



Memorandum

DATE: 3 December 2018
DEPARTMENT: Markets Department
REFERENCE: Susanne Bohman
DOCUMENT SECURITY: RB PUBLIC

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

Ref.no. 2018-01112

Amendments to the Terms and Conditions for RIX and Monetary Policy Instruments

1. Purpose

The Riksbank has reviewed the *Terms and Conditions for RIX and Monetary Policy Instruments* (“Terms and Conditions”) and proposes a number of amendments to them. This Memorandum describes the proposed amendments as well as their possible consequences. The following amendments are described below:

- 1 New description of the Monetary Policy Operational Framework
- 2 Only one category of Monetary Policy Counterparty
- 3 Clearer categorisation of the Monetary Policy Instruments
- 4 Adjusted requirements for RIX Participants
- 5 Adjusted requirements for Monetary Policy Counterparties

2. Proposed amendments

1. New description of the Monetary Policy Operational Framework

Purpose of the proposed amendments

Until now, the Riksbank has not described the current application of the Monetary Policy Operational Framework in a uniform manner. Instead, descriptions have been given in different places in the Terms and Conditions and these descriptions have not been comprehensive. A need has been identified to develop a more complete description in order to increase understanding of the Riksbank’s intentions with the Monetary Policy Operational Framework and current application.

Currently proposed amendments to the Terms and Conditions

It is proposed that the preamble to the Terms and Conditions, in which certain parts of the Monetary Policy Operational Framework are described in running text, and Annex H6 (The Riksbank's Monetary Policy Instruments) are removed from the Terms and Conditions and replaced by a description of the Monetary Policy Operational Framework and current application. These description shall be independent of the Terms and Conditions and an up-to-date version has been published on the Riksbank website (<https://www.riksbank.se/globalassets/media/rapporter/ovriga-rapporter/the-riksbanks-monetary-policy-operational-framework--overall-description.pdf>).

Consequences of the amendment

The descriptive document detailing the Riksbank's intentions with the Monetary Policy Operational Framework should lead to greater transparency and clarity in the communication with Riksbank counterparties and make it easier for the Riksbank to clarify why certain amendments to the Terms and Conditions need to be made. The hope is that this will ultimately facilitate understanding of the wording of the Terms and Conditions.

2. One category of Monetary Policy Counterparty

Purpose of the proposed amendments

The proposal will simplify the circle of counterparties so that the Riksbank only has one category of Monetary Policy Counterparty in the future. This means that the counterparty categories *Primary Monetary Policy Counterparty* and *Restricted Monetary Policy Counterparty* will disappear. See Annex 1 for an illustration of the current structure.

A *Restricted Monetary Policy Counterparty* is an institution domiciled in Sweden that may be a counterparty in transactions intermittently decided on by the Riksbank. The counterparty category *Restricted Monetary Policy Counterparty* was added during the financial crisis to widen the circle of counterparties and hence the impact of certain facilities. There is currently only one *Restricted Monetary Policy Counterparty*. Under the Terms and Conditions, the Riksbank can always choose to carry out special transactions with counterparties it finds to be appropriate which is why there is no need for a predetermined specific circle of counterparties for this purpose. Removal of this category does not entail a limitation or obstacle to reintroducing at a later date this type of measure for counterparties that are not RIX participants. Reducing the number of counterparties makes the regulatory framework simpler and clearer under normal conditions.

Primary Monetary Policy Counterparties are presently a circle of counterparties that, in the Riksbank's assessment, has a sufficiently large share of the money and bond market (there are currently five *Primary Monetary Policy Counterparties*). Under the current Terms and Conditions, *Primary Monetary Policy Counterparties* have the same rights as other *Monetary Policy Counterparties*, as *Monetary Policy Counterparties* may also carry out fine-tuning transactions in accordance with a decision taken by the Riksbank in 2008. However, *Primary Monetary Policy Counterparties* have more obligations than

Monetary Policy Counterparties under the current Terms and Conditions. It is therefore proposed that the requirements imposed on *Monetary Policy Counterparties* be amended so that they are the same as the requirements currently imposed on *Primary Monetary Policy Counterparties* in order to create stricter requirements.

Currently proposed amendments to the Terms and Conditions

The proposal is to amend the Terms and Conditions so that the concepts of *Restricted Monetary Policy Counterparty* and *Primary Monetary Policy Counterparty* be removed from the Terms and Conditions. This would leave three different category of counterparty in the Terms and Conditions: *RIX Participant*, *Monetary Policy Counterparty* and *Counterparty in Foreign Exchange (FX) Transactions*. It is these three counterparty categories that are currently used in practice. See Section 5 for information on the proposed future requirements for *Monetary Policy Counterparties*.

Consequences of the amendment

Removal of the two counterparty categories *Restricted Monetary Policy Counterparty* and *Primary Monetary Policy Counterparty* will probably make it easier to understand the Terms and Conditions and what applies to the various types of counterparty. The current system of several different types of monetary policy counterparty can be seen as confusing, especially when the requirements imposed on the different types are the same. With just one category of monetary policy counterparty, however, the Riksbank will need to use a different criterion than the fact that a participant is a *Primary Monetary Policy Counterparty* when deciding on which counterparties shall be covered by requirements to report certain trading statistics. See Section 5 for information on the proposed criteria.

According to a transitional provision, counterparties that are currently *Primary Monetary Policy Counterparties* will be automatically transferred to the category *Monetary Policy Counterparty* on a given date. A counterparty that is a *Restricted Monetary Policy Counterparty* will not be automatically transferred to another counterparty category.

3. Clearer categorisation of the Monetary Policy Instruments

Purpose of the proposed amendments

The monetary policy transactions (*Open Market Operations*) that can be used in the current Monetary Policy Operational Framework are divided into three different categories according to the transaction's maturity (*Fine-Tuning Transactions* – overnight, *Structural Transactions* – one week and *Main Transactions* – longer maturity). See [Annex 1](#) for a description of the current Monetary Policy Operational Framework. A simplification is now being proposed so that monetary policy transactions are no longer divided into these three categories according to their maturity.

Currently proposed amendments to the Terms and Conditions

It is proposed that the terms *Structural Transactions* and *Main Transactions* be removed from the Terms and Conditions. The monetary policy transactions currently described in the Terms and Conditions shall remain unchanged although it is proposed that the name be changed from *Open Market Operations* to *Market Operations*, as this is a better and more correct term for them. For a description of the proposed Monetary Policy Operational Framework, see Annex 2.

The term *Fine-Tuning Transactions* will remain in the Terms and Conditions with the following definition: “*Market Operations aimed at stabilising the overnight rate and smoothing out fluctuations in the financial system’s overnight borrowing or deposit requirements at the Riksbank*”. The term *Fine-Tuning Operations* must remain in the Terms and Conditions as it is a concept currently used by the Riksbank.

Consequences of the amendment

The removal of the categorisation of monetary policy transactions based on their maturity will give the Riksbank greater flexibility when choosing which monetary policy transaction to use in a given situation. The future categorisation of different types of Market Operations described in the Terms and Conditions will only dictate which transactions can be carried out by *Monetary Policy Counterparties* and which can be carried out by *Counterparties in Foreign Exchange (FX) Transactions*. There will be no additional restriction on how the different monetary policy transactions can be used from the Riksbank’s perspective. The purpose of the Terms and Conditions will be clearer and simpler to apply for the Riksbank and its counterparties.

4. Adjusted requirements for RIX Participants

Purpose of the proposed amendments

In recent years, new legislation on resolution, GDPR and money laundering has come into force. The Riksbank should clarify for RIX Participants how the legislation may impact their participation in RIX and certain supplements are now being added to the Terms and Conditions as a result. It is also proposed that certain requirements that apply to participation in RIX be restructured and clarified.

Currently proposed amendments to the Terms and Conditions

Section 3.2 in the Terms and Conditions specifies the requirements imposed on counterparties. This section has been reworked and the sections concerning the obligations for counterparties to submit information that have previously been spread among different parts of the Terms and Conditions have now been gathered together in Section 3.2 to create clarity.

Certain general requirements applicable to all counterparties are listed in an introductory section and then this is followed by specific requirements for the three proposed new categories of counterparty:

- RIX Participant



- Monetary Policy Counterparty
- Counterparty in Foreign Exchange (FX) Transactions.

New requirements are proposed to apply to RIX Participants including a requirement for general soundness and security. Furthermore, a requirement will be introduced for RIX Participants to have the operational capacity to be a participant in RIX along with a requirement for duality when carrying out transfers (known as the “four eyes principle”). Legislation on resolution and GDPR has been passed in recent years and clauses have now been added to bring the participants’ attention to this. Similarly, participants are made aware of legislation on money laundering and the funding of terrorism. In addition, the Riksbank proposes to clarify some of the requirements imposed on RIX Participants as regards protection against cyber threat and stricter reporting obligations with respect to financial information.

In the proposed Terms and Conditions, the Riksbank can request a certificate from the counterparty proving that they fulfil the requirements and undertakings laid down in the Terms and Conditions. Such a certificate can be requested by the Riksbank at any time.

Consequences of the amendment

The purpose has been to create a clearer and stricter section in the Terms and Conditions as regards the requirements imposed on counterparties. The requirements imposed on the various counterparty categories have previously been spread around the document but have now been gathered together in a single section.

The requirement for duality means that the Riksbank will not accept deviations from the four eyes principle in the implementation of authorisations in RIX Online and regarding Power of Attorney (R4.B2) for the signing of transfers that are to be executed manually.

Certain requirements in the Terms and Conditions shall be fulfilled on the day the Institution applies to become a counterparty while others are worded as undertakings to be fulfilled by the counterparty in certain given situations.

5. Adjusted requirements for Monetary Policy Counterparties

Purpose of the proposed amendments

As it is proposed that there shall be only one category of monetary policy counterpart in the future, the requirements imposed on monetary policy counterparties have been reviewed. Certain requirements that previously only applied to Primary Monetary Policy Counterparties are now proposed to be applicable to all Monetary Policy Counterparties.

Currently proposed amendments to the Terms and Conditions

As before, a Monetary Policy Counterparty shall be a RIX Participant domiciled or with a branch in Sweden. A requirement for operational capacity and general soundness has been introduced. So as not to lose the information that *Primary Monetary Policy*

Counterparties are currently obliged to submit, a requirement is now being proposed obliging the *Monetary Policy Counterparty* as soon as is practically possible to:

Report to the Riksbank, in accordance with the Riksbank's detailed instructions, both the size of the turnover the Monetary Policy Counterparty and its group companies have had in the money and bond market, and information on transactions on the money market. The Riksbank may waive this reporting or parts thereof if, in the Riksbank's assessment, the Institution is of minor significance as a participant on the market.

It is currently the Riksbank's assessment that all monetary policy counterparties will be obliged to report transactions on the money market but that only Monetary Policy Counterparties that are Swedish National Debt Office primary dealers will be required to report turnover on the money and bond market. This assessment may change over time.

The purpose of collecting information on yields and transactions on the money market is partly to enable the Riksbank to evaluate the implementation of monetary policy and partly to be able to produce rates that can constitute the reference rate for the shortest maturity.

Furthermore, the following information requirements previously applicable to *Primary Monetary Policy Counterparties* shall apply to *Monetary Policy Counterparties* in the future:

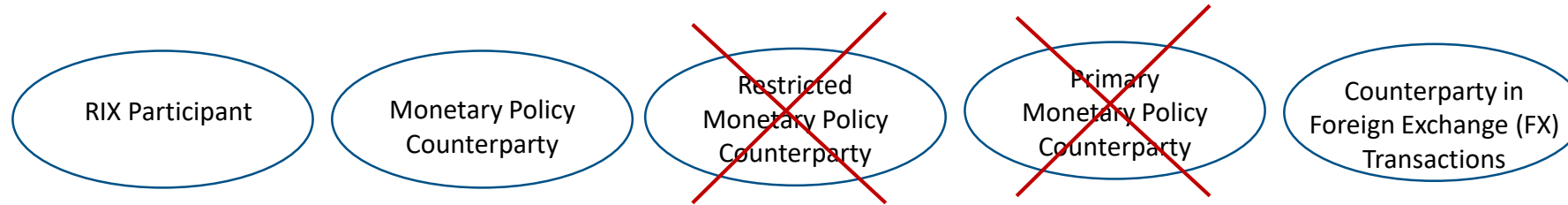
The Monetary Policy Counterparty shall as soon as practically possible, inform the Riksbank:

- (1) of notable structural changes and tendencies in the Swedish money and bond market,*
- (2) of factors that could affect the Swedish money and bond market in the short term and that the Riksbank cannot be assumed to have received information about in any other way,*
- (3) if the Counterparty suspects or knows of anomalies in the trading on the money and bond market, e.g. because transactions deviate from what is normal as regards their size, frequency or price, and*
- (4) of notable staff changes that have significance for the Riksbank's contacts with the Institution, particularly with regard to the responsible contact person.*

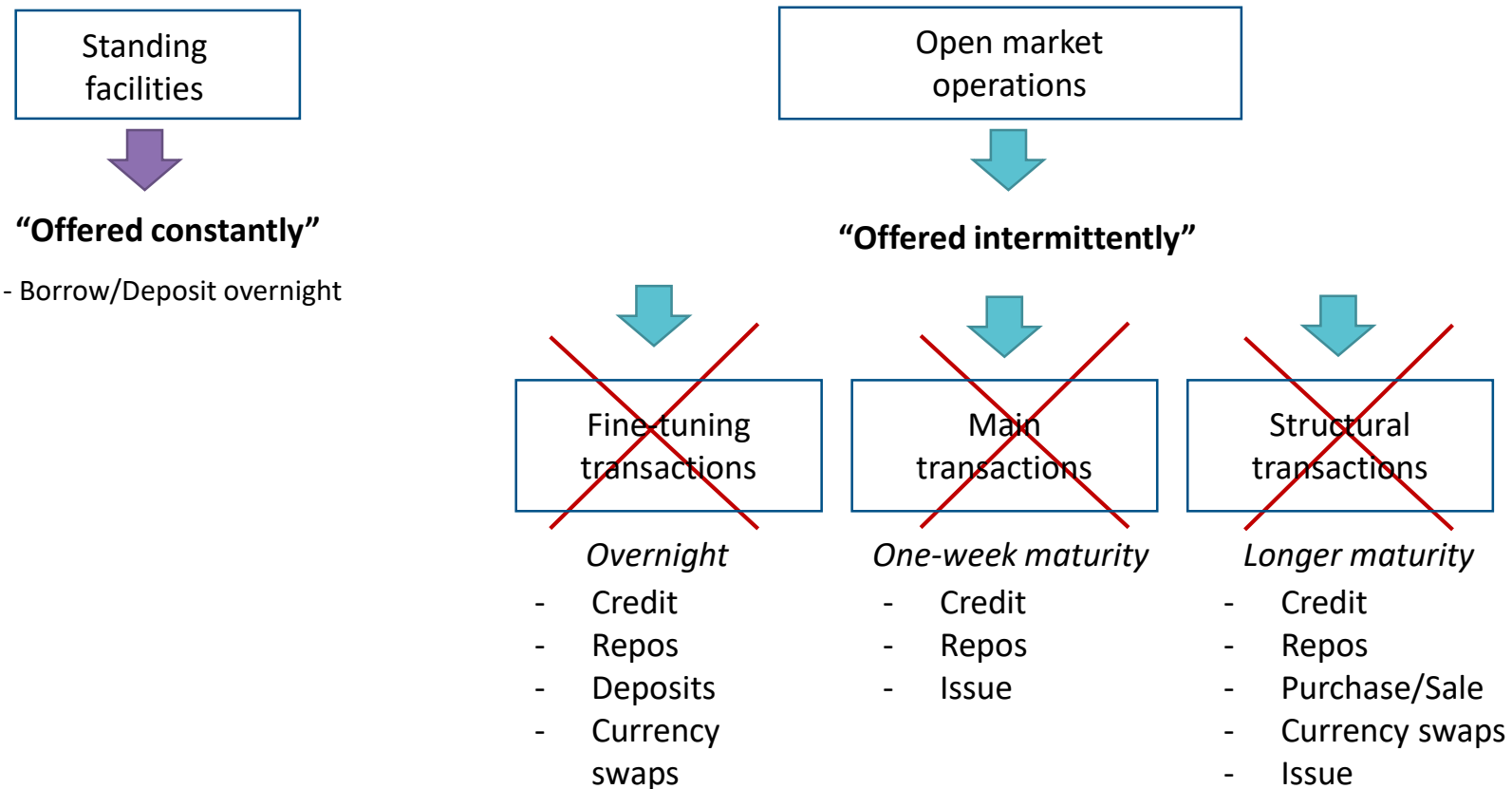
Consequences of the amendment

For monetary policy counterparties who are currently not *Primary Monetary Policy Counterparties*, this amendment involves slightly more extensive requirements than those that currently apply. A transitional period should be allowed for existing Monetary Policy Counterparties before they are fully subject to the new requirements. As regards the reporting requirement, it is up to the Riksbank to decide which institutions are of minor significance as market participants and therefore shall be exempted from the reporting requirement.

Current participant categories



Current transaction structure



Participant categories - under the proposal

