

INVESTMENT POLICY FOR THE GOLD AND FOREIGN EXCHANGE RESERVES

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Investment policy for the gold and foreign exchange reserves

Content and purpose

This policy describes the principles that govern the management of the Riksbank's gold and foreign exchange reserves. This policy has the following purposes.

1. To determine how the Riksbank should manage the gold and foreign exchange reserves, and to make it clear how responsibility for management should be allocated.
2. To determine how decisions on the strategic allocation of the gold and foreign exchange reserves should be prepared.

The policy also establishes such guidelines for the management of the gold and foreign exchange reserves as the Executive Board shall decide on in accordance with Chapter 9, Section 2 of the Sveriges Riksbank Act (2022:1568). Further guidelines for asset management can be found in the Riksbank's risk policy.

Target group

Those members of staff in the *Markets Department* who are directly or indirectly involved in the management of the gold and foreign exchange reserves.

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1 Introduction

The Sveriges Riksbank Act sets out the activities that the Riksbank may conduct and the powers that the Riksbank has. The Sveriges Riksbank Act contains provisions pertaining to how the Riksbank should manage its assets. According to Chapter 9, Section 1 of the Sveriges Riksbank Act, the Riksbank shall manage its assets in order to fulfil its tasks and powers and generate sufficient income to finance its activities. The assets shall be managed with low risk and take into account the Riksbank's status as a central bank. In the management, particular weight shall be attached to how sustainable development can be promoted without the Riksbank compromising the requirements specified above.

According to Chapter 9, Section 2 of the Sveriges Riksbank Act, the Executive Board shall decide on guidelines for asset management. These guidelines are formulated within the framework of Chapter 9, Section 1 of the Sveriges Riksbank Act. This policy describes the guidelines that apply in connection with the management of the Riksbank's gold and foreign exchange reserves.

1.1 Underlying regulatory framework

The following laws, regulations and policies govern the Riksbank's investments in gold and foreign exchange.

- Sveriges Riksbank Act (2022:1568).
- Rules of Procedure for Sveriges Riksbank (the Riksbank's Rules of Procedure).
- The Riksbank's financial risk policy.

1.2 Definitions

The following definitions are used in this policy.

- Foreign exchange reserves: foreign currency and assets in foreign currency that the Riksbank shall hold in accordance with Chapter 10, Article 1 of the Sveriges Riksbank Act.
- Gold reserve: assets in gold held by the Riksbank to fulfil its mandate and powers.
- Gross total return: the sum of interest income and changes in market value, including exchange rate effects, of the Riksbank's financial assets, converted into Swedish kronor.
- Net total return: gross total return less the cost of the Riksbank's financial liabilities, converted into Swedish kronor.

2 Roles and responsibilities

The *Executive Board* decides on guidelines for the Riksbank's asset management¹ and on the strategic allocation of the gold and foreign exchange reserves.

The *Markets Department* is responsible for

- preparing the Executive Board's fundamental decisions regarding the management of financial assets and liabilities included in the Riksbank's gold and foreign exchange reserves, and
- preparing and implementing the management of financial assets and liabilities included in the Riksbank's gold and foreign exchange reserves in accordance with the policies, rules and decisions of the Executive Board.²

The *Chief Risk Officer* is responsible for the independent control and reporting of the Riksbank's financial risks as specified in the Riksbank's financial risk policy.

Further rules on roles and responsibilities in the management of the gold and foreign exchange reserves can be found in the Riksbank's financial risk policy.

3 Basic principles for management of the gold and foreign exchange reserves

3.1 Basic principles for management of the gold and foreign exchange reserves.

- The management of the Riksbank's financial assets shall be in accordance with Chapter 9, Article 1 of the Sveriges Riksbank Act and be conducted efficiently.
- The management of the gold and foreign exchange reserves contributes to the Riksbank's ability to fund itself when the net total return is positive.
- 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 taking into consideration the status of the Riksbank as a central bank and the documentation shall be adjudged to function in accordance with Swedish law.

3.2 The Riksbank's management of the gold and foreign exchange reserves is furthermore subject to the underlying regulatory framework, including the Riksbank's financial risk policy.

¹ See Chapter 9, Section 2 of the Sveriges Riksbank Act.

² See Article 5.2.1 of the Riksbank's Rules of Procedure.

4 Management of the gold and foreign currency reserve

4.1 General provisions on management

The Riksbank's gold and foreign exchange reserves are managed on the basis of the Riksbank's contingency needs. Contingency needs are assessed by the *Financial Stability Division* and the *Monetary Policy Division* in a separate procedure (see Section 4.3 below for details).

The framework for the operational management of the gold and foreign exchange reserves is decided by the Executive Board in a strategic allocation. Among other things, this strategic allocation involves a trade-off between preparedness, return, risk and sustainability. The *Markets Division* prepares and submits strategic allocation proposals to the Executive Board in accordance with this policy. The *Markets Division* may make various proposals for trade-offs and compositions that fulfil contingency needs.

4.2 The gold reserve

The Riksbank's gold reserve is stored by the central banks of the United Kingdom (Bank of England), Canada (Bank of Canada), the United States (Federal Reserve Bank of New York) and Switzerland (Swiss National Bank), as well as at the Riksbank's own depot in Sweden.

According to the Sveriges Riksbank Act, the gold reserve can fulfil a function in connection with the Riksbank's participation in international payment systems.³ Under the Sveriges Riksbank Act, in certain cases, the gold reserve can also be used to pay for and conduct credit transactions with other central banks, the BIS and the EU medium-term financial assistance facility.⁴ The gold reserve can also fulfil a payment reserve function.

The Riksbank can lend gold in order to increase the return on the gold reserve (so-called gold deposits).⁵ The management of the gold reserve is decided by the Executive Board in the strategic allocation.

³ See Chapter 6, Section 6 of the Sveriges Riksbank Act.

⁴ See Chapter 10, Sections 6 and 7 of the Sveriges Riksbank Act.

⁵ See Chapter 6, Section 6 of the Sveriges Riksbank Act. The amount of physical gold may vary marginally because of this.

The management of the gold reserve may include such assets and financial instruments as are specified in the *Annex* containing investment rules, etc. to this policy.

4.3 The foreign exchange reserves

The composition of the foreign exchange reserves shall take into account the Riksbank's contingency needs so that the assets in the foreign exchange reserves can be used, if necessary, to provide liquidity support, for example to banks operating in Sweden, intervene on the foreign exchange market, and fulfil Sweden's commitment in the IMF's international trading system for Special Drawing Rights (SDRs).⁶

The Riksbank's estimated contingency need for foreign currency provides the starting point for the design and management of the foreign exchange reserves. It forms the basis for the assessment of the size of the foreign exchange reserves and for the selection of currencies and assets included. From a contingency perspective, these assets need to be sufficiently liquid and carry limited credit risk and market risk.⁷ Contingency needs are assessed by the *Financial Stability Division* and the *Monetary Policy Division* in a separate procedure.

The foreign exchange reserves shall meet the liquidity requirements defined in the Riksbank's financial risk policy.

The *Markets Division* may propose different trade-offs and compositions that fulfil the contingency needs in the strategic allocation proposal.

The management of the foreign exchange reserves may include such assets and financial instruments as are specified in the *Annex* containing investment rules etc. to this policy.

4.4 Strategic allocation of the gold and foreign exchange reserves

Once a year, or whenever necessary, the Executive Board decides on the strategic allocation of the gold and foreign exchange reserves, which is to say the composition of the gold and foreign exchange reserves. The strategic allocation also analyses the Riksbank's long-term need for earnings and the build-up of equity. However, the

⁶ See Government Bill 2021/22:41, p. 156. The foreign exchange reserves can also be used for certain other purposes, see for example Chapter 2, Section 4, fourth paragraph of the Sveriges Riksbank Act. Since January 2023, new lending to the IMF has been financed by borrowing from the Swedish National Debt Office. The commitment relating to Special Drawing Rights (SDRs), where the Riksbank can be required under the IMF Articles of Agreement to purchase SDRs against foreign currency, continues to be managed by drawing funds from the foreign exchange reserves.

⁷ This applies to the risk from a contingency perspective, where the risk is measured in foreign currency, as the value of the foreign exchange reserves measured in Swedish kronor is irrelevant in this context.

strategic allocation decision only relates to the composition of the gold and foreign exchange reserves.

The *Markets Division* is responsible for preparing proposals for Executive Board decisions on the strategic allocation. The *Markets Division* is responsible for implementing the management of the gold and foreign exchange reserves in accordance with the Executive Board's decision on the strategic allocation.

The proposed strategic allocation for the gold and foreign exchange reserves is based on a three-step analysis:

- In step one, the main and alternative asset price scenarios proposed for use in the process are reviewed. Based on the main scenarios, an overview is presented of the expected development of the Riksbank's total balance sheet, earnings requirement and build-up of equity.
- In step two, an initial allocation of currencies and assets is developed for the gold and foreign exchange reserves. This allocation only considers contingency currencies to find the composition that is expected to provide the best conditions for achieving the desired long-term earnings, risk and equity performance, given the different scenarios from step one.
- In step three, the asset allocation of the gold and foreign exchange reserves is optimised with a focus on return given the desired level of risk, based on the analysis in step two. This involves analysing multi-currency and multi-asset class portfolios based on market pricing and a shorter time horizon (less than one year).

Step three forms the basis for the proposed decision on the strategic allocation. The proposed decision (step three) on the strategic allocation should include proposals on the following.

- How large the gold reserve shall be (by weight).
- How the foreign exchange reserves
 - shall be allocated to different currencies including currency hedging,
 - shall be allocated to different asset classes, and
 - interest rate risk (duration) by currency.
- How to take sustainability into account.
- How to delegate the implementation of the decision, including rebalancing rules for the foreign exchange reserves and whether sub-delegation is allowed.
- How the risk in the strategic allocation has been assessed in accordance with the Riksbank's financial risk policy and the Sveriges Riksbank Act.
- Tactical mandate, including allocation of responsibilities and applicable limits.
- Other factors as directed by the Executive Board or as deemed relevant.

The purpose of the tactical mandate is to marginally increase earnings and to maintain market knowledge and operational readiness.

The proposed decision must indicate the expected return and risk resulting from the strategic allocation. It must also indicate the level of return and risk over different time horizons. The return and risk should be presented both from a balance sheet perspective (net total return) and for the gold and foreign exchange reserves separately (gross total return). This can be described through quantitative risk measures and scenario-based stress tests.

4.5 Follow-up and reporting

The Head of the *Markets Department* is responsible for continually following up the performance and risk of the gold and foreign exchange reserves, as well as compliance in management. This follow-up shall be reported to the Executive Board on a monthly and four-monthly basis.

The report shall cover the gold and foreign exchange reserves as a whole, including a specific account of how the tactical mandate delegated to the Markets Department by the Executive Board has been used. The tactical mandate shall be evaluated by comparing the yield and risk of the gold and foreign exchange reserves with a set benchmark, which shall reflect the strategic allocation decided by the Executive Board.

Every four months, the report shall also include a comparison of the yield and risk of the gold and foreign exchange reserves with the assumptions on which the Executive Board's strategic allocation decision was based. The report shall describe how duration, assets other than government bonds and currencies other than contingency currencies have contributed to the yield and risk in the strategic allocation. This will be achieved by comparing the yield and risk of the strategic allocation with a composition consisting of government bonds in the contingency currencies.

The Head of the *Markets Department* shall annually review how sustainability is taken into account in the gold and foreign exchange reserves in accordance with the Riksbank's sustainability strategy.⁸

4.6 Infringements

Infringements of the rules in the Annex containing investment rules etc. to this policy shall be reported by the Head of the *Markets Department* in accordance with the Riksbank's financial risk policy.

⁸ Sustainability strategy for the Riksbank, 16 December 2020.

5 Prohibition of monetary financing

The Sveriges Riksbank Act and the Treaty on the Functioning of the European Union (TFEU) prohibit so-called monetary financing. The prohibition means that the Riksbank may not grant credit to EU institutions and other bodies governed by public law or public undertakings in the Member States. Nor may the Riksbank acquire debt instruments from them on the so-called primary market.⁹ The details of the prohibition are specified in a regulation which also sets out certain exceptions.¹⁰ For example, the Riksbank is authorised to purchase certain securities on the primary market from certain participants in another Member State, if the purchase is made solely for the purpose of managing the foreign exchange reserves.

The prohibition of monetary financing shall be taken into account in all gold and foreign exchange reserve investments.

6 Borrowing of foreign currency by the Swedish National Debt Office

The Executive Board may decide to borrow foreign currency to maintain the foreign exchange reserves.¹¹ If the Executive Board decides on borrowing, the Swedish National Debt Office shall raise loans for the State for this purpose.¹² The Riksbank and the Swedish National Debt Office have entered into an agreement that lays down the forms for the authorities' cooperation with regard to borrowing for the foreign exchange reserves.^{13 14}

7 Hedging of foreign exchange reserves

The foreign exchange exposure of the foreign exchange reserves can be reduced by hedging. Hedging has an impact on risk, yield and contingency and is a factor in the trade-offs to be made under the management principles for the gold and foreign exchange reserves. Hedging decisions shall be taken by the Executive Board as part of the strategic allocation decision but may also be decided separately if necessary.¹⁵ A separate decision may be taken in conjunction with or independently of the strategic

⁹ See Chapter 1, Section 6 of the Sveriges Riksbank Act and Article 123 of the Treaty on the Functioning of the European Union.

¹⁰ See Article 2.2 of Council Regulation (EC) No 3603/93.

¹¹ See Chapter 10, Sections 2 and 3 of the Sveriges Riksbank Act.

¹² See Chapter 10, Section 4 of the Sveriges Riksbank Act.

¹³ Överenskommelse om samarbete avseende upplåning till Riksbankens valutareserv [Agreement on cooperation regarding borrowing for the Riksbank's foreign exchange reserves], 1 February 2024 (DNR 2024-00188).

¹⁴ According to section 5.2.1 of the Riksbank's Rules of Procedure, the *Markets Department* is responsible for the preparation of borrowing in foreign currency for the Riksbank's foreign exchange reserves, etc.

¹⁵ Decision on hedging part of the foreign exchange reserves, 19 September 2023 (DNR 2023-00863)

allocation decision.

8 Compliance

The Head of the *Markets Division* is responsible for ensuring compliance with this policy by verifying that the basis for strategic allocation decisions, follow-up and reporting is in accordance with this policy.

9 Entry into force

This policy will enter into force on 19 February 2025.