

# Assessment of the Riksbank's and Finansinspektionen's oversight and supervision work of the financial infrastructure



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Internal Audit Department at Sveriges Riksbank and Finansinspektionen

## ■ The Riksbank and Finansinspektionen largely fulfil the "*Principles for financial market infrastructures*" (PFMIs) from the CPSS<sup>1</sup> and the IOSCO<sup>2</sup>

This document summarises the assessment by employees of the Internal Audit Department<sup>3</sup> regarding how well the Riksbank and Finansinspektionen jointly fulfil the requirements in Responsibilities A-E in the PFMIs. The motives for the assessment are also given, along with possible recommendations and comments.<sup>4</sup> The assignment and its implementation are described at the end of the text. The assessment in full can be found in an appendix to this document.

### **Responsibility A: Regulation, supervision and oversight of FMIs**

Responsibility A concerns requirements on the regulation, supervision and oversight of FMIs. FMIs should be subject to appropriate and effective regulation, supervision, and oversight by a central bank, market regulator, or other relevant authority.

#### Assessment - Observed

The tasks of the Riksbank and Finansinspektionen respectively are clearly defined. There are clear and published criteria as to which FMIs stand under the supervision of Finansinspektionen and which are under the Riksbank's oversight. The FMIs that meet the criteria are overseen or under supervision.

### **Responsibility B: Regulatory, supervisory, and oversight powers and resources**

Responsibility B requires that central banks, market regulators, and other relevant authorities should have the powers and resources to carry out effectively their responsibilities in regulating, supervising, and overseeing FMIs.

#### Assessment - Broadly observed

The Riksbank and Finansinspektionen have the right according to law to request the information they need to carry out their respective tasks from the FMIs they oversee or supervise. If the FMIs do not observe the relevant principles, policies and regulations, the Riksbank and Finansinspektionen

<sup>1</sup> Committee on Payment and Settlement Systems.

<sup>2</sup> International Organization of Securities Commissions.

<sup>3</sup> The Internal Audit Department refers to the joint internal auditing of the Riksbank and Finansinspektionen. The Internal Audit Department is run independently of other activities within the authorities.

<sup>4</sup> The four grade levels are: Observed, Broadly observed, Partly observed and Not observed.

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■ can deal with this in different ways. Finansinspektionen can issue orders and sanctions, while the Riksbank uses what is known as moral suasion<sup>5</sup>.

However, the Internal Audit Department's assessment is that the resources may be insufficient and/or prioritised wrongly. This applies both to planned activities and unexpected events that may take up time for the staff working with oversight or supervision.

The grade is therefore reduced somewhat to "broadly observed" in this area.

The recommendation to the authorities is to analyse needs and preparedness to ensure that they have sufficient resources for efficient regulation, oversight and supervision of the FMIs. A further suggestion is that the authorities invest more resources in activities such as regular on-site visits and carry out audits like the IT audit recently carried out with regard to Euroclear Sweden. In this way, the authorities can gain more in-depth knowledge of the FMIs and thus improve their oversight and supervision.

### **Responsibility C: Disclosure of policies with respect to FMIs**

Responsibility C entails that central banks, market regulators, and other relevant authorities should clearly define and disclose their regulatory, supervisory, and oversight policies with respect to FMIs.

#### Assessment - Observed

The Riksbank's oversight and Finansinspektionen's supervision of FMIs are described in policy documents. The Riksbank's work is described in a policy that is published on the Riksbank's website. Finansinspektionen's supervision is governed by a Letter of Appropriation and ordinance and by legislation in the financial field, all of which are public information.

### **Responsibility D: Application of the principles for FMIs**

Responsibility D entails that central banks, market regulators, and other relevant authorities should adopt the CPSS-IOSCO *Principles for financial market infrastructures* and apply them consistently.

#### Assessment - Observed

The Riksbank and Finansinspektionen apply the PFMI to all Swedish FMIs that are overseen or under supervision. The PFMI is used in a consistent manner for different types of FMIs, for instance, privately-owned or publicly-owned.

### **Responsibility E: Cooperation with other authorities**

Responsibility E entails that central banks, market regulators, and other relevant authorities should cooperate with each other, both domestically and internationally, as appropriate, in promoting the safety and efficiency of FMIs.

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<sup>5</sup> Moral suasion entails the Riksbank communicating its views publicly and directly to the FMIs, providing the motives for its views and expecting the FMIs to adapt to this.

## ■ Assessment - Observed

The Riksbank and Finansinspektionen have a joint agreement on cooperation and sharing information that enables efficient handling of the FMIs that the two authorities oversee/supervise. With regard to the Swedish FMIs - NASDAQ OMX Clearing, Euroclear Sweden and Bankgirot - the Riksbank and Finansinspektionen cooperate by means of quarterly meetings, joint assessments based on the FMIs' own assessments and other surveys.

With regard to the Swedish central counterparty NASDAQ OMX Clearing, there is cross-border cooperation in the form of a college within the scope of EMIR<sup>6</sup> which includes supervisory authorities and central banks from the relevant countries. There is also a college under EMIR for the Dutch central counterparty EuroCCP (previously EMCF). Both the Riksbank and Finansinspektionen are included in these colleges. The authorities also participate in the cross-border cooperation for the oversight of the Euroclear group (Euroclear SA/NV), which includes Euroclear Sweden. With regard to the foreign FMIs, CLS and SwapClear, which clear and/or settle in Swedish krona, and SWIFT, which provides a financial messaging service, there is established oversight cooperation between the relevant central banks.

## **The PFMI – international standards for the authorities' work on supervision and oversight**

In their work on oversight and supervision of the financial infrastructure the Riksbank and Finansinspektionen follow the "*Principles for financial market infrastructures*". These international standards contain a number of different requirements that FMIs that are under oversight or supervision must meet in order to be regarded as safe and efficient.

The Riksbank and Finansinspektionen also apply the PFMI to their own oversight and supervision work. This is because there are requirements in the principles aimed at central banks, supervisory authorities and other relevant authorities conducting oversight and supervision of the financial infrastructure.<sup>7</sup>

## **The Riksbank and Finansinspektionen commissioned the employees at the Internal Audit Department to assess the authorities on the basis of the PFMI**

During autumn 2013, the Riksbank<sup>8</sup> and Finansinspektionen<sup>9</sup> gave the Internal Audit Department the task of independently assessing the authorities' oversight and supervision of the financial infrastructure. The last time an assessment was made was in 2011 when the International Monetary Fund carried out an FSAP (Financial Sector Assessment Program) in Sweden.<sup>10</sup> Since then, the international standards from the CPSS and the IOSCO have been revised and updated. The authorities' oversight and supervision have also undergone some changes in recent years. This is now the first time the authorities are assessed against the PFMI and it is the first time that employees of the Internal Audit Department assess the authorities on the basis of these international standards.<sup>11</sup>

<sup>6</sup> European Market Infrastructure Regulation or the Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.

<sup>7</sup> See Principles for financial market infrastructures, pp. 126-137.

<sup>8</sup> The head of the Division for Financial Infrastructure Analysis at the Riksbank.

<sup>9</sup> The head of the Conduct of Business and Market Infrastructure Supervision department at Finansinspektionen.

<sup>10</sup> <http://www.imf.org/external/pubs/ft/scr/2011/cr11172.pdf>

<sup>11</sup> Please note that this is not a normal audit that is included in the audit plan for the Riksbank and Finansinspektionen. Nor does the assessment result in an audit report.



## ■ Execution

The assessment has been made on the basis of the questions put to authorities in the "*Principles for financial market infrastructures: Disclosure framework and Assessment methodology*".<sup>12</sup> The Riksbank and Finansinspektionen have responded to these questions in writing and also sent background material to support the responses. Where necessary, the authorities have been asked to supplement their responses to ensure they are complete. After this, the employees of the Internal Audit Department have compiled the responses and on the basis of these assessed how well the authorities jointly meet the requirements made of authorities in the PFMIs. The assessment was mainly made during October-November 2013, with some minor supplementary information added later on.

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<sup>12</sup> See 6.0 Questions by key consideration for the responsibilities for FMIs, pp. 75-81.