

Submission to the Riksdag 2018/19:RB2

The General Council of the Riksbank's proposal for the allocation of profit 2018 and so forth

Summary

Under Chapter 10, Section 3 of the Sveriges Riksbank Act (1988:1385), the General Council shall submit 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 in brief states 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 2018, the General Council proposes a transfer of SEK 3,800 million.

The General Council's account of activities for 2018 gives an overall description of the matters discussed at General Council meetings during the year (ten in total) and describes the information received by the Council at these meetings. The account of activities also outlines how the General Council has exercised its controlling function.



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Proposal for decision by the Riksdag

The General Council proposes that the Riksdag adopt the proposal for the allocation of the Riksbank's profits for the financial year 2018.

Profit for 2018 amounts to SEK 3,522 million. The General Council proposes that the Riksbank's profits be allocated as follows:

- SEK 3,800 million to be transferred to the Treasury.
- SEK 1,306 million to be transferred to the Riksbank's contingency fund.
- SEK 1,584 million to be transferred from the Riksbank's balancing account.

The General Council also proposes that the transfer 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, 15 February 2019

On behalf of the General Council

SUSANNE EBERSTEIN

/Maria Svalfors

Susanne Eberstein (Chairperson), Michael Lundholm (Vice Chairperson), Hans Hoff, Hans Birger Ekström, Bo Broman, Marie Granlund, Peter Helander, Ali Esbati, Chris Heister, Mikael Eskilandersson and Caroline Helmersson Olsson.

The presenters were Eva Julin and Henrik Gardholm.

Proposal for allocation of profit for 2018

When reviewing the Riksbank's management for the year 2017 (2017/18:FiU23), the Riksdag approved that the allocation of net income for the year 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 of the General Council. In brief, the principle states that 80 per cent of the average profit for the last five years, excluding 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 2018.

In accordance with Chapter 10, Article 3 of the Sveriges Riksbank Act (1988:1385), the General Council has received a report for the 2018 financial year from the Executive Board. The General Council notes that the Riksbank reports a profit of SEK 3,522 million for 2018. In accordance with the 1988 principle for the allocation of profits and the supplements to this, the following adjustments are made to the reported profit when calculating the profit/loss used as a basis for the transfer:

- The reported profit has been positively affected by an exchange rate gain of SEK 826 million. This gain is excluded from the calculation.
- The reported profit has not been affected by any gold value effect and therefore no adjustment has been made for such an effect.
- A price profit of SEK 3,764 million was recorded as a price effect increase in the revaluation account on the balance sheet. The General Council has included this profit 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 3,800 million.

The exchange rate gain is transferred to the contingency fund. In addition, 10 per cent of the average adjusted profit is transferred there. As the proposed transfer and reversal to the contingency fund is higher than the year's reported profit, the General Council proposes that the remaining SEK 1,584 million be transferred from 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 Swedish National Audit Office has also examined the proposed allocation of profit, even though the Swedish National Audit Office has no obligation to comment in the proposal itself. The Swedish National Audit Office has not noted any deviations from the applied principle for the allocation of profit.



Profit for 2018 amounts to SEK 3,522 million. The General Council decided, on 11 February 2019, to submit the following proposal for the allocation of the Riksbank's profits:

- SEK 3,800 million to be transferred to the Treasury.
- SEK 1,306 million to be transferred to the Riksbank's contingency fund.
- SEK 1,584 million to be transferred from the Riksbank's balancing account.

The General Council also proposes that the transfer 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 deputy chairperson from among its members.

Up until 8 October 2018, the General Council consisted of the following members: 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 Chris Heister. The deputy members were Catharina Bråkenhielm, Elisabeth Björnsdotter Rahm, Tommy Waidelich, Oskar Öholm, Ann-Kristine Johansson, Mikael Eskilandersson, Carl B Hamilton, ClasGöran Carlsson, Karin Nilsson, Esabelle Dingizian and Stefan Attefall.

As of 9 October 2018, the General Council consisted of the following members: Susanne Eberstein (Chairperson), Michael Lundholm (Vice Chairperson), Hans Hoff, Hans Birger Ekström, Bo Broman, Marie Granlund, Peter Helander, Ali Esbati, Chris Heister, Mikael Eskilandersson and Caroline Helmersson Olsson. Deputy members as from the same date were: Agneta Gille, Jonas Jacobsson Gjörtlér, Thomas Strand, Sofia Fölster, Josef Fransson, Mathias Tegnér, Roger Tiefensee, ClasGöran Carlsson, Susanne Ackum (up until 18 December), Sammy Almedal and Agneta Börjesson (as from 20 November 2018).

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 concerning the allocation of the Riksbank's profits and makes a recommendation to the Riksdag with regard to the discharge from liability of the members of the Executive Board.

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 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 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 2018

The General Council met on ten occasions during the year.

At its meeting on 16 February 2018, the General Council decided to extend the mandate for Martin Flodén as a member of the Executive Board of the Riksbank for a mandate period of six years, with effect from 22 May 2018. The General Council made decisions during the year on the terms of employment of Executive Board members and expressed an opinion on their external assignments.

The Riksbank's 350th anniversary

The Riksbank was founded in 1668, which means that the bank celebrated its 350th anniversary during the year. This was celebrated by organising activities to spread knowledge about the Riksbank's role in the Swedish economy and about important future issues. The aim of these activities was to increase understanding for the Riksbank's role in contributing to a strong and secure economy.

The General Council was regularly kept informed of the preparations both prior to and during the anniversary year. Furthermore, the Chairperson of the General Council participated in the preparations for the anniversary day.

Together with the Speaker of the Riksdag, Urban Ahlin, and Governor of the Riksbank, Stefan Ingves, the Chairperson of the General Council hosted the anniversary conference in May, and General Council members were among those invited. The conference theme was "The role of central banks then, now and in the future". The conference was held in the Riksdag Building and in the evening an anniversary banquet took place at Stockholm City Hall.

General Council members were also invited to the internal celebrations at the Riksbank in September when Stefan Ingves and the author Gunnar Wetterberg gave speeches and the Riksbank served coffee and cake.

During the Riksbank's Open House in September, the General Council Chairperson was on hand to provide information about the work of the General Council and the Executive Board.



In collaboration with the General Council, the Riksbank produced an anniversary folder featuring a 20-krona banknote, which was given out as a gift during the anniversary year.

Submissions to the Riksdag

At its meeting on 9 February 2018, the General Council, together with the Executive Board, decided to submit a joint petition to the Riksdag proposing that the Riksdag give its approval for the Riksbank to conclude an agreement with the Nobel Foundation. This agreement gives the Foundation the right to receive an additional contribution (over and above the administrative contribution paid in accordance with the deed of gift from 1968 when the prize was established) in order to cover the administrative costs of choosing the prize-winner, central administration and the Nobel Week and Nobel days, in conjunction with the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. The total administration contribution shall amount to a figure equal to a sixth of the Foundation's administrative costs for all Nobel prizes and the Prize in Economics or the lower figure deemed appropriate by the Riksbank. The agreement shall give the Riksbank satisfactory insight into and control over the use of the Riksbank's reimbursement of expenses. The Riksbank will inform the Committee on Finance about its control activities on an annual basis. On 25 April 2018, the Riksdag decided to grant the Riksbank's petition in accordance with the Committee on Finance's proposal.

In a submission to the Riksdag in the autumn of 2017, the General Council proposed the establishment of two professorships in economics. The Riksdag rejected the Riksbank's proposed format but did adopt an appropriation for such professorships in the 2018 spring budget. At the November meeting, the General Council received information that Riksbankens Jubileumsfond (RJ) and Vinnova (Swedish Agency for Innovation Systems) had concluded an agreement on the transfer of appropriations and that the process to appoint the professorships is under way at RJ.

Rules of procedure

The General Council adopts the Riksbank's rules of procedure. During the year, the General Council adopted some editorial amendments in the rules of procedure concerning name changes to the audit function and the Riksbank's Payments Department.

Banknotes and coins

Over the year, the General Council received regular feedback on the work and results regarding the banknote and coin changeover and on the redemption of



invalid banknotes. In March, the General Council received a final report on the banknote and coin changeover.

The issue of banks' responsibility for cash and the general public's scope for using it has been discussed by the General Council on several occasions. This is due to the general public's concerns about not being able to use cash. At its meetings, the General Council has expressed on several occasions its concern about the problems experienced by the general public in using cash and considers that it is important to monitor the ongoing restructuring of the payment market. In conjunction with the Executive Board's consultation response to the Riksbank Inquiry's interim report "Secure access to cash" (SOU 2018:42), the General Council also gave its view on the issue in the form of a note to the minutes. See the section "Consultation responses" below.

The General Council was also informed about a new agreement on bank-note production.

Consultation responses

During the year, the Executive Board submitted its response to the Riksbank Committee's interim report SOU 2018:42 "Secure access to cash". In connection with the minutes of its meeting on 28 September 2018, the General Council decided to make a note of its views on the interim report, stating that, in its opinion, cash is an important component of the payment system and that the role of cash as legal tender shall be upheld. In the General Council's view, it is worrying that the Inquiry's proposal to legally oblige banks to offer companies the option of making deposits does not also apply to consumers. Furthermore, there must be symmetry between withdrawal and deposit facilities. According to the General Council, all banks and other credit institutions that supply payment accounts with basic functions should also be obliged to provide cash services. Such an obligation is also important for emergency preparedness reasons.

Monitoring the work of the Executive Board

Part of the General Council's control was exercised in that the Chairperson and Vice Chairperson monitored the work of the Executive Board during the year, for example by exercising their right to attend formal and informal meetings of the Executive Board.

The General Council also scrutinised the Executive Board via its audit function. Transcendent Group AB will undertake this assignment on behalf of the General Council until 31 March 2019. The General Council annually establishes a plan for the audit function's work. During the year, Transcendent Group reported its audits of the Riksbank's governance model, Executive Board members' exercise of duty and compliance with the rules of procedure and a follow-up audit of the use of mobile telephony. The audit plan for



2018/19 also includes scrutiny of the governance of information security which will be reported in the first quarter of 2019.

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 both 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.

In addition, the Chairperson and Vice Chairperson have had regular contact with the Riksbank's internal audit department.

The members of the Executive Board participated regularly in General Council meetings and gave accounts of important decisions and events in the Riksbank's activities. For example, they described current monetary policy and the work on overseeing the stability of the financial system, including cybersecurity and security of information issues. 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. The Riksbank's work as a result of the new data protection regulation was also among the information items.

Moreover, the General Council received information on all the consultation responses adopted 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).

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 the economic and political situation in the United States as well as Sweden's neighbouring countries, the Riksbank's work on drafting a new strategic plan, the substantial developments on today's payment market both in Sweden and internationally as well as the Riksbank's work on the so-called e-krona and the situation in the United Kingdom and the country's withdrawal from the EU (Deputy Governor Sir Jon Cunliffe, Bank of England). In September, the General Council visited the old banknote paper-mill and museum, Tumba bruk, and received a guided tour of the museum's exhibition of the Riksbank's activities over 350 years.



Other information

In August, the General Council decided to submit a proposal to the Riksdag's nominating committee that Kerstin Hessius be appointed as a board member in Riksbankens Jubileumsfond (RJ) for a second mandate period of four years, as from 1 November 2018. The Riksdag decided in accordance with the proposal on 16 October 2018.

APPENDIX

Calculation of the Riksbank's allocation of profit 2018

1 Calculation of the Riksbank's transfer to the Treasury

SEK million

Adjustment of the year's result

Result for 2018	3,522
Less exchange gain	-826
<u>Plus price gain recorded on the balance sheet</u>	<u>3,764</u>
Adjusted result 2018	6,460

Calculation of average adjusted profit/loss

Adjusted result 2014	9,019
Adjusted result 2015	-1,588
Adjusted result 2016	8,851
Adjusted result 2017	1,272
Adjusted result 2018	6,460
Total adjusted result for the past five years	24,014

Average adjusted result for the past five years **4,803**

Calculation of transfer amount

80% of the average adjusted result	3,842
<u>Rounding off to SEK 100 million</u>	<u>-42</u>
Transfer 2018	3,800

2 Calculation of transfer to the Riksbank's contingency fund

Transfer to the Riksbank's contingency fund

Exchange gain	826
<u>10% of the average adjusted result</u>	<u>480</u>
Total	1,306



3 Calculation of transfer from the Riksbank's balancing account

Transfer from the Riksbank's balancing account

10 % of the average adjusted result	480
Price gain recorded on the balance sheet	-3,764
Rounding off of transfer	42
<u>Adjusted result less average result</u>	<u>1,658</u>
Total	-1,584