

## FINANCIAL RISK POLICY

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DECISION BY: Executive Board  
RESPONSIBLE DEPARTMENT: Risk Management Department  
RESPONSIBLE MANAGER: Chief Risk Officer  
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# Financial risk policy

## Content and purpose

This policy contains the principles that govern the management of the financial risks that arise in the management of the Riksbank's financial assets. The purpose of the policy is to establish guidelines for risk management within asset management that the Executive Board shall adopt in accordance with Chapter 9, Section 2 of the Sveriges Riksbank Act (2022:1568). Further guidelines for asset management can be found in the Riksbank's investment policy for the gold and foreign exchange reserves.

## Target group

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

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# 1 Introduction

The Sveriges Riksbank Act sets out the activities that the Riksbank may conduct and the powers that the Riksbank has. The Sveriges Riksbank Act contains provisions on the Riksbank's asset management. According to Chapter 9, Section 1 of the Sveriges Riksbank Act, the Riksbank shall manage its assets in order to fulfil its tasks and powers and generate sufficient income to finance its activities. The assets shall be managed with low risk and taking into account the Riksbank's status as a central bank. When managing the assets, particular weight shall be attached to how sustainable development can be promoted without compromising the requirements specified above.

The Riksbank's balance sheet reflects the activities conducted by the Riksbank. The part of the balance sheet that is mainly associated with financial risk-taking consists of the Riksbank's assets<sup>1</sup>.

According to Chapter 9, Section 2 of the Sveriges Riksbank Act, the Executive Board shall decide on guidelines for asset management. These guidelines are formulated within the framework of Chapter 9, Section 1 of the Sveriges Riksbank Act. This policy contains guidelines for risk management and controls in connection with the management of the Riksbank's financial assets.

## 1.1 Underlying regulatory framework

The following act and internal regulations govern the Riksbank's work with financial risks.

- The Sveriges Riksbank Act (2022:1568)
- The Rules of Procedure for Sveriges Riksbank

## 1.2 Definitions

The following definitions are used in this policy.

- Risk: uncertainty about future events and their effects on the Riksbank's financial position, operations or reputation.
- Financial risks: credit risks, liquidity risks and market risks.
- 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 (marketability) of an asset has two components. Firstly, the time required to dispose of the asset (realisability) and, secondly, the impact of the sale on the market price of the asset (market liquidity). High market liquidity means that an

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<sup>1</sup> The balance sheet also includes the Riksbank's liabilities and the items equity and risk provisions. The Riksbank may make financial provisions (risk provisions) to a reasonable extent in accordance with the European Central Bank's (ECB) guidelines, Chapter 8, Section 11 of the Sveriges Riksbank Act.

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.
- Foreign exchange reserve: foreign currency and assets in foreign currency that the Riksbank shall hold in accordance with Chapter 10, Section 1 of the Sveriges Riksbank Act.
- Gold reserve: assets in gold held by the Riksbank to enable it to fulfil its tasks and powers.
- Financial risk management: the identification, measurement, monitoring and reporting of risks.
- Economic capital: the financial resources that the Riksbank needs to have at its disposal to absorb financial losses that may occur with a certain probability over a given time horizon.

## 2 Roles and responsibilities

- The Executive Board decides on guidelines for the Riksbank's asset management<sup>2</sup> and decides on other matters relating to asset management that are matters of principle or of major importance<sup>3</sup>.
- The heads of department are responsible for
  - ensuring that the financial risks in their own department's operations are continuously identified, measured, monitored and reported to the Executive Board, the Riksbank's Management Group and the Chief Risk Officer
  - ensuring that infringements of limits and internal regulations are promptly reported to the person who established them
  - ensuring that the Riksbank's financial risks are reported to the Executive Board at least every four-month period.
- The Head of the Markets Department (AFM) is responsible for continuously monitoring and evaluating risks and returns. The Head of AFM is also responsible for
  - ensuring the assets in the gold and foreign exchange reserves are managed in the way that the Executive Board has decided
  - ensuring that the assets in the foreign exchange reserve can be converted into cash when needed, and to the extent required at any given time to fulfil the Riksbank's tasks and obligations
  - drawing up regulations on what collateral the Riksbank should accept for intraday loans in RIX and in monetary policy lending.

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<sup>2</sup> Chapter 9, Section 2 of the Sveriges Riksbank Act.

<sup>3</sup> Chapter 7, Section 8, first paragraph 4 of the Sveriges Riksbank Act.

- The Chief Risk Officer is responsible for the independent control and reporting of the Riksbank's financial risks. This includes
  - determining the method for evaluation of financial assets
  - deciding on the method of calculation, valuation and consolidation, that is, how the different risks are compiled, of the financial risks
  - reporting every four-month period on their assessment of the Riksbank's financial risks to the Executive Board
  - deciding on the routines for reporting limit infringements
  - submitting proposals at least once a year for the revision of this policy, informing the relevant divisions of the Executive Board's decisions and ensure that the decisions and policy are compiled and made easily accessible.
- Decisions on deviations from this policy shall be taken by the Executive Board.

### 3 Basic principles of risk management in governance

#### 3.1 Basic principles of risk management in governance

- The management of the Riksbank's financial assets shall be in accordance with Chapter 9, Section 1 of the Sveriges Riksbank Act and be conducted efficiently.
- The management of the Riksbank's financial assets and liabilities may be carried out by the Riksbank itself, or by another institution (external asset manager), provided that the latter is approved in the Riksbank's application procedure and undertakes to comply with the requirements of this policy and the regulations regarding asset management.
- Transactions and business relationships shall be documented in the manner and form that is customary in the respective market. The division of responsibility between the parties shall be reasonably balanced with regard to the status of the Riksbank as a central bank, and the documentation shall be adjudged to function in accordance with Swedish law.

#### 3.2 Principles for the risk management of the gold and foreign exchange reserves

- The gold- and foreign exchange reserves are part of the Riksbank's financial assets and their composition shall reflect the Riksbank's tasks and powers of authority. The management of the gold and foreign exchange reserves shall be based on the principles described in the Riksbank's Investment policy for the gold and foreign exchange reserves, for which the Head of the Markets Department is responsible.

#### 3.3 Principles for the risk management of securities denominated in Swedish kronor

- The Riksbank's holdings of securities in Swedish krona shall consist of securities that the Riksbank buys and manages within the framework of the Executive Board's policy decisions.

- The Executive Board decides (within the framework of policy decisions) on maximum authorised holdings, permitted transactions and portfolio risk management. Transactions in corporate bonds are also permitted if they are conducted to deal with corporate actions and other events regulated in the bond terms.
- Decisions on significant changes to the holdings in the Riksbank's securities portfolio in Swedish kronor are prepared by the departments concerned within the framework of monetary policy decisions. The preparation shall take into account the total financial risks on the Riksbank's balance sheet.

## 4 Risk management

- The purpose of managing the Riksbank's financial risks is to limit losses on financial assets so that the Riksbank can always carry out its tasks and powers of authority<sup>4</sup>. The Basel Committee's principles shall guide the Riksbank's management and curtailment of financial risks.
- All financial risks shall be quantified using the measurements that are most appropriate for each risk type. The Chief Risk Officer is responsible for defining the principles for these measurements in a *Regulation for measuring market risk*, a *Regulation for measurement of credit risk* and a *Regulation for measurement of credit risk*.
- Stress tests and scenario analyses shall be used to identify high-risk areas and concentration risks, and to evaluate the combined effects of financial stress.
- Limits shall be used where applicable to curtail the financial risks. Limits and who decides on them shall be stated in the Riksbank's Investment policy for the gold and foreign exchange reserves. The Chief Risk Officer is responsible for the methodologies for calculating limits and constraints defined in *Regulation for measuring market risk*, *Regulation for measurement of credit risk* and *Regulation for measurement of credit risk*.
- For decisions that affect the Riksbank's financial assets and are prepared by a department, the consequences for the balance sheet's return and risk shall be analysed, and these consequences shall form part of the basis for the Executive Board's decision. This applies when the decision involves a significant change in the balance sheet.
- An application procedure shall be carried out for decisions involving changes in the management of the Riksbank's assets and liabilities. A change in management may, for example, relate to a new asset class, a new currency, a new type of instrument, a new country, a new issuer, a new counterparty, a new external asset manager or a combination of these. The forms for the application shall be decided by the Head of the Markets Department and shall be set out in a *Regulation for application procedure*.

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<sup>4</sup> Chapter 9, Section 1 of the Sveriges Riksbank Act.

## 5 The Riksbank's risk tolerance

5.1 The Riksbank shall manage its assets to enable it to carry out its tasks and powers of authority and to generate sufficient income to finance its activities. The assets shall be managed with low risk and taking into account the Riksbank's status as a central bank and the purpose of the asset holdings. The asset composition defines the Riksbank's financial risk tolerance, which is determined by the Executive Board through decisions on the following:

- Duration of the Riksbank's assets, i.e.
  - how the cash flow and maturity of the Riksbank's various assets are distributed.
- Currency distribution of assets and degree of currency exposure.
- The assets' exposure to credit risk, i.e.
  - how different asset classes, issuers and counterparties are distributed across credit ratings.
- The assets' exposure to liquidity risk, i.e.
  - how long it takes to change or dispose of assets, and at what cost.

5.2 The Executive Board of the Riksbank decides on a risk tolerance expressed as the total financial loss, expressed in Swedish kronor, that may not be exceeded during a year. This measure also constitutes the overall risk limit that the management of the Riksbank's assets may not exceed.

- The Riksbank's total financial risk shall be divided into market risk, credit risk and liquidity risk. The composition of assets decided by the Executive Board shall have the following overall limits for the Riksbank's financial risk:
  - Losses on the Riksbank's assets due to market risk shall be limited to SEK 73,0 billion.
  - Losses on the Riksbank's assets due to credit risk shall be limited to SEK 4,7 billion.
    - Total credit risk comprises issuer risk, credit risk and settlement risk and shall be calculated in accordance with the *Regulation for measurement of credit risk* for which the Chief Risk Officer is responsible.
    - The *Regulation for measurement of credit risk* shall contain rules aimed at limiting exposure to credit risk arising between the Riksbank and its counterparties, and in the settlement of transactions. Such limits shall be calculated in accordance with the *Regulation for measurement of credit risk*. These shall be included in lists of authorised issuers and counterparties managed by the AFM. Deviations from the restrictions shall be reported to the Chief Risk Officer.
  - Liquidity risk shall be minimised so that assets held for contingency purposes can be sold quickly. The details are decided by the Executive Board through the asset allocation process.

- The Head of the Markets Department shall inform the Executive Board when there is a risk of limit breach. If any of the overall risk limits are exceeded, the Head of the Markets Department shall immediately inform the Executive Board.

5.3 The Executive Board takes at least one decision each year on the composition of the gold and foreign exchange reserves and, consequently, the risk limits to be applied to the gold and foreign exchange reserves in the strategic allocation process.

- The Executive Board's decisions on the composition of the gold and foreign exchange reserves constitute exposure limits in the management of the gold and foreign exchange reserves. These limits shall be specified according to the characteristics described in Section 5.1 and documented in the Riksbank's Investment policy for the gold and foreign exchange reserve, or an annex thereto.
- Decisions on strategic allocation shall be prepared in accordance with the Riksbank's Investment Policy for the gold and foreign exchange reserve. The *Markets Department* is responsible for preparing a base for a decision on strategic allocation. The data shall result in exposure limits for the composition of the gold and foreign exchange reserve assets as set out in paragraph 5.1.
- To take into account the practical management of the foreign exchange reserve assets, risk deviations between the foreign exchange reserve assets and the benchmark<sup>5</sup> decided by the Executive Board are allowed. The market risk of the actual foreign exchange reserves and the benchmark shall be measured according to the *Regulation for measuring market risk* and shall be the same on average. Temporary deviations within three standard deviations are allowed.

## 6 Compliance

The Heads of Department concerned are responsible for the implementation and enforcement of this policy within their respective departments. The Risk Department is responsible for monitoring compliance and reporting it to the Executive Board.

## 7 Entry into force

This policy will enter into force on 19 February 2025.

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<sup>5</sup> That is, strategic allocation and any tactical mandate according to the basis for strategic decision.