

DECISION

DATE: 25 October 2023
DEPARTMENT: Markets Department and Financial Stability Department
REFERENCE: Andreas Blanck, Shiba Faiqi, Denise Hansson, Jan Schüllerqvist and Per Åsberg-Sommar
DNR: 2023-01188

Special deposit and lending facilities at the Riksbank for central counterparties

The Riksbank's decision

The Riksbank decides to

- offer central counterparties that clear in Swedish kronor and are participants in the RIX-RTGS payment system the opportunity to access overnight lending at the Riksbank by establishing a special lending facility,
- set the interest rate on the special lending facility, in the case of credit against the Primary collateral volume, at the current Lending rate,
- set the interest rate on the special lending facility, in the case of credit against the Secondary collateral volume, at the current Liquidity facility rate,
- replace the existing deposit facility currently offered to central counterparties that clear in Swedish kronor and are participants in the RIX-RTGS payment system with a special deposit facility,
- set the interest rate for the special deposit facility at the current deposit rate, and
- delegate to the Head of the Markets Department (AFM), after consultation with the Head of the Monetary Policy Department (APP), the Head of the Financial Stability Department (AFS) and the Head of the Payments Department (AFB), with the right for each department head to

delegate to another person, the right to decide on the more detailed design of such a deposit and lending facility.

Grounds for the decision

Motives for the introduction of the lending facility

The role of a central counterparty (CCP) is to act as an intermediary in various types of financial transactions and guarantee obligations in the event of a default of one or more participants. Following the global financial crisis, several reforms and regulatory frameworks have been introduced that either require or provide obvious incentives to clear standardised derivatives via CCPs. As a result, CCPs have become increasingly important for risk management in financial markets and, as a result, they are deemed to be systemically important participants in the financial system.

Due to the links between CCPs and most systemically important markets and financial agents, they are subject to strict supervision and regulation. For example, they need to meet strict requirements to ensure a certain size and composition of their liquidity buffers. However, there are several circumstances that may make it difficult for a CCP to manage sudden liquidity needs via market solutions, i.e. to convert its liquidity buffer sufficiently quickly into cash.

This is partly due to the time aspect, that a CCP may need access to cash as early as the same day that the liquidity need arises, and partly because the existing market solutions risk not working well enough to meet this need. The need for liquidity can probably also coincide with stressed market conditions, which is a further aggravating circumstance. If a CCP experiences an unplanned liquidity need, a lack of functionality in repo markets and stressed market conditions can mean that market solutions are either inapplicable, or if applicable, they disrupt the interest rate setting on the fixed income market that the Riksbank wants to achieve through its monetary policy measures.

The Riksbank implements monetary policy mainly by offering its monetary policy counterparties standing overnight deposit and lending facilities. In this way, the Riksbank steers the shortest money market rate, the overnight rate, towards the current level of the policy rate. That is, the level that is judged to be compatible with the attainment of the inflation target.

One way of preventing disturbances in the monetary policy transmission mechanism and also safeguarding financial stability is for the Riksbank to offer a special lending facility to CCPs. This means that a CCP can, if necessary, convert securities into cash quickly and in a way that does not interfere with the interest rate setting the Riksbank wants to achieve. Given this, the Riksbank considers it

appropriate to offer CCPs the opportunity to gain access to overnight lending in the Riksbank. This will be done by setting up a special lending facility.

Design of the facilities

The lending facility will be offered for monetary policy purposes, with the support of Chapter 2, Section 4 of the Sveriges Riksbank Act (2022:1568), to maintain effective interest rate control. The interest-rate setting should therefore be consistent with the interest rate setting on the monetary policy instruments the Riksbank offers to its monetary policy counterparties.

The interest rate on credit against the primary collateral volume shall therefore correspond to the lending rate calculated for the Riksbank's standing lending facility, the Lending rate, and the interest rate on credit against the secondary collateral volume shall correspond to the lending rate calculated for the Riksbank's supplementary liquidity facility, the Liquidity facility rate. This corresponds to the interest rates and conditions at which the Riksbank is at all times prepared to offer overnight credit to its monetary policy counterparties.

Since November 2018, the Riksbank has offered CCPs, for monetary policy purposes, the opportunity to access overnight deposits with the Riksbank through a deposit facility (DNR: 2018-00818). At the same time as the Riksbank is establishing a special lending facility for CCPs, it is therefore appropriate that the Riksbank also reviews the requirements and conditions at which CCPs are offered overnight deposits in the Riksbank. The interest rate currently applied on the deposit facility for CCPs deviates from the interest rate applied by the Riksbank for the standing deposit facility available to monetary policy counterparties. Given that the Riksbank offers CCPs a deposit facility for monetary policy purposes, it is appropriate that the interest rate on deposits from CCPs be adjusted to correspond to the deposit rate calculated for the deposit facility available to monetary policy counterparties.

As a consequence of the fact that it is considered appropriate to make several adjustments to the terms and conditions applicable to the CCP deposit facility, it is appropriate to replace it with a new, special deposit facility, to which the proposed conditions and requirements apply. The Riksbank is doing this with the support of Chapter 2, Section 4 of the Sveriges Riksbank Act.

Assessment of proportionality

In the light of the principle of proportionality, and that the Riksbank shall apply equal treatment, it is appropriate that the Riksbank limit lending to relevant agents. The deposit and lending facilities should therefore be designed in such a way that only CCPs that clear in Swedish kronor and that are participants in RIX-

RTGS have the possibility to use them. Given that CCPs are considered to be systemically important agents, it is also appropriate to impose certain reporting requirements on CCPs that have access to the facilities, including transaction reporting. This is to increase the Riksbank's ability to monitor interest rate setting and developments in the money markets in Swedish kronor.

The Riksbank assesses that the establishment of the special deposit and lending facilities for CCPs will only entail lower risk and cost increases for the Riksbank. This is because, for example, the Riksbank does not need to create any new technical solutions to implement the decision. As the establishment of the facilities contributes to creating more resilient financial markets, the change is also considered to be beneficial for monetary policy counterparties and other participants active in financial markets. The potential disadvantages these agents may experience in cases where a CCP chooses to turn to the Riksbank to place or borrow liquidity, instead of the market, are considered negligible.

Delegation to the Head of the Markets Department

It is incumbent on the Head of the Markets Department (AFM), after consultation with the Head of the Monetary Policy Department (APP), the Head of the Financial Stability Department (AFS) and the Head of the Payments Department (AFB), with the right for each department head to delegate to another person, to decide on the more detailed design of the deposit and lending facilities.

The decision has been taken by the Executive Board (Riksbank Governor Erik Thedéen, First Deputy Governor Anna Breman and Deputy Governors Per Jansson and Martin Flodén) following a presentation by Denise Hansson. Heidi Elmér has participated in the final processing of the matter.