

Regulation



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RESPONSIBLE DEPARTMENT: General Secretariat/Risk Division
RESPONSIBLE MANAGER: Chief Risk Officer
MANAGEMENT CLASS: RB PUBLIC

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Regulations for the gold and foreign currency reserve

This regulation concerns the management of the gold and foreign currency reserve. It applies to the choice of method and management of financial risks and investments, as well as a mandate for investments. Management of the gold and foreign currency reserve shall contribute to safeguarding the Riksbank's financial independence. The reserve's market risk may therefore not exceed the policy portfolio's market risk, with the exception of minor deviations considered necessary by the Chief Risk Officer. In addition, the long-term returns on the gold and foreign currency reserve shall exceed the returns on the policy portfolio.

1 Introduction

1.1 Application.

- 1.1.1 This regulation covers the gold and foreign currency reserve and the foreign exchange loans taken from the Swedish National Debt Office to finance parts of the reserve.
- 1.1.2 The term foreign currency reserve refers to the Riksbank's bank balance and debt securities in foreign currency, as well as to accrued incomes, derivative instruments and repurchase agreements associated with these.
- 1.1.3 The term gold reserve refers to the Riksbank's holding of physical gold and derivative instruments with gold as the underlying asset.
- 1.1.4 The regulations supplement the Financial risk and investment policy.
- 1.1.5 The regulations are supplemented where appropriate by rules adopted by the Head of the Markets Department and the Chief Risk Officer in line with their areas of responsibility.

2 Investment regulations

2.1 Introduction.

2.1.1 The purpose of the regulations in this section is to establish the basic principles for permitted investments.

2.1.2 Investments may only be made when the type of asset, type of instrument, currency, country, issuer, counterparty or external manager have been examined and approved in accordance with the established drafting process. The principles governing the drafting process are presented in the *regulations for application procedure*.

2.1.3 Before an instrument can be approved, established methods for valuation and risk measurement must be available. It must also be possible to record the type of instrument in accordance with the accounting principles stipulated by the Sveriges Riksbank Act.

2.2 Permitted countries.

2.2.1 Investments may only be made in countries that are members of the OECD.

2.3 Permitted currencies.

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2.4 Permitted asset types.

2.4.1 Debt securities.

2.4.2 Cash balance.

2.4.3 Derivatives.

2.4.4 Gold.

2.5 Permitted issuers.

2.5.1 Issuers shall have their legal domicile in an approved country.

2.5.2 An issuer of debt securities shall have an external credit rating no lower than BBB- or equivalent. The requirement for issuers regarding an external credit rating can also be met if the issuer's obligations are guaranteed by another party that has such a credit rating. Such a guarantee must be designed so that the credit risk is not deemed to be greater than it would be in a situation with direct exposure to the guarantor.

2.6 Permitted counterparties.

2.6.1 A counterparty is a party that the Riksbank enters into an agreement with.

2.6.2 Issuers shall have their legal domicile in an approved country.

2.6.3 Counterparties, with the exception of the BIS and the ECB, shall have an external credit rating no lower than BBB- or equivalent.



- 2.6.4 Counterparties, with the exception of the BIS and the ECB, shall have an external credit rating no lower than A-, or equivalent, if the counterparty:
- 2.6.4.1 handles payments on behalf of the Riksbank,
 - 2.6.4.2 is used for the clearing of market-traded and listed derivatives on behalf of the Riksbank,
 - 2.6.4.3 performs securities lending on behalf of the Riksbank,
 - 2.6.4.4 is a custodial bank, which is to say it holds securities on behalf of the Riksbank.
- 2.6.5 The requirement for counterparties regarding an external credit rating can be met if a counterparty's obligations are guaranteed by another party that has such a credit rating. Such a guarantee must be designed so that the credit risk is not deemed to be greater than it would be in a situation with direct exposure to the guarantor. The requirement for counterparties regarding an external credit rating with regard to the purchase and sale of securities for cash on delivery can also be met if the counterparty's parent company meets this requirement.
- 2.6.6 Credit institutions and companies that conduct securities business must be under the prudential supervision of a public authority or other competent body in the home country. Prudential supervision means that a competent authority issues special authorisations for the entities under its supervision in accordance with established suitability criteria and then continually oversees the financial status of these entities as well as the maintenance of the permit criteria (where appropriate at group level).
- 2.6.7 Securities held by a custodial bank shall be held in such a way that the Riksbank has a right of reclamation to the securities in accordance with the valid competition legislation in the event of the bankruptcy of the custodial bank. Securities may be held in securities accounts that are used for several customers, so-called pooled accounts or omnibus accounts.
- 2.6.7.1 In general, loans should not occur, but in order to facilitate the administration of financial transactions at the Riksbank's custodial banks and correspondent banks, loans may be raised to a limited extent.
- 2.6.8 The Riksbank's securities holdings shall always be divided between at least two custodial banks in such a way that the Riksbank can always perform its statutory tasks and meet its commitments.
- 2.6.9 Credit risks connected with repo transactions shall be restricted by ensuring that the securities included are approved for investment in the management of the gold and foreign currency reserve or the Riksbank's securities portfolio in Swedish kronor.
- 2.6.10 In cases where securities lending is performed by a counterparty on behalf of the Riksbank, a so-called lending agent, the credit risk shall be limited by requiring the lending agent to have a minimum credit rating corresponding to A-. The borrower of the security and the counterparty for reinvestment shall have a minimum credit rating corresponding to BBB-. Credit risk shall also be limited by requiring collateral

in the form of assets that are approved as collateral for the Riksbank's external securities lending.

2.6.10.1 The lack of a credit rating may be accepted for a borrower or a counterparty for reinvestment if the lending agent can give the Riksbank an applicable indemnity guarantee.

2.7 Restrictions for credit institutions and Swedish companies under the supervision of Finansinspektionen.

2.7.1 The Riksbank shall not have any unsecured exposures to Swedish credit institutions (for exemptions, see 2.7.1.1). It follows on from this that the Swedish credit institutions under the supervision of Finansinspektionen cannot be counterparties in derivative contracts issued by actors other than an authorised marketplace. Nor can they be recipients of deposits.

2.7.1.1 However, credit institutions under the supervision of Finansinspektionen are permitted as counterparties in FX transactions.

2.8 Responsibility.

2.8.1 For those assets managed by the Markets Department, the Head of the Department shall, in accordance with this regulation, decide on each of the points below:

2.8.1.1 which countries' government securities may be used,

2.8.1.2 which currencies may be used,

2.8.1.3 which instrument types may be used,

2.8.1.4 which issuers may be used,

2.8.1.5 which counterparties may be used,

2.8.1.6 which external managers may be used and to what extent (providing that the decision does not relate to matters concerning strategic issues outside the operational plan adopted by the Executive Board),

2.8.1.7 securities lending performed by another on behalf of the Riksbank,

2.8.1.8 which price sources shall be used for valuation.

2.9 Documentation of decisions.

2.9.1 All decisions in accordance with the regulations in this document shall be documented, in connection with which the following shall particularly apply:

2.9.1.1 approved issuers shall be entered on a list with a specification of the instrument types approved for each issuer and the applicable limits,

2.9.1.2 approved counterparties shall be entered on a list with a specification of the kind of transactions that can be performed with the counterparty and the limits that apply,

2.9.1.3 approved instrument types shall be entered on a list with a specification of any restrictions that apply to their use,

2.9.1.4 approved currencies shall be entered on a list with a specification of any restrictions.

2.9.2 The Head of the Markets Department shall be responsible for ensuring that the lists mentioned in points 2.9.1.1 - 2.9.1.4 are kept up to date and easily accessible.

3 The policy portfolio

3.1 According to the *financial risk and investment policy*, the necessary size and composition of the foreign currency reserve will be determined annually or when necessary. The currency composition and distribution shall be reflected in a policy portfolio.

3.2 The gold reserve shall be 125.7 tonnes.

3.2.1 The gold shall be stored in five different depots, of which:

- 62.2 tonnes with the Bank of England,
- 33.2 tonnes with the Bank of Canada,
- 13.1 tonnes with the Federal Reserve Bank of New York,
- 2.0 tonnes with the Swiss National Bank,
- 15.2 tonnes in the Riksbank's own depot.

3.3 The currency distribution of the policy portfolio excluding the gold reserve shall be:

Currency	Percentage of policy portfolio
USD	75%
EUR	20%
GBP	3%
DKK	1%
NOK	1%

Table 1 – Currency distribution in policy portfolio

3.4 The interest rate risk for each currency in the policy portfolio shall be 4.0 measured as modified duration.

3.5 The policy portfolio's currency assets shall be government bonds issued by the respective state in its own currency.

3.5.1 With regard to assets in EUR, the government bonds shall be issued by Germany.

3.6 The gold and foreign currency reserves' market risk may not exceed the policy portfolio's market risk, with the exception of minor deviations considered necessary by the Chief Risk Officer.

4 Permitted deviations from the policy portfolio

4.1 The management of the foreign currency reserve may deviate from the policy portfolio as follows:

4.1.1 The currency distribution in the foreign currency reserve assets may deviate from the policy portfolio according to Table 2.

Currency	The policy portfolio	Lowest permitted percentage
USD	75%	55%
EUR	20%	15%
GBP	3%	3%
DKK	1%	1%
NOK	1%	1%

Table 2 - Deviation mandate currency distribution

4.1.2 The interest rate risk for each individual currency shall be between 2.0-6.0 measured as a modified duration.

4.1.3 Government bonds¹ in EUR may also be issued by countries other than Germany.

4.1.4 The assets may to a maximum of 25 per cent, that is, the percentage remaining if the deviation mandate for the currency distribution in Table 2 is fully used, be comprised of other instruments than government bonds¹. The assets may also consist of:

4.1.4.1 bonds issued by state-guaranteed organisations,

4.1.4.2 bonds issued by intergovernmental organisations,

4.1.4.3 bonds issued by local or regional authorities,

4.1.4.4 US agencies,

4.1.4.5 other cash balances.

4.2 Prior to a major change in the use of the deviations in 4.1 or if the change is assessed to be of particular interest, the Head of the Markets Department shall inform the Executive Board.

5 Foreign currency loans

5.1 Loans from the Swedish National Debt Office are to be refinanced when they mature.

5.2 Loans that are refinanced may be raised up to one month before the due date and when necessary rounded off to the nearest 0.25 billion in the currency that the new loan relates to.

5.3 Foreign exchange loans may only be raised in USD and EUR and may have maturities of no longer than 5.5 years.

6 Credit risk regulations

6.1 Introduction.

6.1.1 The regulations in this section stipulate the general principles for the management of credit risk.

¹ Holdings in bank accounts and FIXBIS are equal to government bonds.

- 6.1.2 The purpose of the regulations is to ensure:
- 6.1.2.1 that all the credit risks at the Riksbank are identified,
 - 6.1.2.2 that reliable methods for measuring credit risks are used,
 - 6.1.2.3 that identified credit risks are managed and reported in a way that provides a good understanding of credit risks,
 - 6.1.2.4 that the limits and other forms of control decided on by the Executive Board concerning credit risk are followed up and reported.

6.2 Definition.

6.2.1 Credit risk is defined as the risk of loss due to counterparties or issuers failing to meet their financial commitments.

6.2.2 Credit risk is divided into issuer, counterparty and settlement risk.

6.3 Measuring credit risk.

6.3.1 The method used to measure credit risk shall be the Basel II standard method for calculating capital requirements.

6.3.2 The ongoing measurement of credit risk shall be complemented by stress tests. These shall consist of both scenario-based tests in which the impact of market risk factors is analysed in line with various macroeconomic scenarios, and sensitivity tests, where certain selected variables are exposed to stress individually.

6.4 Issuer limits.

6.4.1 For the issuers Bank for International Settlements (BIS) and United States, the limits for net exposures are unrestricted.

6.4.2 The total net exposure to an individual issuer, excluding the BIS, Germany and the United States, depending on credit rating, may not exceed the sums given in the table below. The concentration limits, i.e. the limits for the total net exposure to issuers for different intervals of credit rating, are shown in Table 3.

Credit rating	Limits for net exposure to an <i>individual state</i>	Limit for net exposures to other <i>individual</i> issuers	Concentration limits for issuers
AAA	Unlimited	6,000	Unlimited
AA+ to AA-	20,000	3,500	Unlimited*
A+ to A-	8,000	1,500	} 20,000
BBB+ to BBB-	4,000	750	

Table 3 – Issuer limits, MSEK

* Unlimited given that individual issuers keep within the stipulated limit levels.

6.4.3 Within the framework of the limits in sections 6.4.1 and 6.4.2, the Head of the Markets Department shall set limits for individual issuers. The set limits shall be specified in a special list.

6.5 Counterparty limits.

6.5.1 The total net exposure to an individual issuer, depending on their credit rating, may not exceed the sums given in the table below. The concentration limits, i.e. the limits for the total counterparty net exposure for different intervals of credit rating, are shown in Table 4.

Credit rating	Limits for net exposure to an individual counterparty	Concentration limits for counterparties	
AAA	2,500*	} 8,000	} 30,000*
AA+ to AA-	2,000		
A+ to A-	800		
BBB+ to BBB-	400		

Table 4 – Counterparty limits, MSEK

* For the BIS, IMF and central banks in Germany and the United States and in countries with an AAA credit rating, unrestricted net and concentration limits apply, i.e. they shall be excluded when calculating the total counterparty exposure.

6.5.2 Within the framework of the limits in 6.5.1, the Head of the Markets Department shall determine limits for each individual counterparty and set maturity limits for them for permitted instruments. The set limits shall be specified in a special list.

6.6 Settlement limits.

6.6.1 The total net exposure to an individual counterparty, depending on their credit rating, may not exceed the sums given in the table below. The concentration limits, i.e. the limits for the total counterparty exposure for different intervals of credit rating, are shown in Table 5.

Credit rating	Limits for settlement exposure to an individual counterparty	Concentration limits for settlement	
AAA	5,000*	} 30,000*	
AA+ to AA-	4,000		
A+ to A-	1,600		
BBB+ to BBB-	800		

Table 5 – Settlement limits, MSEK

* For the BIS, IMF and central banks in Germany and the United States and in countries with an AAA credit rating, unrestricted settlement and concentration limits apply, i.e. they shall be excluded when calculating the total counterparty exposure.

6.6.2 Within the framework of the limits in 6.6.1, the Head of the Markets Department shall set settlement limits for each individual counterparty. The set limits shall be specified in a special list.

- 6.7 Joint limits.
- 6.7.1 If two or more issuers are closely linked, the Riksbank's total net exposure to these issuers shall be within the issuer limit for that issuer with the highest issuer limit.
- 6.7.2 Exposure to state-guaranteed issuers and exposure via holdings of state-guaranteed securities shall be jointly limited with the state issuing the guarantee.
- 6.7.3 If two or more counterparties are closely linked, the Riksbank's total net exposure to these counterparties shall be within the counterparty limit for that counterparty with the highest counterparty limit.
- 6.7.4 If an institution or a closely-linked group of institutions are both issuers and counterparties, the total of the issuer and net counterparty exposures of these shall, in addition to what is stipulated above, fall within the issuer limits stipulated in point 6.4.1 or 6.4.2.
- 6.7.5 If two or more counterparties are closely linked, the Riksbank's total settlement exposure to these counterparties shall be within the settlement limit for that counterparty with the highest settlement limit.
- 6.8 Responsibility and limit infringements.
- 6.8.1 For all limits, the Chief Risk Officer determines a method for the application of external credit ratings and the exact definition of the terms net exposure, settlement exposure and closely linked.
- 6.8.2 If a limit is lowered due to a reduced credit rating for a country, an issuer or a counterparty and an immediate divestment of the position concerned would be damaging to the Riksbank, the Head of the Markets Department may decide to allow the limit to be exceeded for a limited period of time. The decisions shall be documented, justified, given a fixed time and date and reported to the Chief Risk Officer and the Executive Board.
- 6.8.3 If a counterparty that has pledged collateral to the Riksbank fails and the Riksbank holds the securities concerned, then the credit risk limits may be temporarily exceeded. The Head of the Markets Department shall decide how quickly this excess should be settled. The decisions shall be documented, justified, given a fixed time and date and reported to the Chief Risk Officer and the Executive Board.

7 Liquidity risk regulations

- 7.1 Introduction.
- 7.1.1 The regulations in this section stipulate the general principles for the management of liquidity risk.
- 7.1.2 The purpose of the regulations is to ensure:
- 7.1.2.1 that the Riksbank's gold and foreign currency reserve is sufficiently liquid,
- 7.1.2.2 that reliable methods for measuring liquidity risks are used at the Riksbank,
- 7.1.2.3 that identified liquidity risks are managed and reported in a way that provides a good understanding of liquidity risks at the Riksbank,

7.1.2.4 that the limits and other forms of control within liquidity risk adopted by the Executive Board are followed up and reported.

7.2 Definition.

7.2.1 Liquidity risk is defined as the risk that the Riksbank will be unable to sell assets in time or only sell them at a significantly reduced price.

7.2.2 The liquidity of an asset has two components: the time required to sell the asset (realisability) and the effect of a sale on the asset's market price (market liquidity). High market liquidity means that an individual sale has little impact on the market price. An asset with good liquidity has both short realisability and high market liquidity.

7.3 Measuring liquidity risk.

7.3.1 The method for measuring the Riksbank's liquidity risk is to be decided by the Chief Risk Officer after consultation with the Head of the Markets Department.

7.4 Limits and follow-up.

7.4.1 The Riksbank's holding in individual securities issues shall be limited in relation to the total issued volume. The Chief Risk Officer shall decide on more detailed regulations for the limitation of such holdings.

7.4.2 The Head of the Markets Department is responsible for convening meetings with representatives of the Financial Stability Department and the Markets Department and the Chief Risk Officer for the exchange of information on the capacity needed for liquidity support.

8 Market risk regulations

8.1 Introduction.

8.1.1 The regulations in this section stipulate the general principles for the management of market risk.

8.1.2 The purpose of the regulations is to ensure:

8.1.2.1 that reliable methods for measuring market risks are used at the Riksbank,

8.1.2.2 that identified market risks are managed and reported in a way that provides a good understanding of market risks at the Riksbank,

8.1.2.3 that the limits and other forms of control concerning market risk adopted by the Executive Board are reported and monitored.

8.2 Definition.

8.2.1 Market risk is defined as the risk of impairment of financial instruments as a result of fluctuations in market prices.

8.2.2 Market risk is divided into foreign exchange risks, interest rate risks and gold price risks.

- 8.3 Measurement of market risk.
- 8.3.1 When calculating market risk, assets and liabilities shall be valued in accordance with the methods stipulated in the Riksbank's *regulations for the valuation of the Riksbank's financial assets and liabilities*.
- 8.3.2 The method used to measure the Riksbank's total market risk shall be Value at Risk (VaR). The Chief Risk Officer shall decide on the parameters in the VaR model.
- 8.3.3 Market risks that are not captured by the VaR model shall be analysed separately using appropriate measures.
- 8.3.4 The ongoing measurement of market risks shall be complemented by stress tests. These shall consist of scenario-based tests in which the impact of market risk factors is analysed in line with various macroeconomic scenarios, and sensitivity tests, where certain selected variables are exposed to stress individually.
- 8.4 Limits and monitoring.
- 8.4.1 The gold and foreign currency reserve's market risk may not exceed the policy portfolio's market risk, with the exception of minor deviations considered necessary by the Chief Risk Officer. This defines the overall risk limit.
- 8.4.2 The interest rate risk for the gold and foreign currency reserve, measured as a modified duration, is regulated in the deviation mandate, see 4.1.2.
- 8.4.3 The limits for market risk may be temporarily exceeded if a counterparty that has pledged collateral to the Riksbank fails and this means that the Riksbank holds securities in excess of the established limit. The Head of Markets Department, responsible for the holdings in question, is also responsible for settling this excess sum as quickly as possible and in such a way as to minimise any impact on prices. The decisions shall be documented, justified, given a fixed time and date and reported to the Chief Risk Officer and the Executive Board.