

REGULATION FOR THE GOLD AND FOREIGN EXCHANGE RESERVES

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RESPONSIBLE DEPARTMENT: Internal Control and Operational Support Department
RESPONSIBLE MANAGER: Chief Risk Officer
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Regulation for the gold and foreign exchange reserves

Content and purpose

This regulation contains guidelines that supplement the *Financial risk and investment policy* and regulates the management of the gold and foreign exchange (FX) reserves as well as the transactions made to hedge parts of the FX reserves. It applies to the choice of method and management of financial risks and investments, as well as a mandate for investments.

Target group

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

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1 Introduction

Gold and foreign currency assets (foreign exchange reserves) are part of the Riksbank's assets.¹ Management of the gold and foreign exchange reserves shall contribute to safeguarding the Riksbank's financial independence. This regulation therefore limits the risks associated with the management of the gold and foreign exchange reserves. This regulation on the gold and foreign exchange reserves contains the Riksbank's detailed objectives and principles for the management of the gold and foreign exchange reserves in accordance with Chapter 9, Section 1 of the Sveriges Riksbank Act (2022:1568).

1.1 Underlying regulatory framework

- Financial risk and investment policy.
- Sveriges Riksbank Act (2022:1568)

1.2 Definitions

- Foreign exchange reserves: The Riksbank's claims in the form of cash balance and debt securities in foreign currencies, of issuers resident outside Sweden, as well as accrued interest, derivative instruments and repos relating to these.²
- Gold reserves: the Riksbank's holdings of physical gold and derivative instruments with gold as the underlying asset.
- Credit risk: the risk of loss due to the failure of a counterparty or issuer to meet its financial obligations. Credit risk is divided into issuer, counterparty and settlement risk.
- Liquidity risk: the risk that the Riksbank is unable to sell assets on time or only at a significantly reduced price. 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.
- Market risk: the risk of a decline in the value of financial instruments, cash balance and gold as a result of changes in market prices. Market risk is divided into foreign exchange risk, interest rate risk and gold price risk.
- Issuer: the issuer of a security.

¹ Chapter 10, Section 1, Sveriges Riksbank Act.

² Cash balance refers to deposits and bank balances including deposits.

2 Roles and responsibilities

- 2.1 The Head of the Markets Department (AFM) and the Chief Risk Officer shall supplement this regulation with rules and procedures, as appropriate, within their respective areas of responsibility.
- 2.2 For those assets managed by AFM, the Head of AFM shall, in accordance with this regulation, decide on each of the points below:
- which countries' government securities may be used,
 - which currencies may be used,
 - which instrument types may be used,
 - which issuers may be used,
 - which counterparties may be used,
 - 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),
 - securities lending performed by another on behalf of the Riksbank,
 - what price sources shall be used for valuation.
- 2.3 Documentation of decisions
- All decisions in accordance with the regulations in this document shall be documented, in connection with which the following shall particularly apply:
 - approved issuers shall be entered on a list with a specification of the instrument types approved for each issuer and the applicable limits,
 - 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,
 - approved instrument types shall be entered on a list with a specification of any restrictions that apply to their use,
 - approved currencies shall be entered on a list with a specification of any restrictions.
 - The Head of AFM shall be responsible for ensuring that the lists referred to above are kept up to date and available in accordance with the Riksbank's applicable information management rules.

3 Investment regulations

- 3.1 Introduction
- The purpose of the regulations in this section is to establish the basic principles for permitted investments.
 - Investments may only be made where the asset type, instrument type, currency, country, issuer, counterparty or external manager has been

prepared and approved in accordance with the Riksbank's *Regulation for application procedure*.

- 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 in the Sveriges Riksbank Act.

3.2 Permitted countries

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

3.3 Permitted currencies

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

3.4 Permitted asset types

- Debt securities
- Cash balance³
- Gold
- Rights and obligations related to the said asset types and currency (e.g. derivatives and repos)

3.5 Permitted issuers

- Issuers must be legally resident in an approved country.
- The issuer of debt securities must have an external credit rating of at least A- 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.

3.6 Permitted counterparties

- Counterparties, the parties with which the Riksbank enters into agreements, must be legally resident in an approved country.
- Counterparties, with the exception of the BIS and the ECB, shall have an external credit rating no lower than BBB- or equivalent.
- 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:
 - handles payments on behalf of the Riksbank,
 - is used for the clearing of market-traded and listed derivatives on behalf of the Riksbank,
 - performs securities lending on behalf of the Riksbank,
 - is a custodial bank, i.e. holds securities on behalf of the Riksbank.

³ Cash balance refers to deposits and bank balances including deposits.

- 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. With regard to the purchase and sale of securities with cash on delivery, the requirement for external credit rating of the counterparty can also be met if the counterparty's parent company meets this requirement.
- The counterparty, with the exception of national central banks and centralised counterparties for derivatives trading (CCPs)⁴, that carries out securities trading, must be subject to adequate supervision by the 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).
- Securities held with a custodial bank must be held in such a way that the Riksbank has a right of reclamation to the securities in accordance with applicable bankruptcy legislation in the event of the bankruptcy of the custodial bank. Securities may be held in securities accounts that are used for more than one client, so-called pooled client accounts or omnibus accounts.
 - 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.
- The custody of the Riksbank's securities holdings must always be divided between at least two custodial banks in such a way that the Riksbank can at all times fulfil its statutory tasks and obligations.
- 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 exchange reserves or the Riksbank's securities portfolio in Swedish kronor.
- 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 mitigated by requiring collateral in the form of assets eligible as collateral for investment in the management of the gold -and foreign exchange reserves.
 - 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.

⁴ CCP is an acronym for Central Counterparty Clearing House.

- 3.7 Restrictions for credit institutions and Swedish companies under the supervision of Finansinspektionen.
- The Riksbank shall not have any unsecured exposure to Swedish credit institutions (for exceptions see below). 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.
 - However, credit institutions under the supervision of Finansinspektionen are permitted as counterparties in FX transactions.

4 The policy portfolio

- 4.1 According to the financial risk and investment policy, the Financial Stability Department (AFS) and the Monetary Policy Department (APP) shall assess annually, or as required, the size and composition of foreign currency the Riksbank needs to hold for contingency purposes (the contingency requirement). The contingency requirement is then translated by AFM into a composition of the gold and foreign exchange reserves, referred to as the policy portfolio. The policy portfolio is defined in 4.2 - 4.5.
- 4.2 The gold reserves shall be 125.7 tonnes.
- 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.
- 4.3 The assets in the policy portfolio shall have the following currency distribution, excluding the gold reserve:

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

Table 1 - Currency distribution of the policy portfolio

- 4.4 Apart from the gold reserves, the assets in the policy portfolio shall be government bonds issued by the respective state in its own currency.
- Government bonds include bank account balances and claims on the BIS
 - For assets denominated in euro, the government bonds shall be issued by Germany.

- 4.5 The interest rate risk for the assets in each currency in the policy portfolio shall be 4.0, measured as modified duration.

5 Permitted deviations from the policy portfolio

- 5.1 The management of the foreign exchange reserves may deviate from the policy portfolio as follows:

- The foreign exchange reserves may include assets in other currencies than those included in the policy portfolio. However, the assets denominated in the currencies included in the policy portfolio must be at least equal to the minimum percentages allowed in Table 2.

Currency	Lowest permitted percentage
USD	55 %
EUR	15 %
GBP	3 %
DKK	1 %
NOK	1 %

Table 2 - Deviation mandate currency distribution

- The interest-rate risk for the assets in each individual currency in the policy portfolio may not exceed 6.0, measured as modified duration.
- A maximum of 25 per cent of the assets, i.e. the percentage remaining if the deviation mandate for the currency distribution in Table 2 is fully utilised, may be in instruments other than government bonds.⁵ The assets may also consist of:
 - euro-denominated government bonds issued by countries other than Germany,
 - bonds issued by state-guaranteed organisations,
 - bonds issued by intergovernmental organisations,
 - bonds issued by local or regional authorities,
 - US agencies,
 - other cash balances.
- Prior to a major change in the utilisation of the above deviations or if a change is deemed to be of particular interest, the Head of AFM shall inform the Executive Board.

6 Regulations for currency hedging

- 6.1 According to the *Financial risk and investment policy*, 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

⁵ Government bonds are equal to bank account balances and claims on the BIS.

market value that arise via changes in the value of the krona against other currencies (the currency hedging ratio). The financial holdings and FX transactions aimed at hedging parts of the FX reserves (hedging ratio) have special limits that are described in Section 7.3.

- 6.2 The framework for FX transactions are established in the *Regulation for transactions outside the monetary policy operational framework*.
- 6.3 The Head of AFM decides on the forms of the transactions that concern hedging.

7 Regulations for credit risk

7.1 Introduction

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

7.2 Measuring credit risk

- The method used to measure credit risk shall be the Basel II standard method for calculating capital requirements.
- The ongoing measurement of credit risk shall be supplemented by stress tests under the responsibility of the Chief Risk Officer. 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.

7.3 Special limits for hedging transactions

- Total exposure to an individual counterparty may, independent of credit rating, amount to a maximum of one nominal amount of USD 4 billion and EUR 1 billion.
- If two or more counterparties are closely linked, the Riksbank's total exposure to these may amount to a maximum of one nominal amount of USD 4 billion and EUR 1 billion.
- The total settlement exposure to an individual counterparty may, independent of credit rating, amount to a maximum of one nominal amount of USD 2 billion.

7.4 Issuer limits

- The issuer BIS is subject to an unlimited net exposure limit⁶.

⁶ Defined in the *Regulation for measurement of credit risk* decided by the Chief Risk Officer.

- The net exposure to currencies included in the policy requirement, irrespective of credit rating, should be able to reach the contingency requirement in section 4.3. In case the contingency requirement is not within the limit resulting from the credit rating, the Chief Risk Officer shall decide on a limit slightly higher than the contingency requirement in order to allow for practical management of the currency concerned.
- Aggregate net exposure to any individual issuer not covered by the preceding points may not exceed, depending on the credit rating, the amounts set out in Table 3 below.

Credit rating	Limits for net exposure to an individual state	Limits for net exposures to other individual issuers
AAA	Unlimited	6,000
AA+ to AA-	25,000	3,500
A+ to A-	10,000	1,500

Table 3 - Issuer limits, MSEK

- Within the limits of the preceding points, the Head of AFM may set lower limits for individual issuers.

7.5 Counterparty limits

- 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 on the net aggregate counterparty exposure for different rating bands, are also shown in Table 4.

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

Table 4 - Counterparty limits, MSEK

* For BIS and central banks, unrestricted net limits apply.

- Within these limits, the Head of AFM may set lower limits for each individual counterparty.

7.6 Settlement limits

- The total settlement exposure to an individual counterparty, depending on credit rating, may not exceed the amounts given in the table below. The concentration limits, i.e. the limits on the aggregate settlement exposure for different credit rating bands, are also shown in Table 5.

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

Table 5 - Settlement limits, MSEK

* For BIS and central banks, unrestricted settlement limits are applied.

- Within the limits set out in the previous point, the Head of AFM may set lower settlement limits for each individual counterparty.

7.7 Joint limits

- If two or more issuers are closely linked, the Riksbank's total net exposure to these issuers shall be within the issuer limit for the issuer with the highest issuer limit.
- Exposure to government-backed issuers and exposure via holdings of government-guaranteed securities shall be jointly limited with the government issuing the guarantee.
- If two or more counterparties are closely linked, the Riksbank's total net exposure to these counterparties shall be within the counterparty limit for the counterparty with the highest counterparty limit.
- In addition to the above, where an institution or closely linked group of institutions with a related relationship is both an issuer and a counterparty, the sum of the issuer and net counterparty exposures of these must be within the issuer limits set out in 7.4.
- 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.

7.8 Responsibility and limit infringements

- For all credit limits, the Chief Risk Officer decides on the methodology for the application of the external credit rating and the precise meaning of the concepts of net exposure, settlement exposure and closely linked.
- 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 AFM 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.
- 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 AFM 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.

8 Regulations for liquidity risk

8.1 Introduction

- The regulations in this section stipulate the general principles for the management of liquidity risk.
- The purpose of the regulations is to ensure:
 - that the Riksbank's gold and foreign exchange reserves are sufficiently liquid,

- that reliable methods for measuring liquidity risks are used at the Riksbank,
- that identified liquidity risks are managed and reported in a way that provides a good understanding of liquidity risks at the Riksbank,
- that the limits and other forms of control within liquidity risk adopted by the Executive Board are followed up and reported.

8.2 Measuring liquidity risk

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

8.3 Limits and follow-up

- The Riksbank's holdings in individual securities issues shall be limited in relation to the total volume issued and the proportion of assets issued shall be limited so that the Riksbank can always fulfil its mandate, in accordance with the regulation for the measurement of liquidity risk. The Chief Risk Officer shall decide on more detailed regulations for the limitation of such holdings.
- The Head of AFM is responsible for convening meetings with representatives from the Financial Stability Department (AFS), the Monetary Policy Department (APP), the Markets Department (AFM) and the Chief Risk Officer to exchange information on the need for financial support and the current market situation.

9 Regulations for market risk

9.1 Introduction

- The regulations in this section stipulate the general principles for the management of market risk.
- The purpose of the regulations is to ensure:
 - that reliable methods for measuring market risks are used at the Riksbank,
 - that identified market risks are managed and reported in a way that provides a good understanding of market risks at the Riksbank,
 - that the limits and other forms of control concerning market risk adopted by the Executive Board are reported and monitored.

9.2 Measurement of market risk

- 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.
- The method used to measure the Riksbank's market risk shall be Value at Risk (VaR). The Chief Risk Officer shall decide on the parameters in the VaR model.

- Market risks that are not captured by the VaR model shall be analysed separately using appropriate metrics, as decided by the Chief Risk Officer.
- The ongoing measurement of market risks shall be complemented by stress tests, for which the Chief Risk Officer is responsible. 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.

9.3 Limits and follow up

- The market risk of the gold and foreign exchange reserves, as measured in accordance with 9.2, shall not exceed the market risk of the policy portfolio, except for minor and temporary deviations deemed necessary by the Chief Risk Officer. This defines the overall market risk limit.
- 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 AFM 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.

10 Compliance

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

11 Entry into force and transitional provisions

This policy enters into force on 18 September 2023 and replaces the *Regulation on the gold and foreign exchange reserves* adopted on 19 December 2022 (dnr 2022-01390).

11.1 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