



The General Council of the Riksbank's proposal for the allocation of profit 2017 and so forth

Summary

Under Chapter 10, Section 3 of the Sveriges Riksbank Act (1988:1385), the General Council shall present proposals to the Riksdag (the Swedish Parliament) and the Swedish National Audit Office regarding the allocation of the Riksbank's profits.

For several years, the General Council has applied a principle for the allocations of profit that can be expressed in brief by stating that 80 per cent of the past five years' average profit shall be transferred to the Treasury. The profit is calculated excluding exchange rate and gold value effects, but including the price effects reported in the revaluation account on the balance sheet. For 2017, the General Council therefore proposes a transfer of SEK 2,300 million.

The General Council's account of activities for 2017 reports that the Council has met on nine occasions during the year and gives an overall description of the matters discussed and the information the General Council has received at its meetings. The Council's report also describes how it has conducted its controlling function.

Table of contents

Summary.....	1
Proposal for Riksdag decision	3
Proposal for the allocation of profits for 2017	4
Annual report of the General Council.....	6
<i>Appendix</i>	
Calculation of the Riksbank's allocation of profit 2017	10

Proposal for Riksdag decision

The General Council proposes that the Riksdag adopt the proposal for the allocation of the Riksbank's profits for the financial year 2017.

Profit for 2017 amounts to SEK 3,926 million. The General Council proposes that the Riksbank's profits be allocated as follows:

- SEK 2,300 million will be transferred to the Treasury.
- SEK 620 million will be transferred to the Riksbank's contingency fund.
- SEK 1,006 million will be transferred to the Riksbank's balancing account.

The General Council also proposes that the transfer should be made no later than one week after the Riksdag's decision, most appropriately in connection with the Riksbank's implementation of the weekly open market operation.

Stockholm, 16 February 2018

On behalf of the General Council

SUSANNE EBERSTEIN

/Maria Svalfors

Susanne Eberstein (Chairperson), Michael Lundholm (Vice Chairperson), Hans Hoff, Peter Egardt, Caroline Helmersson Olsson, Olle Felten, Hans Birger Ekström, Anders Karlsson, Roger Tiefensee, Agneta Börjesson and Elisabeth Björnsdotter Rahm took part in this decision.

The presenters were Eva Julin and Henrik Gardholm.

Proposal for the allocation of profits for 2017

When reviewing the Riksbank's management for the year 2016 (2016/17:FiU23), the Riksdag approved that the allocation of net income for the year should be based on the 1988 principle for the allocation of net income with the supplements to the principle made since then. This was also the proposal put forward by the General Council. The principle implies in brief that 80 per cent of the past five years' average profit, excluding the exchange rate and gold value effects, but including the price effects reported in the revaluation account on the balance sheet, shall be transferred to the Treasury. The exchange rate and gold value effects and, normally, 10 per cent of adjusted average profit shall be transferred to or from the contingency fund. The amount remaining after this shall be transferred to or from the balancing fund. The General Council applies the same basis for calculation for 2017.

In accordance with Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the General Council has received a report for the 2017 financial year from the Executive Board. The General Council notes that the Riksbank reports a profit of SEK 3,926 million for 2017. In accordance with the 1988 principle for the allocation of profits and the supplements to this, the following adjustments are made to the accounting profit when calculating the result used as a basis for the transfer:

- The reported result has been positively affected by an exchange rate gain of SEK 337 million. This profit is excluded from the calculation.
- The reported result has been negatively affected by a gold value effect but, as it has been rounded to SEK 0 million, it does not affect the calculation of the result used as a basis for the transfer.
- A price loss of SEK 2,317 million was recorded as a price effect decrease in the revaluation account on the balance sheet. The General Council has included this loss when calculating the allocation of the net income.

In accordance with the account below, the General Council proposes a transfer to the Treasury of SEK 2,300 million.

The foreign exchange loss is transferred to the contingency fund. In addition, 10 per cent of the adjusted average profit is transferred there. As the proposed transfer and reversal to the contingency fund is lower than the accounting profit, it is proposed that the remaining SEK 1,006 million be transferred to the balancing account. The calculation on which the proposed allocation of profit is based can be found in the Appendix.

In conjunction with its annual examination of the Riksbank's annual report, the National Audit Office has also examined the proposed allocation of profit, even though the National Audit Office has no obligation to comment in the proposal itself. The National Audit Office has not noted any deviations from the applied principle for the allocation of profit.

Profit for 2017 amounts to SEK 3,926 million. The General Council decided, on 16 February 2018, to submit the following proposal for the allocation of the Riksbank's profits:

- SEK 2,300 million will be transferred to the Treasury.
- SEK 620 million will be transferred to the Riksbank's contingency fund.
- SEK 1,006 million will be transferred to the Riksbank's balancing account.

The General Council also proposes that the transfer should be made no later than one week after the Riksdag's decision, most appropriately in connection with the Riksbank's implementation of the weekly open market operation.

Annual report of the General Council

The General Council consists of eleven members and as many deputies. Members and deputies are appointed by the Riksdag after each general election, for a term of office of four years. The General Council selects a Chairperson and a Vice Chairperson from among its members.

As of 14 October 2014, the General Council consists of the following members: Susanne Eberstein (Chairperson), Michael Lundholm (Vice Chairperson), Hans Hoff, Peter Egaradt, Caroline Helmersson Olsson, Olle Felten (as of 11 January 2017), Hans Birger Ekström, Anders Karlsson, Roger Tiefensee, Agneta Börjesson and Chris Heister. The deputy members are Catharina Bråkenhielm, Elisabeth Björnsdotter Rahm, Tommy Waidelich, Oskar Öholm, Ann-Kristine Johansson, Mikael Eskilandersson (as of 11 January 2017), Carl B Hamilton, ClasGöran Carlsson, Karin Nilsson, Esabelle Dingizian (as of 2 December 2014) and Stefan Attefall.

The General Council's tasks

The General Council appoints the members of the Executive Board and decides on their salaries and other terms of employment. The General Council adopts the Riksbank's Rules of Procedure, which specify the Riksbank's overall organisation and the regulation of certain managerial and decision-making matters. The General Council also determines the design of banknotes and coins.

Furthermore, the General Council submits proposals to the Riksdag regarding the allocation of the net income of the Riksbank.

According to the preparatory works to amendments to the Sveriges Riksbank Act (1988:1385), the General Council also has the task of monitoring and controlling how the Riksbank conducts its activities and how the members of the Executive Board manage its business. One of the ways the General Council can perform its supervisory role is through the Chairperson and Vice Chairperson attending the Executive Board meetings. The Chairperson and Vice Chairperson also have the right to speak at these meetings, but they do not have the right to vote or make proposals. The General Council also has an audit function whose work is carried out by external consultants.

The General Council submits consultation responses within its field of competence and the Executive Board consults with the General Council on reports and formal communications with proposals to the Riksdag and the Government regarding government amendments to statutes or other central government measures.

The Chairperson and Vice Chairperson submit a report on the General Council's work to the Riksdag Committee on Finance. This usually takes place twice a year.

The General Council's activities in 2017

During the year, the General Council held nine meetings.

At its meeting on 29 September 2017, the General Council decided to give Stefan Ingves a further term of office as Governor of the Riksbank of five years from 1 January 2018, and to give Kerstin af Jochnick a further term of office as member of the Executive Board and First Deputy Governor of six years from 1 January 2018.

The General Council made decisions during the year on the terms of employment and external assignments of the members of the Executive Board.

Banknotes and coins

Over the year, the General Council received regular information on the banknote and coin changeover and on the redemption of invalid banknotes. In connection with the banknote and coin changeover, the question of the banks' responsibility for cash and the general public's possibilities for depositing cash was addressed on a number of occasions. This was due to the general public's concerns about being able to use its cash. The General Council shares these concerns and considers that it is important to monitor the restructuring currently taking place on the payments market.

Consultation responses

At its meeting in May, the General Council decided to present its own consultation response to the Ministry of Finance's draft proposal regarding the Riksbank's financial independence and balance sheet on the parts that concern the General Council's area of responsibility. In the consultation response, the General Council welcomed the draft's proposal for a profit allocation model but also noted that the proposed model's automatic nature makes it particularly important to ensure that the Riksbank at any time – and regardless of the level of equity – can petition the Riksdag for a recapitalisation or increase in capitalisation of the bank. The General Council also agreed with the Executive Board's position that a recapitalisation rule should be incorporated into the Sveriges Riksbank Act clarifying central government's responsibility in accordance with EU law to ensure that the Riksbank is adequately capitalised.

Follow-up of the work of the Executive Board

Part of the General Council's control was exercised in that the Chairperson and Vice Chairperson of the General Council followed the work of the Executive Board during the year, for example by attending all the meetings of the Executive Board and a number of informal meetings.

The members of the Executive Board normally participated in the General Council meetings and regularly contributed accounts of important decisions and events in the Riksbank's activities. For example, they described current

monetary policy and the work of overseeing the stability of the financial system. The Executive Board also provided information on the state of the financial markets, in Sweden, in Europe and globally. The Executive Board also provided information on the Riksbank Inquiry.

Furthermore, the General Council received regular information on the follow-up of the Riksbank's budget and business plan, on the follow-up of financial and operational risks and the results of asset management, on the outcome of activities in other respects and on the activities of the internal audit department.

Moreover, the General Council received information on the consultation responses decided on by the Executive Board during the year.

The Executive Board provided regular information on important international meetings and on important discussions within various international bodies. Furthermore, the General Council received information on the Riksbank's commitments to the International Monetary Fund (IMF).

The General Council received regular information updates on the preparation work for the Riksbank's 350th anniversary in 2018.

To gain supplementary information, the General Council participated in theme lunches at which the Executive Board provided more in-depth information on various current operational matters. The themes discussed were household indebtedness, the monetary policy process, the Riksbank's purchases of government bonds in practice, the e-krona project and how the Riksbank works with cyber risks and other operational risks.

At the December meeting, the General Council received further information on the Riksbank's work on information security.

Other

At the end of January, the General Council went on a study tour of South Korea and Japan together with some members of the Executive Board. In South Korea, there were visits to the Bank of Korea, Korea Institute of Finance, Neutral Nations Supervisory Commission, National Assembly, Financial Supervisory Service and Ministry of Finance and Strategy. In Japan, there were visits to the Bank of Japan, Ministry of Finance, Tokyo Stock Exchange, Sumitomo Mitsui Banking Corporation, Government Pension Investment Fund, Asian Development Bank Institute and Financial Services Agency. The aim of the tour was for the members of the General Council to gain detailed information on and insights into international economics.

In November, the presidium of the General Council was visited by representatives of the Central Bank of the Republic of Kosovo, who were given a presentation on the governance of the Riksbank and of how the Riksbank has developed as an organisation.

The General Council's examination of the Riksbank's activities

The General Council examines the Riksbank's activities through its audit function. Transcendent Group AB will undertake this assignment on behalf of the General Council until 31 March 2018. At its meeting in December, the General Council decided to extend the assignment for Transcendent Group AB by a further year, until 31 March 2019.

The General Council annually establishes a plan for the audit function's work. In the first quarter of 2017, Transcendent Group reported its reviews of the lines of defence (control functions in risk management operations) and of personal protection. The audit plan for 2017/2018 includes, apart from the annually-recurring examination of compliance, including the Executive Board's exercise of its duties, an examination of the governance of information security and the Riksbank's governance model. The latter examination will be made during the first quarter of 2018. In addition, the Chairperson and Vice Chairperson have had regular contact with the Riksbank's internal auditing.

The General Council was also informed about the Swedish National Audit Office's annual examination of the Riksbank's activities. The Swedish National Audit Office reports the results of its audit to the General Council ahead of and in conjunction with the General Council's decision on its proposal for the allocation of profits, as well as when the Swedish National Audit Office has completed its audit.

APPENDIX

Calculation of the Riksbank's allocation of profit 2017

1 Calculation of the Riksbank's transfer to the Treasury

SEK million

Adjustment of the year's profit

Profit for 2017	3,926
Less exchange gain	-337
Plus Price loss recorded on the balance sheet	-2,317
Adjusted profit 2017	1,272

Calculation of average adjusted profit

Adjusted profit 2013	-3,392
Adjusted profit 2014	9,019
Adjusted profit 2015	-1,588
Adjusted profit 2016	8,851
Adjusted profit 2017	1,272
Total adjusted profit for the past five years	14,162

Average adjusted profit for the past five years **2,832**

Calculation of transfer amount

80% of the average adjusted profit/loss	2,266
Rounding off to SEK 100 millions	34
Transfer 2017	2,300

2 Calculation of transfer to the Riksbank's contingency fund

Transfer to the Riksbank's contingency fund

Exchange gain	337
10% of the average adjusted profit/loss	283
Total	620

3 Calculation of transfer to the Riksbank's contingency fund

Transfer to the Riksbank's balancing account

10% of the average adjusted profit/loss	283
Price loss recorded on the balance sheet	2,317
Rounding off of transfer	-34
<u>Adjusted profit less average profit</u>	<u>-1,560</u>
Total	1,006