and crisis management can be described briefly as follows:

Finansinspektionen is the Swedish supervisory authority for financial institutions and marketplaces. Its main objectives are to contribute to the stability and efficiency of the financial system— by setting standards, issuing licences and conducting prudential supervision – and to promote satisfactory consumer protection. Finansinspektionen is required to regularly monitor and analyse developments in the financial sector in order to be able to identify risks and detect any signs of financial instability at an early stage. The authority carries out prudential supervision of all financial institutions, but special priority is given to systemically important groups, more specifically their financial strength and risk management practices. Through its prudential supervision, Finansinspektionen has information on developments in individual institutions and thereby also on the financial sector as a whole. In the event of problems in a financial institution, Finansinspektionen assesses the causes and consequences of the problems and can apply corrective measures against the institution in question.

The Riksbank has the task of promoting a safe and efficient payment system. The Riksbank conducts a general oversight of the financial system as a whole, with the main focus on the largest banks and clearing organisations. In exceptional circumstances, the Riksbank has the power to provide emergency liquidity assistance to financial institutions that are subject to the supervision of Finansinspektionen.

The Ministry of Finance is responsible for legislation in the financial sector. Its objectives are stability, efficiency and consumer protection. Financial stability is also an important precondition for economic stability. The Ministry of Finance also follows developments in the financial system at an overall level. In the event of a crisis, the measures available to Finansinspektionen and the Riksbank may prove to be insufficient or inappropriate. In such a case the Ministry of Finance has the power to initiate and implement other kinds of measures, including measures that require a decision by parliament.

Each of the parties is solely responsible for its tasks. Thus, the consultation and information sharing mentioned in this Memorandum does not alter the responsibility or decision-making power that each party has in the exercise of its tasks.

Information sharing

In order to achieve efficient crisis management it is important that the parties, in connection with events and developments that can be assessed to comprise a threat to financial stability, provide each other with information as soon as possible and inform each other of their assessment of the situation and of what the appropriate corrective measures may be.

The aim should be to co-ordinate information that is provided to external recipients, even though this will not always be possible.

As regards international contacts concerning threats to stability, each party normally will correspond with their respective counterparts in other countries.

Furthermore, the parties should:

- Inform each other about events or tendencies of significance to financial stability.
- Provide information about the work with crisis preparedness at each party and plan for joint efforts with regard to crisis preparedness.
- Provide information about international work in the relevant field and consult each other on positions in the international co-operation.
- Provide information about important changes as regards internal organisation, guidelines or similar, when these may have significance for the work on financial stability and crisis management.

Consultation group

A consultation group has been established to enable consultation and information sharing between the three parties in accordance with the above. The group consists of the State Secretary at the Ministry of Finance with responsibility for financial market matters, the Executive Board member at the Riksbank with responsibility for financial stability issues and the Director General of Finansinspektionen.

In the event of acute threats to financial stability the consultation group has the ultimate responsibility for ensuring that consultation and information sharing take place to a sufficient extent.

The consultation group may also discuss other matters of common interest, if appropriate.

The consultation group should meet at least quarterly, but the group may also be convened at short notice should any member deem it necessary. Responsibility for calling meetings, agendas and minutes will rotate between the parties.

A drafting group at non-executive level should be set up to prepare the consultation group's work and to facilitate consultation and information sharing.

Evaluation

The public authorities' information sharing and other co-operation in accordance with this section of the Memorandum will be evaluated by the State Secretary at the Ministry of Finance with responsibility for financial market matters, the Executive Board member at the Riksbank with responsibility for financial stability issues and the Director General of Finansinspektionen.

Section II

Particulars regarding co-operation and information sharing between Finansinspektionen and the Riksbank

Purpose and role allocation

Over and above the co-operation agreed upon in section I, there is reason to further specify the co-operation between Finansinspektionen and the Riksbank. The reason for this is partly that the co-operation between the two authorities is more extensive than that discussed above and partly that there is reason to elucidate the allocation of roles between the Riksbank and Finansinspektionen in relation to external parties. Unlike section I, this section aims to be as comprehensive as possible as regards the relations between the Riksbank and Finansinspektionen.

The Memorandum is based on the regulations that govern the authorities' activities and that express obligations with respect to co-operation and information sharing in various fields.² International memorandums also exist for these issues.³ Furthermore, there is regular, more or less informal, practical co-operation and information sharing at different levels and in different areas.

As follows from the description of their tasks in section I, Finansinspektionen and the Riksbank have in part an identical objective – to foster the financial system's stability as well as its efficiency – but different instruments for achieving this objective. Their common objective means that a certain amount of overlap in their activities is unavoidable. Finansinspektionen has the task of exercising prudential supervision over financial institutions, in particular those that are of greatest significance for system stability. Due to the concentrated Swedish financial system the Riksbank has interpreted its task of promoting a safe and efficient payment system in such a way that surveillance of the major banks and infrastructure companies is necessary. Both authorities regularly form an opinion regarding the state of the financial sector and the potential threats to stability. It is against this background that Finansinspektionen's and the Riksbank's joint ambition to assist one another and foster close co-operation should be seen. It is particularly when the respective areas of responsibility overlap that co-operation is necessary to ensure that Finansinspektionen and the Riksbank are able to carry out their tasks efficiently. Against that background both authorities strive to develop effective forms for contact and collaboration, to avoid unnecessary duplication of work and to limit the workload for reporting institutions.

The Riksbank and Finansinspektionen make independent decisions within their fields of responsibility in accordance with the decision-making rules for the respective authority.

² Finansinspektionens instruktion 1996:596 (Instructions for Finansinspektionen), The Sveriges Riksbank Act 1988:1385 and Lag om system för avveckling av förpliktelser på finansmarknaden 1999:1309 (Act on systems for the settlement of obligations in the financial market).

³ "Memorandum of Understanding on co-operation between payment systems overseers and banking supervisors in stage three of economic and monetary union" and "Memorandum of Understanding on high-level principles of co-operation between banking supervisors and central banks of the European Union in crisis management situations".

Consultation, information sharing and information collection

General

Finansinspektionen and the Riksbank should aim to achieve an efficient exchange of information and experience and promote a culture that fosters co-operation. Regular contact is desirable at all levels. As part of this, the authorities should consult each other in the event of any major policy change that could have repercussions for the other authority's area of responsibility.

Information sharing and information collection

Finansinspektionen and the Riksbank should have routines that enable the other party to easily obtain details of the information possessed by the authority. Each authority should provide the other with the requested information, to the extent permitted by the Sveriges Riksbank Act, the Instructions for Finansinspektionen, the Secrecy Act (1980:100) and international agreements.

Finansinspektionen and the Riksbank should co-operate with a view to avoiding collecting and processing data of similar content. The objective of the co-operation regarding data collection is to reduce the workload both for reporting companies and for the two authorities. When both authorities need access to similar data the authorities should co-ordinate the collection of this data.

To enable an efficient sharing of information Finansinspektionen and the Riksbank should co-operate in their international contacts with central banks, supervisory authorities and financial institutions.

It is also the aim of Finansinspektionen and the Riksbank to take advantage of their joint competence and experience concerning the field of financial stability and efficiency. As part of this the authorities should make it easy for each other to follow the work at the other authority and inform each other of the results of that work.

Forms of co-operation

In addition to the co-operation through the consultation group mentioned in section I, Finansinspektionen and the Riksbank have three co-operation groups.

The heads of the departments with primary responsibility for stability in the banking sector, or representatives appointed by them, meet at least four times a year to discuss matters of common interest regarding stability in the financial system.

The heads of the departments with primary responsibility for financial markets statistics, or representatives appointed by them, meet at least twice a year to discuss matters concerning statistics requirements, collection methods, co-ordination and international work.

The heads of the departments with responsibility for oversight of clearing and settlement, or representatives appointed by them, meet at least four times a year to discuss matters of common interest regarding stability in the financial system.

Minutes should be taken at all meetings.

Evaluation

The Director General of Finansinspektionen and the Executive Board member at the Riksbank with responsibility for financial stability issues will evaluate the authorities' information sharing and other co-operation in accordance with this section of the agreement.

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