

FINANCIAL RISK AND INVESTMENT POLICY

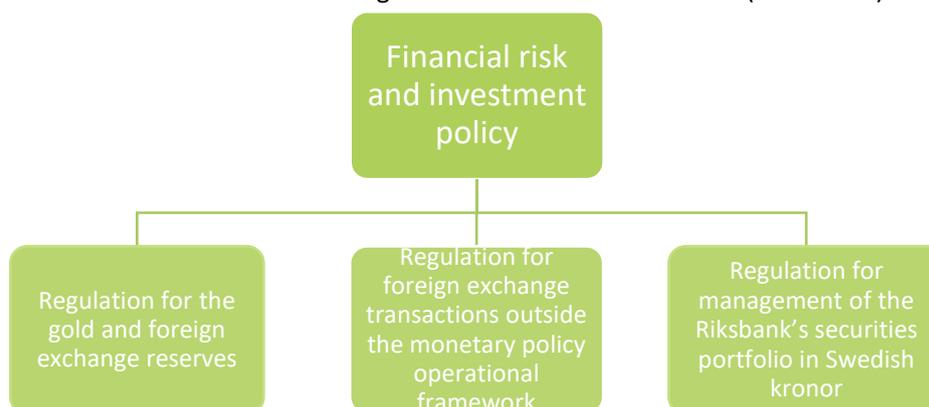
DECISION DATE: 18 September 2023
DECISION BY: Executive Board
RESPONSIBLE DEPARTMENT: Internal Control and Operational Support Department
RESPONSIBLE MANAGER: Chief Risk Officer
DNR: 2023-01055
INFORMATION CLASS: RB PUBLIC

Financial risk and investment policy

Content and purpose

This policy provides an overall framework for investments and how to handle the financial risks arising from the management of the Riksbank's financial assets and liabilities. The policy sets out the guiding principles for management. The purpose of this policy is to set the outer limits for the risk that the Riksbank is prepared to take with regard to the Riksbank's financial assets and liabilities.

The policy is supplemented with specific regulations on the allocation of responsibilities, risk management, authorised holdings, monitoring, measurement and reporting for each management area. The policy constitutes guidelines for asset management that the Executive Board shall adopt in accordance with Chapter 9, Section 2 of the Sveriges Riksbank Act (2022:1568).



Target group

Employees directly or indirectly linked to the management of the Riksbank's financial assets and liabilities.

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1 Introduction

This policy with supplementary regulations describes the minimum requirements for risk management and controls in connection with the management of the Riksbank's financial assets and liabilities.

- The limits and risk mandates set out in this policy, as well as in underlying regulations, may need to be deviated from in connection with policy measures such as foreign exchange interventions, liquidity support in foreign currencies and transactions on behalf of the Swedish state.
- This policy does not apply to general and specific liquidity support under Chapter 3. Sections 6 and 7 of the Sveriges Riksbank Act (2022:1568). The financial risks that the Riksbank is exposed to in connection with such liquidity support shall, however, be monitored in accordance with the principles described in the regulations for the gold and foreign exchange reserves. The risks shall also be evaluated in the manner set out in 3.3. of this policy.
- For credit issued by the Riksbank which is not subject to the regulations governing this policy and which does not relate to credit types referred to in the above paragraph, such as intraday credit, point 2.3 applies.

1.1 Underlying regulatory framework

- Sveriges Riksbank Act (2022:1568)
- The Rules of Procedure for Sveriges Riksbank.

1.2 Definitions

- Risk is uncertainty about future events and their negative effects on the Riksbank's operations, financial result or reputation.
- The Riksbank's financial risks consist of credit, liquidity and market risk. These risk types are defined in more detail in the regulations for the gold and foreign exchange reserves.
- Financial risk management refers to the identification, measurement, monitoring and reporting of risks.

2 Roles and responsibilities

- 2.1 The heads of department are responsible for ensuring that the financial risks in their own department's operations are continuously identified, measured, monitored and reported to the Executive Board, the Riksbank's Management Group and the Chief Risk Officer.
- Infringements of limits and regulations shall be promptly reported to the person who established them.
 - The overall level of risk and the utilisation of credit, liquidity and market risk mandates shall be reported monthly.

- The Head of the Markets Department (AFM) will report to the Executive Board every four months on risk exposures broken down by credit, liquidity and market risk, as well as on how the deviation mandate for the gold and foreign exchange reserves has been utilised. AFM is responsible for reporting the risks, both for the management of the Riksbank's financial assets and liabilities as a whole and separately for the management of the gold and foreign exchange reserves, as well as for the Riksbank's securities portfolio in Swedish kronor.
 - The Head of AFM is responsible for monitoring management of the foreign exchange reserves once a year based on consideration being shown for sustainability in the choice of assets.
- 2.2 The Head of AFM is responsible for ensuring that the assets in the foreign exchange reserves can be converted into liquid assets, if necessary, within the time frame required to fulfil the Riksbank's tasks and obligations at any given time.
- 2.3 According to the Riksbank's Rules of Procedure, AFM is responsible for establishing regulations on the collateral that the Riksbank shall accept for intraday lending in RIX and in monetary policy lending. These regulations shall at least specify:
- eligible asset types
 - permitted categories of issuers of such assets
 - credit rating requirements
 - eligible countries
 - eligible currencies
 - haircuts
 - forms of collateral provision.
- 2.4 The Chief Risk Officer shall be informed immediately of any circumstances that are relevant to the control of financial risks in the management of the Riksbank's financial assets and liabilities. The head of department and the head of the division within AFM that is responsible for monitoring performance and the ongoing control and assessment of risks, in accordance with the Riksbank's Rules of Procedure, are responsible for ensuring that this is done.
- 2.5 According to the Riksbank's Rules of Procedure, the Chief Risk Officer is responsible for preparing the Executive Board's decisions on the *Regulation for the gold and foreign exchange reserves*. This regulation shall at least specify:
- the design of the policy portfolio
 - permitted countries
 - permitted currencies
 - permitted asset types
 - permitted issuers
 - permitted counterparties
 - permitted deviations from the policy portfolio

- limits for credit, market and liquidity risk.
- 2.6 According to the Riksbank's Rules of Procedure, the Chief Risk Officer is responsible for preparing the Executive Board's decisions on the *Regulation for foreign exchange transactions outside the monetary policy operational framework*. This regulation shall at least specify:
- The forms of foreign exchange transactions outside the monetary policy operational framework, in the context of RIX and monetary policy instruments.
- 2.7 In accordance with the Riksbank's Rules of Procedure, the Chief Risk Officer is responsible for preparing the Executive Board's decision on the *Regulation for the management of the Riksbank's securities portfolio in Swedish kronor*. These regulations shall at least specify:
- The framework for managing the Riksbank's securities holdings in Swedish kronor.
- 2.8 According to the Riksbank's Rules of Procedure, the Chief Risk Officer is responsible for independent monitoring and reporting of the Riksbank's financial risks.
- The Chief Risk Officer shall decide on the method for financial asset and liability valuation.
 - The Chief Risk Officer shall decide on the methods used for the calculation, valuation and consolidation of the financial risks.
 - The Chief Risk Officer shall submit a four-monthly report to the Executive Board on the Chief Risk Officer's assessment of the financial risks.
 - The Chief Risk Officer shall decide on the routines for reporting limit infringements.
 - The Chief Risk Officer shall, at least annually, propose revisions to this policy and the supplementary regulations, inform the relevant divisions of the Executive Board's decisions and ensure that the decisions, the policy and the supplementary regulations, are kept together and easily accessible.
- 2.9 Decisions on deviations from this policy shall be taken by the Executive Board.

3 Guidelines for the management of the Riksbank's assets and liabilities

3.1. Basic principles

- Management of the Riksbank's financial assets and liabilities shall be conducted efficiently and in such a way that is judged not to damage the reputation of the Riksbank.
- The management of the Riksbank's financial assets and liabilities may be carried out by the Riksbank itself, or by another institution (external manager), provided that the latter is approved in the Riksbank's application procedure and undertakes to comply with the requirements of this policy and the supplementary regulations.

- Transactions and business relationships shall be documented in the manner and form that is customary in the respective market. The division of responsibility between the parties shall be reasonably balanced with regard to the status of the Riksbank as a central bank and the documentation shall be adjudged to function in accordance with the applicable national legislation.

3.2. Guidelines for management of the gold and foreign exchange reserves

- The gold- and the foreign exchange reserves are part of the Riksbank's financial assets and their management should contribute to safeguarding the Riksbank's financial independence.¹
- The Financial Stability Department (AFS) and the Monetary Policy Department (APP) shall assess at least annually, or as necessary, the size and composition of the foreign currency that the Riksbank needs to hold for contingency purposes in order to be able to perform its tasks and obligations.
- The assessment of the Riksbank's foreign currency contingency requirements shall be translated into a composition of the gold and foreign exchange reserves referred to as the policy portfolio. The policy portfolio is defined by AFM and forms a starting point for the management of the gold and foreign exchange reserves. The currency composition of the policy portfolio, excluding the gold reserves, shall correspond to the currency composition in the immediate paragraph above and shall be defined annually in the *Regulation for the gold and foreign exchange reserves*. The management may deviate from the policy portfolio according to the deviation mandates defined in the *Regulation for the gold and foreign exchange reserves*.
- The Markets Department (AFM) shall, at least once a year, or when necessary, prepare the Executive Board's decisions on what proportion of the FX reserves shall be protected against changes in market value that arise via changes in the value of the krona against other currencies (the currency hedging ratio).
- Taking into account the requirements of the Riksbank's mandate, the management shall pay particular attention to sustainability in the selection of assets in the foreign exchange reserves.²

3.3. Risk management

- The management of the Riksbank's financial risks shall be aimed at limiting potential losses on the Riksbank's financial assets and liabilities so that the Riksbank can always perform its tasks and obligations.³
- The Basel Committee's principles shall guide the Riksbank's management and curtailment of financial risks.
- All financial risks shall be quantified using the measurements that are most appropriate for each risk type. The principles of these measures are defined in the *Regulation for the gold and foreign exchange reserves*.

¹ Chapter 9, Section 1, Sveriges Riksbank Act.

² Chapter 9, Section 1, Sveriges Riksbank Act.

³ Chapter 9, Section 1, Sveriges Riksbank Act.

- Stress tests and scenario analyses shall be used to identify high-risk areas and concentration risks, and to evaluate the combined effects of financial stress.
- Limits shall be used where applicable to curtail the financial risks. Limits and who adopts them shall be made clear in supplementary regulations.
- The Riksbank's overall risk limit for the assets in the gold and foreign exchange reserves shall be determined annually by the Executive Board in the *Regulation for the gold and foreign exchange reserves*.
- An application procedure shall be carried out for decisions involving changes in the management of the Riksbank's assets and liabilities. The forms for this are decided by the Chief Risk Officer and are described in the *Regulation for application procedure*.

4 Compliance

The Heads of Department concerned are responsible for the implementation and enforcement of this policy within their respective departments. The Risk Division is responsible for monitoring compliance and reporting it to the Executive Board.

5 Entry into force and transitional provisions

This policy enters into force on 18 September 2023 and replaces the *Financial risk and investment policy* adopted on 19 December 2022 (dnr 2022-01389).

5.1 Revision history

Last reviewed	Version	Comments regarding revisions
21/10/2021	1.0	New template
21/10/2022	1.0	New template (accessibility-adapted)
10/11/2022	2.0	New version
18/09/2023	3.0	Adapted for the hedging ratio of the FX reserves