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The Swedish Financial Stability Council agrees on measures to safeguard financial stability

The Financial Stability Council has had an extraordinary meeting due to the liquidity problems in the market for electricity derivatives. These problems have prompted the government to propose state credit guarantees to mainly electricity producers trading in this market.

The reason for the liquidity problems is the extreme development of the electricity price.

The state credit guarantees that the Swedish government proposes that the Swedish National Debt Office should be able to issue, will reduce the risks that have emerged due to the development in the electricity derivatives market. The purpose of the measure is to prevent that the lack of liquidity could create risks for contagion to other parts of the financial system. This measure is backed by the authorities of the Swedish Financial Stability Council.

The companies eligible to receive a state guarantee are solvent, but the extensive margin requirements issued by Nasdaq Clearing AB results in a strained liquidity situation in these companies. A government credit guarantee programme will greatly reduce the risks that the situation could otherwise lead to. Other countries are working with similar measures.

The financial markets in Sweden are currently functioning well, the financial sector has good liquidity, and the financial system is working well. However, the high and volatile electricity prices have contributed to new risks to the financial stability.

The authorities in the Financial Stability Council follow the development closely with the purpose of safeguarding financial stability. Close communications will continue to be maintained between the authorities of the Stability Council and with operators in the financial sector.

Background facts

Nasdaq Clearing AB: Clearing of electricity derivative contracts on the Nordic market is done at Nasdaq Clearing, which is a so-called central counterparty. A central counterparty is an operator who acts as a common counterparty to all buyers and sellers. The purpose of central counterparty clearing is to make the market safer for all participants by facilitating safe and efficient risk management, which in a larger perspective also benefits financial stability.

How has the requirement of collateral developed: For a central counterparty to be able to ensure a secure risk management, it needs to collect collateral from its members who clear their derivative contracts at the central counterparty. The extremely high prices and the high volatility that prevails for the time being means that the requirements for providing liquid assets as collateral are at exceptionally high levels. The total amount of required collateral has since June increased from about SEK 70 billion up to about SEK 180 billion. If a company cannot meet its requirements to provide collateral, a situation arises where the central counterparty is forced to take over the company's exposures to other market participants and auction off these contracts. In the current situation, such a development could lead to losses that could risk the stability of the central counterparty. That could in turn lead to risks for the financial system in general.

Attendants were Financial Markets Minister Max Elger, Director General of Finansinspektionen Erik Thedéen, Riksbank Governor Stefan Ingves and Director General at the Swedish National Debt Office Karolina Ekholm.

The financial stability council is a forum with representatives from the government (Ministry of Finance), Finansinspektionen (the Swedish Financial Supervisory Authority), Riksgälden (the Swedish National Debt Office) and the Riksbank (the Swedish central bank). The council meets regularly to discuss financial stability issues, the need for measures to prevent financial imbalances from building up and, in the event of a financial crisis, the need for crisis measures. The government and the represented authorities of the council decide independently within their own particular areas of responsibility which measures are to be taken.

> *See homepage for further information*

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