

ARTICLE – New Sveriges Riksbank Act provides clearer mandate to promote financial stability

At the turn of the year, a new Sveriges Riksbank Act entered into force. It states that the Riksbank, as before, shall contribute to the stability and efficiency of the financial system. However, the new Act is clearer than the previous one about the objectives, tasks and powers the Riksbank has in this area. The Riksbank was already performing most of the tasks previously. These include oversight of the financial system and crisis preparation work. However, the new Act also gives the Riksbank certain new tasks and powers, such as extended possibilities to offer various forms of liquidity support for financial stability purposes in a crisis situation.

Objective - better conditions for cooperation and accountability

The new Sveriges Riksbank Act¹³⁷ is more extensive and detailed than the previous one. This applies particularly to the area of financial stability, where the previous Act had fewer and more general provisions, which meant that the Riksbank needed to interpret and specify its tasks to a greater extent.¹³⁸ Another change is that the new Act regulates the Riksbank's different areas of activity in separate chapters, which specify objectives, tasks and powers for the different areas of activity. This means, for example, that monetary policy, where there is a ban on taking instructions, is regulated in one chapter, while financial stability¹³⁹, where more cooperation with other authorities is possible, is regulated in another.

One purpose of the new structure is to facilitate cooperation and exchange of information with Finansinspektionen (supervisory authority) and the Swedish National Debt Office (resolution as well as public guarantee and support authority), which are also responsible for contributing to a stable and efficient financial system. Another purpose is to create prerequisites for legitimacy, accountability and control of the Riksbank's activities.¹⁴⁰

¹³⁷ Sveriges Riksbank Act (2022:1568).

¹³⁸ See *The Riksbank and financial stability*, 2013, Sveriges Riksbank.

¹³⁹ Chapter 3 "The financial system".

¹⁴⁰ Government Bill 2021/22:41, p. 74.

Clearer objective

According to the new Sveriges Riksbank Act, the Riksbank shall “without prejudice to the price stability objective, contribute to the stability and efficiency of the financial system, including the ability of the public to make payments”.¹⁴¹ In substance, the new wording of the objective corresponds well with how the Riksbank has interpreted the previous Act's provision that the Riksbank shall “promote a safe and efficient payments system”¹⁴², but the new wording is clearer. The financial system is judged to be stable and efficient when it can maintain its basic functions and is sufficiently resilient to continue to do so.¹⁴³ These basic functions are the mediation of payments, the provision of credit and capital and the management of risk.¹⁴⁴

The wording of the objectives in the Act also specifically emphasises that the Riksbank has a responsibility to enable the public to make payments. Later in the Act, it is stated that this responsibility also applies during peacetime crises and times of heightened alert and this means that the Riksbank has been given more extensive preparedness tasks.¹⁴⁵ What these tasks include and how the Riksbank works with them is presented in the Payments Report 2022.¹⁴⁶ The wording of the objective also clarifies that the price stability objective, as before, has primacy over other objectives and provisions for the Riksbank's activities.

The task of supervising the financial system enshrined in law

The new Sveriges Riksbank Act gives the Riksbank a clear task of overseeing the financial system: “The Riksbank shall assess whether the financial system is stable and efficient, identify risks of severe disruptions or significant efficiency losses and report its assessments”.¹⁴⁷ This is a new statutory task that means that the Riksbank has a formal obligation to make analyses and assessments in this area. However, the Riksbank has already been making these types of analyses and assessments for a long time and also reports them publicly. For example, the Riksbank has published a Financial Stability Report for around 25 years. In addition, the Riksbank regularly writes articles, gives speeches, responds to consultations and participates in international cooperation in this area.

The new Act also gives the Riksbank an explicit obligation to inform others of the risks that have been identified: “If the Riksbank considers that these risks¹⁴⁸ may affect the

¹⁴¹ Chapter 3, Section 1, Sveriges Riksbank Act.

¹⁴² Chapter 1, Article 2, second paragraph of the 1988 Sveriges Riksbank Act.

¹⁴³ Government Bill 2021/22:41, p. 216.

¹⁴⁴ SOU 2019:46, page 915.

¹⁴⁵ Chapter 5, Sveriges Riksbank Act.

¹⁴⁶ See *Payments Report 2022*, December 2022, Sveriges Riksbank.

¹⁴⁷ Chapter 3, Section 9, first paragraph, Sveriges Riksbank Act.

¹⁴⁸ Refers to risks of severe disruptions or significant efficiency losses.

activities of other authorities, it shall inform these authorities and other interested parties”.¹⁴⁹

The new act also gives the Riksbank the task of conducting broader monitoring of economic and financial developments, and identifying threats to sustainable development that affect the conditions for any of the Riksbank's various activities.¹⁵⁰ Within the framework of its responsibility for overseeing the financial system, the Riksbank shall therefore also endeavour to identify threats to sustainable development¹⁵¹, such as climate risks, that could lead to severe disruptions or significant efficiency losses in the financial system.

Specific provision on oversight of financial infrastructure

The Riksbank provides a central system for payment settlement, RIX, which banks and other financial institutions use to make payments between themselves. It is the hub of the financial infrastructure. The RIX system is also closely linked to and dependent on the rest of the financial infrastructure, i.e. settlement, payment and clearing systems, accounting of financial instruments and trade repositories. The proper functioning of this system is crucial to the stability and efficiency of the financial system. This is an important reason why the Riksbank has been given a special task in the new Sveriges Riksbank Act to oversee the financial infrastructure.¹⁵² The Riksbank's work in this area is thus anchored in an explicit legal provision.

One new feature is that the Riksbank shall also oversee “other operations that are of particular importance to the financial infrastructure in Sweden”.¹⁵³ The Riksbank has decided, within the framework of this provision, to oversee the Swedish Bankers' Association's transfer system for payments, Dataclearing, Finansiell ID-Teknik BID AB and Getswish AB. However, the companies covered by this oversight may vary over time.¹⁵⁴

Crisis preparation tasks now set out in law

The new Sveriges Riksbank Act also contains a new provision on the Riksbank's crisis preparation work: “The Riksbank shall have ample capacity to counteract severe disruptions in the financial system in Sweden. The Riksbank shall identify liquidity support measures that can be used to counteract such disruptions”.¹⁵⁵ This means, for example, that the Riksbank shall identify possible crisis scenarios and the measures that

¹⁴⁹ Chapter 3, Section 9, second paragraph, Sveriges Riksbank Act.

¹⁵⁰ Chapter 1, Section 9, Sveriges Riksbank Act.

¹⁵¹ Sustainable development refers to long-term environmental, social and economic development (Government Bill 2021/22:41, p. 82).

¹⁵² Chapter 3, Section 8, Sveriges Riksbank Act.

¹⁵³ Ibid.

¹⁵⁴ See the Riksbank's decision ref.no. 2023-00498.

¹⁵⁵ Chapter 3, Section 10, Sveriges Riksbank Act.

could be appropriate in different situations. The provision also states that the Riksbank may also “participate in crisis preparation work in Sweden and abroad”.¹⁵⁶

The requirements for the Riksbank's crisis preparation work are thus clarified in the Act. To be able to manage financial crises effectively, the Riksbank has already developed plans and procedures for measures that may need to be taken in crisis situations. The Riksbank also regularly conducts crisis exercises, both internally and together with other relevant authorities. In some cases, international crisis exercises are also held, particularly in the Nordic and Baltic countries, as these countries' banking systems are closely integrated and interdependent. Through such exercises, the Riksbank continuously tests and develops its crisis preparations.

Enhanced ability to provide liquidity support in times of crisis

If a severe disruption were to occur, or risk occurring in the financial system in Sweden, the Riksbank can offer liquidity support to counteract this.

If an individual financial company experiences liquidity problems, the Riksbank can, as before, offer special liquidity support, or emergency liquidity assistance as it is also known.¹⁵⁷ If, on the other hand, several financial companies or one or more markets are affected, the Riksbank can, under the new Act, offer what is known as general liquidity support. This may involve offering credit to several participants simultaneously on general terms, entering into repurchase agreements or buying and selling securities.¹⁵⁸ The Riksbank has previously been able to do this within the framework of its monetary policy mandate, but with the new Act the Riksbank will also be able to do this for financial stability purposes. However, the conditions for the measures differ somewhat depending on whether they are being taken mainly for monetary policy or for financial stability purposes.

The new Sveriges Riksbank Act also imposes new requirements on transparency regarding these measures: “If it is not inappropriate with regard to the stability or efficiency of the financial system, the Riksbank shall publish the liquidity support measures that the Riksbank will take to counteract severe disruptions in the financial system in Sweden and the detailed conditions for these”.¹⁵⁹ The Riksbank endeavours to maintain a high degree of transparency regarding its operations, and has also published information on its website about the types of liquidity support measures the Riksbank can take to counteract severe disruptions to the financial system in Sweden.

¹⁵⁶ Ibid.

¹⁵⁷ Chapter 3, Section 7, Sveriges Riksbank Act.

¹⁵⁸ Chapter 3, Section 6, Sveriges Riksbank Act.

¹⁵⁹ Chapter 11, Section 4, second paragraph, Sveriges Riksbank Act.

However, the detailed conditions have not been published but will be determined by the Riksbank based on the circumstances of the specific situations.^{160,161}

Extended cooperation with other authorities

The Riksbank, like other authorities, has an obligation to cooperate with other authorities in its areas of activity.¹⁶² In the financial market area, both Finansinspektionen and the Swedish National Debt Office have tasks that are close to those of the Riksbank, which makes cooperation particularly important. The new Act therefore contains a special provision stating that the Riksbank shall, as a main rule¹⁶³, give these authorities the opportunity to comment before decisions on important issues related to their respective activities.¹⁶⁴ As examples of such important issues, the preparatory work for the Act mentions decisions on general liquidity support or emergency liquidity assistance to a financial company.¹⁶⁵

The previous Sveriges Riksbank Act also contained a provision on cooperation with Finansinspektionen. However, there was no corresponding provision for the Swedish National Debt Office. The inclusion of such a provision in the new Act is a natural consequence of the Debt Office's responsibility for resolution and preventative state aid, which are related to the Riksbank's activities. However, the Riksbank has also cooperated with the Swedish National Debt Office before. Cooperation takes place, for instance, within the framework of the Financial Stability Council, which includes representatives of the Government (Ministry of Finance), Finansinspektionen, the Riksbank and the Swedish National Debt Office. The Stability Council meets regularly and discusses financial stability issues and how financial imbalances can be counteracted.

¹⁶⁰ As financial crises are extraordinary situations, the Riksbank considers it inappropriate to specify the conditions more precisely in advance. For the measures to be effective, the Riksbank must consider and balance many different aspects. In addition to the short-term objective of supporting the financial system, the Riksbank also needs to consider the long-term effects. Excessively generous measures may lead to undue favour for certain agents and increased risk-taking in the market. The design of the measures is therefore adapted to counteract such effects.

¹⁶¹ In addition to the liquidity support measures described in the running text, an amendment to the Act on Special Supervision of Credit Institutions and Securities Companies (2014:968) enables the Riksbank to introduce two insurance-like facilities, known as special liquidity and credit facilities. This legislative amendment is an adaptation to EU law and entered into force at the same time as the new Sveriges Riksbank Act. The new facilities mean that credit institutions can, for a fee and under certain other conditions, pledge assets that do not fulfil the criteria for high-quality liquid assets at the Riksbank. In exchange, the banks may include the amount they can borrow in these facilities in the Liquidity Coverage Ratio (LCR) buffer.

¹⁶² Section 8 of the Administrative Procedure Act (2017:900).

¹⁶³ However, the Riksbank need not give Finansinspektionen and the Swedish National Debt Office the opportunity to comment if a decision is urgent. In this case, the Riksbank shall instead notify the authorities of the decision without delay. Chapter 3, Section 11 of the Sveriges Riksbank Act.

¹⁶⁴ For Finansinspektionen the requirement concerns key issues relating to the stability and efficiency of the financial system or affecting Finansinspektionen's supervisory activities. For the Swedish National Debt Office, the requirement concerns more important issues related to the authority's activities concerning resolution and preventative state aid. Chapter 3, Section 11 of the Sveriges Riksbank Act.

¹⁶⁵ Government Bill 2021/22:41, p. 111.

Reinforced information and evaluation requirements

According to the new Sveriges Riksbank Act, the Riksbank shall inform the public about both monetary policy and other activities,¹⁶⁶ which was not provided for in the previous Act. However, the Riksbank has for a long time endeavoured to communicate openly and clearly about its various activities, including financial stability issues. For example, the Riksbank publishes Financial Stability Reports twice a year, produces a number of other publications on financial stability issues and gives speeches in this area. Every year, the Governor of the Riksbank also participates in the Riksdag Committee on Finance's hearing on financial stability, together with the director generals of the other relevant authorities and the Minister for Financial Markets.

The new Act also means that the democratic scrutiny of the Riksbank's activities has been strengthened. The Riksdag Committee on Finance, the Swedish National Audit Office and the General Council of the Riksbank all receive extended scrutiny tasks. For example, the Committee on Finance is to evaluate target fulfilment and efficiency in all of the Riksbank's activities and not just in monetary policy as before. The Riksbank's obligation to report on its activities to the Riksdag Committee on Finance has therefore also been extended from only relating to monetary policy¹⁶⁷ to encompass all of its activities.¹⁶⁸

In summary – a clearer mandate to promote financial stability

With the new Sveriges Riksbank Act, the Riksbank's objectives, tasks and powers in the field of financial stability are specified. The objective for the Riksbank's work in this area is clearer than in the previous Act, but corresponds well with how the Riksbank has interpreted the previous Act's overall provision for the area. Many of the tasks that the new Act specifies for the Riksbank's work on financial stability are already performed by the Riksbank. This applies, for example, to most of the tasks relating to oversight and crisis preparation work. However, a new power for the Riksbank is the ability in a crisis situation to take general liquidity measures also for financial stability purposes. In addition, the democratic scrutiny of the Riksbank's work on financial stability is strengthened, mainly through the Committee on Finance's broadened scrutiny and evaluation remit.

The new Sveriges Riksbank Act thus clarifies that the Riksbank has important tasks to contribute to a stable and efficient financial system. The Riksbank shall work to *prevent* financial crises, among other things by identifying severe risks to the financial system and drawing attention to them. The Riksbank shall also *counteract and manage* financial crises, primarily by providing liquidity support to participants in the financial system, if necessary. The Riksbank also needs to have good planning and preparations for this.

¹⁶⁶ Chapter 11, Section 3, Sveriges Riksbank Act.

¹⁶⁷ Chapter 6, Section 4 of the 1988 Sveriges Riksbank Act.

¹⁶⁸ Chapter 11, Articles 1 and 2, Sveriges Riksbank Act.