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DNR 2020-00861

# Annex to the minutes

DATE: 31 August 2020  
DEPARTMENT: Markets Department, Monetary Policy Department and Financial Stability  
Department

## Corporate bond purchases as a monetary policy measure

### Decision by the Executive Board

The Executive Board decides

1. that the Riksbank when purchasing bonds issued in Swedish krona by Swedish non-financial companies between 1 September 2020 and 30 June 2021 shall apply bilateral proceedings and bid procedures in accordance with the instructions conferred by the Executive Board's decision of 30 June 2020, and taking into account that
  - a. the offer to purchase refers to non-subordinated bonds with a remaining maturity of up to five years,
  - b. the purchases shall only cover bonds as well as companies with a credit rating not lower than the lowest acceptable credit rating equivalent to Baa3/BBB–,
  - c. on the purchase date there shall be no indications that any of these credit ratings may fall below the lowest acceptable credit rating level,
  - d. the Riksbank shall not, at each time of purchase, own more than 50 per cent of an individual issuer's total outstanding volume of corporate bonds in Swedish krona, and that
  - e. the Riksbank shall not, at each time of purchase, own more than 50 per cent of an individual bond issue,
2. that the first purchases of corporate bonds shall be made with the aid of bilateral proceedings in the week beginning 14 September 2020,
3. to give the Head of the Markets Department the task of determining, with the right to delegate this to another, after consultation with the Executive Board and the Head of the Monetary Policy Department and the Head of the Financial Stability Department, with the right for these heads of department to delegate this task to another,

- a. the amount range for the purchase offer regarding the first purchases referred to in point 2 above,
  - b. the purchase method, date and amount range or amount offered with regard to the ensuing purchases, and
  - c. the details regarding terms and conditions for, and information on, the Riksbank's purchases of corporate bonds, and
4. to publish the decision on Tuesday, 1 September 2020 at 9.30 am.

## Background

On 19 March 2020, the Executive Board decided that the Riksbank's bond purchase programme, which had been initiated to counteract the effects of the corona pandemic on the Swedish economy, should also include certificates and bonds issued in Swedish krona by Swedish non-financial companies (ref.no. 2020-00397). Through this decision, the Riksbank reinforced the earlier measures adopted under the prevailing conditions to provide the financial system with liquidity, to maintain the supply of credit to households and companies and to hold down borrowing costs. The clear signs that the market for commercial paper was not functioning as it should in March 2020 declined after the Riksbank had expressed its intention to purchase corporate bonds.

However, it was assessed that the situation could rapidly deteriorate further and require continued support from the Riksbank. The Executive Board therefore decided on 30 June 2020 that the Riksbank, within its programme for bond purchases between 1 September 2020 and 30 June 2021 would offer to purchase from monetary policy counterparties corporate bonds to a nominal amount of SEK 10 billion (ref. No. 2020-00744). Based on this decision, the Riksbank can, with effect from September 2020, implement the decision to use purchases of corporate bonds for monetary policy purposes that was taken in March 2020. The Riksbank can thus establish a presence on the market for corporate bonds and thereby ensure a good capacity to rapidly adjust the scope of the purchases with consideration to their monetary policy impact and other monetary policy assessments going forward. To enable the purchases to begin in September 2020, the Executive Board needs to determine an appropriate purchase method.

## Considerations

Despite powerful economic policy stimulation, the corona pandemic has had substantial negative effects on economic developments around the world. Sweden's GDP decreased by 8.3 per cent in the second quarter, compared with the first quarter of this year – the largest fall in an individual quarter since the 1940s. Production has fallen even further than this in many other countries. Unemployment in Sweden continued to increase over the summer, and in July amounted to just over 9 per cent.

The measures taken by central banks to dampen the negative effects of the corona pandemic on the economy have contributed to an improvement in developments on the financial markets. However, the situation on the financial markets is assessed as fragile and conditional on the central banks continuing to support the economy and secure the liquidity supply in the different parts of the economy. If the turbulence on the financial markets were to recur, there is a risk that the credit supply in the Swedish economy

would deteriorate rapidly. This could lead to prolonged negative consequences for output and employment in Sweden, resulting in falling inflation.

The Swedish market for corporate bonds is functioning in a satisfactory manner at the time of this assessment. This could to some extent be due to the Riksbank's announcement of its intention to purchase these securities. Moreover, several factors indicate that this market may be particularly vulnerable if disturbances occur again in the future. The Swedish corporate bond market is concentrated to a small number of larger companies, relatively fragmented and heterogeneous. Bonds are issued with varying terms by companies with varying creditworthiness. Moreover, several of the conditions for guaranteeing good functionality on the secondary market in terms of liquidity and transparency are lacking. Activity on the market is low, for instance, and many investors are buying bonds to hold them to maturity.

Overall, these factors make it more difficult to value corporate bonds than other bonds. The fact that the market lacks transparency and that the secondary market has a low turnover are special circumstances that the Riksbank needs to take into account when deciding on the details regarding its corporate bond purchases. To ensure these purchases can be made in a suitable manner, it is therefore appropriate that the Riksbank applies two purchase methods – bilateral proceedings and bid procedures. This gives the Riksbank the scope to manage the specific market circumstances and identify potential sources of poor liquidity without neglecting the need to ensure a broad and market-neutral impact.

To begin with, it might be advantageous for the purchases to be made through bilateral proceedings to establish the Riksbank's presence on the market and thereby a good capacity to influence pricing on this market. Bilateral proceedings are currently the most common form of purchase on the Swedish market for corporate bonds, which at present also offers greater flexibility in the choice of bonds. At a later stage, purchases can also be made via bid procedure. It is appropriate to decide which method should be used prior to the purchase concerned and taking into account the market conditions and monetary policy assessments prevailing at the time.

In accordance with the decision of 30 June 2020, the purchases shall entail corporate bonds issued by companies with a credit rating equivalent to Baa3/BBB– or higher, with a remaining time to maturity of up to five years. First of all the security's credit rating will be used, but if there is no such rating, the company's credit rating will be used. If the security or the company has credit ratings from several of the credit rating agencies Standard & Poor's, Moody's, Fitch Ratings, Nordic Credit Rating and Scope Ratings, none of these credit ratings should be lower than the lowest acceptable credit rating level. On the purchase date, there shall be no indications that any of these credit ratings may fall below the lowest acceptable credit rating level, either.

Furthermore, the purchases shall only cover non-subordinated bonds and be made on the secondary market from the Riksbank's monetary policy counterparties. When selecting bonds, the Riksbank shall apply objective criteria that take into account the principle of equal treatment of issuers, and at the same time to a reasonable extent take into account the risks the purchases entail for the Riksbank's balance sheet. The Riksbank will therefore take measures to ensure that purchases by both methods are made in an open, equal and efficient manner. The Riksbank will also publish more

detailed information on its holdings of corporate bonds on appropriate occasions after purchases have been made.

The terms and conditions for bilateral proceedings follow applicable provisions in the Terms and conditions for RIX and monetary policy instruments. More detailed terms and conditions for the bid procedures will on the other hand be stated in general and special terms and conditions for the Riksbank's purchases of corporate bonds through bid procedures, which shall be compiled prior to the occasions when the purchases are to be made using this method.

Given the design of bilateral proceedings and bid procedures respectively, the Riksbank will also need to divide the purchases of corporate bonds between many different issuers and at the same time limit the holdings of the respective type of security issued by an individual issuer or in an individual issue. It is therefore appropriate that the Riksbank when purchasing corporate bonds applies a limit, according to which the Riksbank shall not, at each time of purchase, own more than 50 per cent of an individual issuer's total outstanding volume of corporate bonds in Swedish krona. Nor may the Riksbank at each time of purchasing own more than 50 per cent of an individual bond issue. These limits make it possible to build up a holding of corporate bonds that proportionately reflects the total volume of securities covered by the Riksbank's purchase programme for corporate bonds. They are thus expected to contribute to the purchases affecting the market in a broad and market-neutral manner and thereby having the desired monetary policy impact. By applying the two limits, the Riksbank can also in a satisfactory manner manage the risks the purchases entail for the Riksbank's balance sheet.

The first purchases of corporate bonds for monetary policy purposes shall be made in accordance with the instructions above using bilateral proceedings in the week beginning 14 September 2020. It is the responsibility of the Head of the Markets Department, with the right to delegate to another person, to determine the amount range for the purchase offer regarding the initial purchases, and on more precise details regarding terms and conditions for, and information on, the Riksbank's purchases of corporate bonds. The Head of the Markets Department is also tasked with determining the more precise details and amount range or amount offered in the ensuing purchases. The decisions shall be taken after consultation with the Executive Board and with the Head of the Monetary Policy Department and the Head of the Financial Stability Department, with the right for these heads of department to delegate to other persons.

The purchases, which are justified in terms of monetary policy, are made with the support of Chapter 6, Article 5 of the Sveriges Riksbank Act (1988:1385). In the same way as in the decision of 30 June 2020, they are assessed as entailing slightly increased financial or operational risks for the Riksbank. The risks that are entailed by these purchases are assessed as manageable.

Climate change and other sustainability aspects constitute financial risks in this context and can ultimately comprise a threat to macroeconomic stability and price stability. The Riksbank is therefore working on developing methods to identify risks linked to sustainability that can affect the conditions for the Riksbank's execution of its tasks. Within the scope of its purchases of corporate bonds, taking into account the requirements imposed by its tasks, the Riksbank may in future take sustainability into

account when choosing corporate bonds. The principles for this will be presented in the autumn. The Riksbank also intends, as relevant data become available, to measure and report on greenhouse gas emissions in the portfolio being built up.

The decision to implement the Riksbank's purchase of corporate bonds reinforces the Riksbank's capacity to manage a situation where the credit supply to companies might deteriorate further as a result of the corona pandemic. At the same time, the decision emphasises the importance of a broad support for the credit supply to Swedish companies, not just in the prevailing crisis, but also ahead of the return to a normal situation. By becoming established on the market for corporate bonds and working to ensure increased transparency and higher turnover, the Riksbank can contribute to the development of a more mature and smoothly-functioning market. This will contribute to better financing alternatives for companies and more attractive investment opportunities for investors, which will ultimately strengthen the Swedish economy.

At the time of this decision, there is still considerable uncertainty regarding economic developments and the situation on the financial markets in both Sweden and in other countries. There is every indication that monetary policy stimulus will be needed in the form of low interest rates and a large amount of liquidity for the foreseeable future. The combination of appropriate measures is constantly being evaluated and will be adjusted to economic developments. The Riksbank is therefore prepared to take further measures and to supply the necessary liquidity, even between ordinary monetary policy meetings.