



Basis for decision

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Deposit facility at the Riksbank for central counterparties

Proposed Executive Board decision

The Executive Board decides

- that the Riksbank shall offer central counterparties the possibility to obtain access to an overnight deposit facility at the Riksbank, in accordance with what is stated in this document, and to
- delegate to the head of the Markets Department (AFM), after consultation with 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 facility.

Considerations

The task of a central counterparty (CCP) is to act as intermediary when derivative contracts are entered into and in this way the CCP holds a central position in the financial system. CCPs have over the past ten years taken on a significant role in risk management in the global financial system, especially in the derivatives market. In addition, new regulatory frameworks have either forced or given clear incentives for financial agents to use CCPs. All in all, this has meant that their role and significance for the financial system has increased substantially and CCPs are therefore regarded as systemically important agents. This development has led to several central banks reaching the conclusion in recent years that is appropriate to give CCPs access to deposit facilities.

In Sweden, CCPs have limited opportunities to manage their liquidity buffers with market solutions. This is mainly because the overnight market for repos does not function sufficiently smoothly, as there are rarely counterparties for the CCPs to make transactions with in this segment. CCPs are also covered by regulations that aim to

reduce the CCPs' risks, for instance by limiting their opportunities to invest their liquidity buffers with commercial banks. This is intended to reduce risk in the financial system, but can at the same time lead to problems in some situations. If a CCP faces unplanned payments, it may as a result of these investment restrictions, combined with a lack of functionality in the repo market, experience problems investing the liquidity sufficiently quickly. As CCPs are systemically important, such a situation could have contagion effects in the financial system that could lead to fluctuations on the fixed-income market, which in turn could disrupt the interest rate-setting the Riksbank wants to achieve through its monetary policy measures.

One means of preventing this monetary policy transmission mechanism from being affected is for the Riksbank to offer a standing deposit facility that can absorb the liquidity surplus arising in the CCPs. That is, the Riksbank's policy rate spreads to other interest rates.

Given this, it is proposed that the Riksbank should offer CCPs the opportunity to gain access to overnight lending in the Riksbank. An appropriate design for this deposit facility could be as follows.

Only CCPs that clear in SEK and are participants in the RIX system should have the right to use the deposit facility and invest money overnight in accounts in RIX with special terms and conditions.

The interest on the deposits should correspond to the deposit rate calculated for the Riksbank's standing deposit facility for monetary policy counterparties. The proposed deposit facility for CCPs is offered for monetary policy purposes and therefore the interest rate setting should be consistent with that for the monetary policy instruments the Riksbank offers to its monetary policy counterparties. The purpose of the Riksbank's operational framework for the implementation of monetary policy is to stabilise the interest rate on the overnight market close to the policy rate at a level that entails attaining the price stability objective. The interest rate that the Riksbank is prepared to pay to receive deposits overnight from its monetary policy counterparties is determined by the deposit rate on the Riksbank's standing deposit facility.

The introduction of a deposit facility at the Riksbank for CCPs is only assessed to entail negligible increases in risk and costs for the Riksbank. This is because the Riksbank does not need too many technical adjustments, for instance.