CONSULTATION RESPONSE

DATE: 16 September 2025

REFERENCE: Fi2025/01055

DOCUMENT REGISTRATION NUMBER (DNR): 2025-00820

Ministry of Finance
Financial Market Department
Securities Markets Division

The interim report A stronger fund market (SOU 2025:60)

The Riksbank is mainly in favour of the proposals in the interim report A stronger fund market, SOU 2025:60. In this consultation response, the Riksbank presents its views and proposals on three areas that the bank considers to be of particular importance for financial stability, namely 1) Whether or not mortgage funds should be allowed to conduct operations in Sweden, and what requirements may be imposed on them if they are allowed, 2) Changes to the requirements on redemption frequency and notice periods of mutual funds and 3) Introduction of EU requirements on liquidity management tools for mutual funds and open-ended alternative investment funds. Only one of the report's proposals is rejected – that the notice period of a mutual fund should not be longer than five banking days. Instead, the Riksbank proposes that it should be allowed to be a maximum of ten banking days, at least for corporate bond funds. The Riksbank's views and proposals in these areas are presented in separate sections below.

As the activities of funds can give rise to liquidity risks it is essential to regulate liquidity management of funds in an appropriate manner. Liquidity risk arises if the fund's investors can withdraw their money faster than the assets in the fund can be sold. The more illiquid the fund's assets, and the faster investors can withdraw their money, the greater the liquidity problem will be. This is particularly true for mortgage funds, as mortgages are a highly illiquid asset. As far as mutual funds are concerned, corporate bonds have a significantly lower liquidity than most other securities, especially under stressed market conditions. To reduce funds' liquidity risks, it is therefore important to limit withdrawals from them in various ways. The Riksbank would particularly like to emphasise the importance of introducing the proposals that improve the conditions for better liquidity management in the fund sector.

1. Mortgage-lending alternative investment funds (mortgage funds)

According to the amending EU directive that is now to be implemented in Swedish law[1], EU countries can choose to allow or prohibit the issuance of mortgage loans to consumers by alternative investment funds (AIFs). The inquiry does not take a position on this issue.

An important starting point for the Riksbank in this matter is that both the EU's and Sweden's financial systems are bank-centred and that more participants are desirable. The presence of many participants improves competition and makes financial markets more resilient. This is particularly true of the Swedish mortgage market, which is dominated by a small number of banks, creating risks for mortgage borrowers and leading to a concentration of credit risk that increases the vulnerability of the financial system. The Riksbank therefore welcomes in principle the emergence of new participants and instruments that contribute to increased competition and reduced risks as a result of greater diversification of the mortgage sector. However, this presupposes that these participants are structured in a way that does not contribute to a lower level of consumer protection or increased risks to financial stability.

For there to be lasting positive effects on product supply and financial stability as a result of new entrants, they need to be appropriately regulated. Mortgage funds carry out some of the same activities as banks, but are not subject to the same explicit requirements. For example, mortgage funds are not subject to capital requirements. It is therefore important to impose sufficiently stringent requirements of an appropriate nature on mortgage funds to limit risks to both consumers and financial stability. The Swedish mortgage market is also a particularly vulnerable market, as Swedish households, compared with households in other EU countries, generally have larger and longer mortgages and shorter interest rate fixation periods.

The impact of new EU rules and ways to limit their risks

The amending directive that is now to be implemented in Swedish law means that the legal conditions for mortgage funds will partly change, by introducing an EU regulatory framework for lending funds that did not exist previously. The

[1] Directive (EU) 2024/927 of the European Parliament and of the Council.

conditions and rules for this sector's activities are thus changing in all EU countries, including Sweden.

The Riksbank assesses that some parts of the EU regulatory framework for mortgage funds could entail significant risks for both consumers and financial stability, and considers it extremely important that measures are taken to reduce these risks.

> *The Riksbank considers that a prerequisite for allowing mortgage funds to operate in Sweden in the future is that there are sufficient opportunities to reduce potential risks for mortgage borrowers and financial stability. The Riksbank also proposes a number of measures that need to be taken to ensure that potential risks can be satisfactorily limited (see below). The government is asked to consider these proposals when deciding on the issue of mortgage funds.*

The three aspects of the new EU regulatory framework that the Riksbank considers may lead to the greatest risks are presented below, together with the Riksbank's proposals for reducing these risks.

Closed-ended and open-ended funds

The Riksbank finds it inappropriate for mortgage funds to be open-ended, as open-ended funds can entail significant liquidity risks by granting withdrawals during the life of the fund, despite the fact that mortgages invested in by the fund are generally very illiquid. The amending directive provides that mortgage funds should, as a general rule, be closed-ended, but that they may also be open-ended by way of exception, provided that the fund's liquidity risk management system is consistent with its investment strategy and redemption policy.

Mortgages are generally considered to have low liquidity, which suggests that Finansinspektionen (the Swedish Financial Supervisory Authority) should be able to set high requirements for exemptions to be granted. However, the amending directive's rule for granting exemptions is rather general and ESMA's[2] technical standards in this area, with which Finansinspektionen's assessments must be compatible, have not yet been adopted. This could potentially make it more difficult for Finansinspektionen to impose strict requirements for granting exemptions. However, if the technical standards are strict, they may improve Finansinspektionen's ability to apply the exemption rule strictly.

However, it should also be noted that there is a certain risk of regulatory arbitrage, even if Finansinspektionen imposes strict requirements in the application of the regulatory framework. This is because a fund manager

[2] European Securities and Markets Authority.

domiciled in a particular EU country, and authorised in that country, is entitled to operate in all EU countries, what is known as single licensing. If a Swedish fund manager is not granted an exemption for a fund in Sweden and the fund is therefore not allowed to be open, the manager can move to another EU country where the fund is granted an exemption, and operate on the Swedish mortgage market from there.

Furthermore, and perhaps more importantly, foreign mortgage funds, which may be open-ended, can in some cases be established on the Swedish market without their managers being authorised by Finansinspektionen. This may apply to both foreign mortgage funds whose managers are domiciled in another EU country and foreign funds whose managers are domiciled outside the EU and have been authorised in another EU country.

If ESMA's technical standards were to become stricter, the risks posed by cross-border mortgage funds would also decrease, although they would not disappear.

It is therefore extremely important to take a more long-term approach to limiting the potential risks that open-ended funds could pose, and it would be desirable for national authorities to have a greater mandate to protect their financial systems against them.

> *The Riksbank proposes that, in discussions at EU level on the regulation of alternative investment funds, the Government should call for additional macroprudential measures to be able to limit the liquidity risks in these funds for reasons of financial stability. Key measures could include, for example, allowing national authorities to require mortgage funds to be closed-ended, to use certain liquidity management tools and to calibrate them in a certain way (e.g. being able to set minimum swing factor requirements for swing pricing), and to have certain redemption frequencies and/or notice periods.*

Use of leverage

The Riksbank is critical of allowing mortgage funds to use leverage, as this increases liquidity risks. A mortgage fund is allowed, under the amending directive, to be leveraged, and its exposure may not exceed 175 per cent of its net asset value (NAV) if the fund is open-ended or 300 per cent if the fund is closed-ended.

These levels are high. Current Swedish mortgage funds do not use leverage and even in those EU countries where mortgage funds do, the levels are generally lower. The inquiry considers that it is not possible to set stricter limits in Swedish legislation than those in the amending directive. However, recital 18 of the amending directive states that national competent authorities have the possibility to set stricter leverage limits in mortgage funds “where it is deemed necessary in order to ensure the stability and integrity of the financial system".[3] This relates to the possibility provided for in Article 25 of the AIFM Directive.[4]

The Riksbank proposes that Finansinspektionen limits the ability of mortgage funds to use leverage, for financial stability reasons, in line with Article 25 of the AIFM Directive and recital 18 of the amending directive. The Riksbank considers that mortgage funds should not be allowed to use leverage.

However, Finansinspektionen would not be able to impose this restriction on foreign mortgage funds that are established on the Swedish mortgage market.

Matching the maturity of borrowing with the maturity of lending

The Riksbank considers it essential that there is a good match between the length of the Fund's lending and the length of its borrowing/funding. However, the amending directive does not provide for the imposition of legal requirements on the duration of the fund's borrowing in relation to the duration of its lending (although there is already a general requirement under Article 16(1) of the AIFM Directive for the AIF manager to ensure that the liquidity profile of the investments of the AIF complies with its underlying obligations). There is also no possibility to formulate minimum requirements for the lifetime of the fund (applies to both open-ended and closed-ended funds).

The absence of the possibility to impose this type of legal requirement entails a risk that fund managers will use short-term borrowing to finance a fund's long-term lending, which may make it difficult to refinance the fund, especially in more stressed market conditions. It also means that the fund manager, with the approval of the fund owners, can liquidate the fund and sell the mortgages well before the end of the mortgage term. If mortgage borrowers have variable interest rates on their loans, this may increase the risk of deteriorating loan terms.

It is possible that these risks could be somewhat mitigated by ESMA's forthcoming technical standards, but there is also an urgent need to take a longer-term approach to better manage the risks.

The Riksbank proposes that, in future discussions at EU level on the regulation of alternative investment funds, the Government should ask for additional macroprudential measures to be able to limit maturity mismatches in these funds at national level for reasons of financial stability. For example, these possibilities could involve imposing requirements on the length of borrowing

[3] Amending directive, recital 18, "Those leverage limits should not prevent the competent authorities of the home Member State of the AIFM from imposing stricter leverage limits where it is deemed necessary in order to ensure the stability and integrity of the financial system."

[4] Directive 2011/61/EU of the European Parliament and of the Council on Alternative Investment Fund Managers.

in the fund in relation to the length of lending, or on the minimum lifetime of these funds.

Proposals to reduce risks from foreign funds

It cannot be ruled out that foreign mortgage funds could become established on the Swedish market in the future. To ensure that the measure proposed above to limit the leverage of mortgage funds applies not only to Swedish mortgage funds, but also to foreign funds operating in Sweden, the Government needs to work for reciprocity for this measure in future EU negotiations. The same applies to the new macroprudential measures that the Government is proposed to promote, with the aim of limiting the liquidity risks of alternative investment funds for reasons of financial stability. If reciprocity cannot be introduced for such measures, there is little opportunity for Swedish authorities to restrict the scope for these funds to operate in Sweden.

The Riksbank proposes that, in future EU negotiations, the Government should promote the introduction of reciprocity for macroprudential measures for alternative investment funds.

Future development of the mortgage fund sector

Experience from the mortgage fund sector is limited, both in Sweden and abroad, as mortgage funds are a relatively new phenomenon.

In Sweden, the emergence of mortgage funds since their inception in 2018 has helped to increase competition in the mortgage market, although the sector so far accounts for only a very limited share of outstanding mortgages in the market (around one per cent). The activities of the two Swedish mortgage funds that mainly make up this sector have also functioned well so far. They have had long-term funding and have not used any leverage. In practice, their activities have meant that long-term capital, from insurance companies for example, has been channelled into long-term lending, such as mortgages. In this way, the sector has so far tended to contribute to reducing financial stability risks through increased diversification.

Within the EU, it is mainly in the Netherlands that the mortgage fund sector has reached a slightly larger market share (around ten per cent) as a result of very rapid growth in the period 2014 to 2022, when the share of mortgage funds in the total Dutch mortgage stock increased from 0.7 to 9.5 per cent.[5] During this period, these funds also contributed to lower mortgage rates.[6] However, as in Sweden,

[5] https://www.dnb.nl/en/statistics/dashboards/residential-mortgages/size-and-breakdown-of-the-mortgage-market/.

[6] De Nederlandsche Bank, 2016. *Loan markets in motion. Larger role of pension funds and insurers boosts financial stability.*

the growth of these funds has slowed down since 2022, as funding opportunities for them have diminished,[7,8] but the slowdown in inflows to these funds has not led to financial stability concerns.

It is difficult to assess what the long-term effects of the mortgage fund sector on competition and financial stability might be.

So far, the effects of mortgage funds on competition have been greatest during the period of negative and low interest rates. However, in recent years, as market rates have risen and remained higher, mortgage funds have not been competitive in the same way, as banks have had a funding advantage in their large deposits for which interest rates have not risen to the same extent. This could indicate that the contribution of these funds to competition varies over time and will be stronger in periods when banks do not enjoy favourable funding costs.

If the operations of mortgage funds were to be conducted in the same way as those of existing Swedish mortgage funds in the future, a growing sector of this kind would not pose a threat to financial stability in Sweden. However, the new EU regulatory framework to be implemented could potentially lead to increased financial stability risks if, for example, managers of Swedish mortgage funds changed their business models and took greater risks, and not least if foreign mortgage funds that are open-ended and highly leveraged were to be established on the Swedish market to a greater extent.

The long-term effects of mortgage funds are thus difficult to assess and it is important that Finansinspektionen has a strong focus on the sector.

> *The Riksbank emphasises the importance of Finansinspektionen making strict assessments of mortgage funds when they are established, and of the funds' activities being subject to continuous supervision. It is also important that Finansinspektionen continuously monitors and analyses developments in the mortgage fund sector so that appropriate measures can be taken, where necessary.*

2. Redemption frequency and notice period in mutual funds

The Riksbank has previously pointed out that the right to daily redemptions and the lack of notice periods in mutual funds, both within and outside the pension system, can create risks to financial stability.[9] The redemption profile of these

[7] https://www.dnb.nl/en/general-news/statistical-news/2024/investor-interest-in-dutch-mortgage-funds-continues-to-decline/.

[8] Statistics Sweden's financial market statistics.

[9] See the Riksbank's Financial Stability Report 2024:1.

funds must indeed, according to Finansinspektionen's regulations, be compatible with the liquidity profile of the funds' assets. However, the Riksbank believes that in practice the redemption frequency does not always match the liquidity of the funds' assets. This is particularly true for less liquid assets, such as corporate bonds. Imbalances are exacerbated during periods of stress, as was evident during the coronavirus pandemic.

The Riksbank therefore supports the inquiry’s proposals aimed at improving the matching between redemption profile and liquidity profile in funds. There are several ways to improve this match. One way is for the fund to have larger buffers of liquid assets, which would, however, yield lower returns, and go against the selection mechanism of both public and private pension schemes. Another way is to have a lower redemption frequency. This reduces the likelihood of the fund being subject to a run, which is valuable and effective. However, it is unlikely to reduce the size of withdrawals – something that notice periods, as a third way to improve matching, would address. The notice period gives the fund management company sufficient notice to sell the assets before the redemption price is set, which also reduces the incentive for fund unit holders to withdraw from the fund as they can no longer obtain a higher price than the market price by selling their fund units faster than other unit holders. The Riksbank considers that this way of reducing the matching problem is very effective. A fourth way would be to have a larger "liquidation window" in terms of time (after the deal is done and the redemption price is set). It may prevent fire sales, but – unlike the notice period – it will not prevent price-based runs, as the redemption price is set on the day the trade is made.

If less frequent redemption options and notice period are introduced, this means that consumers will not have access to their funds as quickly when they redeem their units and it may take them slightly longer to exit or change their investment, which is sometimes emphasised as an important consumer protection aspect.

The Riksbank's view is that as long as redemption possibilities and the notice period are calibrated in a way that reflects the liquidity risks in the fund's business model, the use of these tools will result in stronger rather than weaker consumer protection. First, it improves the stability of both the fund and the financial system. Second, under stressed conditions, this prevents a small group of consumers from requesting redemption of fund units first and thus obtaining a more favourable outcome than other consumers (fund unit holders). One reason is that the fund management company uses the fund's most liquid assets to redeem the first group, while less liquid assets are sold later, and at a lower price than normal, to redeem the other unit holders. Another reason is that, in a falling market, the fund may make losses on the sale of its assets, as the fund management company – unless notice period is used – will have to set the price of the fund's units before the assets have been sold. These losses will be charged to the remaining unitholders. Consumers are therefore at risk of being treated differently. This situation is usually referred to as the "first mover advantage".

This issue is particularly relevant for the pension system, as the majority of consumers are long-term investors and thus face potential losses if these risks are not managed. Despite these problems, and despite the fact that few consumers use fund saving as a basis for their liquidity management, consumers generally favour the possibility of daily redemption and the absence of a notice period. This is because they only see the value of flexibility (even if it is limited), but not the cost to the entire collective of consumers (fund unit holders) of the lack of regulation. In addition, it can be noted that funds offering this type of savings compete for savers' funds with other participants and that fund managers therefore have incentives to offer daily redemption and no notice period. There is thus a form of market failure.

> *The Riksbank supports the inquiry's proposal that the provisions on the redemption of fund units in mutual funds be adapted to the minimum level in the UCITS Directive*[10] *so that a mutual fund shall be open for redemption on at least two days per month.*
>
> *Furthermore, the Riksbank supports redemptions in mutual funds, after authorisation from Finansinspektionen, being allowed less often, that is, only one day a month.*
>
> *The Riksbank supports the proposal that, as a precondition for redemption in a mutual fund, it may be required that the fund unit holder, by requesting redemption, has cancelled the unit some time before the redemption date (introduction of a notice period).*

Effective implementation of these tools will contribute to both financial stability and enhanced consumer protection. It will also ensure that a standard is established for a stable and efficient fund sector more generally.

Redemption frequency

The fact that daily traded mutual funds have long been the norm in Sweden has meant that administrative and IT systems, particularly those of many pension and occupational pension platforms, have been adapted to the daily management of the purchase and sale of units.

[10] Directive 2009/65/EC of the European Parliament and of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

A particularly important actor is the Swedish Pensions Agency, on whose marketplace a large number of mutual funds are distributed. As many fund management companies want their funds to be tradable on the premium pension fund platform (fondtorget), which requires daily redemptions, there is a significant risk that the new legal possibility to apply a lower redemption frequency will not be utilised for most mutual funds.[11] Given the dominant position of the premium pension fund platform, there is also a risk that the requirements set by the Swedish Fund Selection Agency (Fondtorgsnämnden) for listing on the platform will become standard in the market, i.e. will also be used for mutual funds that have not been procured for the platform. It is true that in the future the premium pension fund platform will consist of a smaller number of procured funds than at present, which may possibly mean that the Swedish Fund Selection Agency's governing function over the market is reduced somewhat. However, the premium pension fund platform is likely to continue to have a significant influence on the choice of redemption frequency in the funds, as it is likely that many fund management companies will want their funds to be included in the procurement, as the Swedish Pensions Agency will still be the largest owner of fund units in Sweden. The Riksbank therefore considers that the Government should require the Swedish Fund Selection Agency to adapt its conditions and technical systems for the premium pension fund platform.

> *The Riksbank proposes that the Government instruct the Swedish Fund Selection Agency to adapt conditions and IT systems so that funds that fulfil the new statutory rules regarding redemption frequency qualify to be able to participate in the premium pension fund platform.*

In the case of occupational pensions, social partners impose varying requirements on the redemption frequency of mutual funds, via various selection centres. Some require daily redemption, while others have more flexibility. This means that in the occupational pension system there is a risk of problems similar to those in the premium pension system in implementing the lower redemption frequency requirements. To implement these requirements in practice, the selection centres of occupational pension companies will also need to adjust their terms and conditions, and if necessary their IT systems, accordingly.

> *The Riksbank proposes that the social partners, preferably in a dialogue with the authorities responsible for maintaining financial stability, work to ensure that the occupational pension companies' selection centres for mutual funds adjust their conditions, and if necessary their IT systems, so that the funds*

[11] According to the inquiry, there are at present no plans to change the technical system of the premium pension scheme so that a lower redemption frequency for funds would be technically possible. The reason given is that a change would involve major investment costs, which would be borne by pension savers.

that meet the new statutory rules regarding redemption frequency qualify to become eligible funds.

Notice periods

As stated above, the Riksbank considers notice periods to be a particularly effective tool for preventing the emergence of financial stability risks in stressed market conditions. The tool can enhance a fund management company's ability to sell fund assets in an orderly manner over a longer period of time in the event of net outflows. It also reduces the risk of ”first mover advantage”.

The inquiry proposes that the maximum notice period allowed for mutual funds should be five business days. Given that this tool is assessed to be very effective in reducing financial stability risks, the Riksbank considers that the maximum permitted notice period should be longer, at least for corporate bond funds, whose market is considered to be much less liquid than many other securities markets.

The Riksbank rejects the inquiry's proposal that the notice period in a mutual fund may not be longer than five banking days. Instead, the Riksbank proposes that the maximum notice period should be ten banking days, at least for corporate bond funds.

A notice period of ten business days is also in line with the standard in many other EU countries. Furthermore, it is difficult to see consumer protection reasons for a shorter maximum notice period, as competition between funds is more likely to result in notice periods that are too short rather than too long.

As with the redemption frequency, there is a risk that the possibility of a notice period will not be used in practice, as the terms and conditions and IT systems of the premium pension fund platform, as well as the terms and conditions and IT systems of some of the occupational pension companies' selection centres, do not allow this tool to be used.

The Riksbank proposes that the Government instruct the Swedish Fund Selection Agency to adapt conditions and IT systems, so that funds that fulfil the new statutory rules regarding notice periods qualify to participate in the premium pension fund platform. The Riksbank also proposes that the social partners, preferably in a dialogue with the authorities responsible for maintaining financial stability, work to ensure that the occupational pension companies' selection centres make corresponding changes to their conditions and, where necessary, IT systems.

3. Liquidity management tools for mutual funds and open-ended alternative investment funds

The Riksbank is very positive to the fact that, through the implementation of the amending directive, requirements are now introduced in national law to give mutual funds and open-ended alternative investment funds access to a number of specified liquidity management tools and that fund management companies and AIF managers must specify in advance and be able to apply at least two of these tools. This will reduce the funds' liquidity risks and thus strengthen the stability of the financial system.

The Riksbank has previously pointed out that some funds – especially corporate bond funds – have a clear imbalance between the liquidity of their assets and fund units during periods of financial disturbances or when demand for liquidity increases. This liquidity imbalance can have a negative impact on underlying asset markets and negative spillover effects to other funds, the financial system and the economy in general. It is therefore urgent that fund management companies and AIF-managers carefully analyse the liquidity imbalances that could develop in their funds, especially under extreme conditions, and select and calibrate appropriate liquidity management tools to address them. In addition to the statutory requirements, the Riksbank has the following recommendations:

> *The Riksbank calls on fund management companies and AIF managers to implement the tools in a way that ensures that they can handle extreme conditions (e.g. have sufficiently high swing factors for swing pricing). This is key to ensuring that liquidity management tools can address liquidity imbalances.*
>
> *The Riksbank also calls on fund management companies and AIF managers to select more than two liquidity management tools when this would contribute to increased resilience. For example, redemption gates and extension of the notice period would be particularly effective if it is difficult to price the fund's assets. Pricing tools such as redemption fees, swing pricing and dual pricing, can be useful to manage runs.*
>
> *Furthermore, the Riksbank specifically calls on managers of corporate bond funds to ensure that they have liquidity tools that they can use when they cannot price the fund units.*
>
> *The Riksbank proposes that Finansinspektionen develops a non-binding framework that describes which tools should be used for different types of funds with different risk profiles. Such a framework would help fund managers to consider not only the risks of their own funds, but also the impact on underlying markets and the wider financial system.*

On behalf of the Riksbank

Erik Thedéen
Governor

Christina Nordh Berntsson
Senior Advisor

The decision has been taken by the Executive Board (Governor Erik Thedéen, First Deputy Governor Anna Breman and Deputy Governors Per Jansson, Aino Bunge and Anna Seim) following a presentation by Senior Advisor Christina Nordh Berntsson. Head of Department Olof Sandstedt participated in the final processing of this matter.