

Ministry of Finance
Financial Market Department
103 33 STOCKHOLM



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

DNR 2013-234-STA

Your ref: Fi2013/329

Consultation response to the report Preventing and managing financial crises (SOU 2013:6)

10/06/2013

ESTABLISHED 1668

The Riksbank welcomes the fact that the Swedish regulatory framework for preventing and managing financial crises has become subject to an inquiry. The Riksbank supports large parts of the opinions and proposals expressed by the Financial Crisis Commission (FCC) in its interim report, but opposes the Commission's proposal regarding an organisational structure for macroprudential policy.

A starting point for the Riksbank's deliberations in this consultation response has been that the Swedish government's ability to prevent financial crises from arising needs to be strengthened. This is a lesson learned from the global financial crisis, which also affected Sweden during 2008–2009. It was a lesson shared by most countries globally. A key aspect in this context is the need to create an organisational structure which provides both sufficient decision-making power and tools to manage identified risks in the financial system.

The Riksbank finds that the institutional framework for macroprudential policy in Sweden proposed by the FCC is insufficient to this end, and risks leading to ambiguity regarding who is to act in the event of a risk arising in the financial system (ex ante responsibility). Thus, it would probably also be difficult to hold a party to account once a crisis has arisen (ex post accountability). According to the Riksbank, such ambiguity in the allocation of responsibilities risks creating a structure for macroprudential policy where decision-making power is far too weak.

*In order to achieve a clear allocation of responsibilities and sound decision-making power, the Riksbank is of the view that **one** macroprudential policy body with clear responsibility for macroprudential policy should be established. The body should be assigned well-defined tools for its task, by the Riksdag (the Swedish parliament) and the Government in the customary manner. With this as a starting point, there are a number of fundamental aspects to take into account in the choice of organisational structure. First of all, the macroprudential policy body should have sound, enduring capabilities for analysing risks to the financial system as a whole. Second, it must be possible to conduct the work of the macroprudential policy body in a resource-efficient manner. Third, account must also be taken of the fact that macroprudential policy is to interact with adjacent policy areas both in Sweden and abroad. In this respect, the Riksbank is well-placed to shoulder the responsibility for macroprudential policy in Sweden. It is also crucial that a functioning organisational structure is established as soon as possible.*

■ *In the framework of the new macroprudential policy, various tools to prevent structural and cyclical systemic risks are discussed in this consultation response. The application of macroprudential tools to manage these risks is a delicate task because the effects of the tools can have a major impact on the economy and individuals. There must be strict demands on democratic control and participation in both the adoption of new tools and their use. It is essential that democratic control is guaranteed and continually safeguarded.*

The Riksbank believes that it must be clear where the responsibility for using the tools should lie, and which authority is subsequently responsible for measures taken. The Riksbank advocates that the Riksbank alone be responsible for macroprudential policy in Sweden. However, it is also important to capitalise on the competence possessed by Finansinspektionen (the Swedish Financial Supervisory Authority). This can be arranged through the establishment of clear collaboration structures between the Riksbank and Finansinspektionen, so as to capitalise on the latter's operational and analytical competence.

The Riksbank believes that the Riksdag and the Government should, in the customary manner, decide on and regulate the use, including setting the frameworks, of the new macroprudential tools, and subsequently delegate their implementation to the Riksbank in a clear manner. Finansinspektionen can continue to make use of existing microprudential and macroprudential tools, even if the Riksbank is responsible for macroprudential policy.

Furthermore, the Riksbank is of the view that democratic control can be guaranteed within the framework of the use of the new tools. This can be achieved by the use of such tools being approved by the General Council of the Riksbank. The experiences gained by the General Council and the Executive Board in previous years from discussions ahead of various decisions (such as increasing the foreign exchange reserve) now enable taking further steps to strengthen the cooperation between these bodies.

If the Riksbank is given the leading role in macroprudential policy, decision-making with respect to macroprudential policy measures can be organised in different ways. One of many solutions is that decisions about the application of macroprudential policy measures be taken within the framework of the Riksbank's current decision-making structure. This solution would be appropriate in the event of the introduction of only a handful of macroprudential tools in Sweden, such as the countercyclical capital buffer and one or two more tools focusing on more cyclical risks. However, more tools will probably be needed to prevent the build-up of systemic risks. In that case, it could be more difficult to evaluate the appropriateness of the policy conducted, and the extent to which it gives rise to unintended effects on other areas. A large number of tools also involves a larger scope for decision, and potentially more extensive effects on the economy. This places even greater demands on clear structures for accountability and democratic insight. Also, the need for coordination with adjacent policy areas will be even more important.

With more macroprudential tools, it can be considered whether it might be more appropriate to allocate the responsibility for decisions about macroprudential policy measures to a specially composed decision-making committee at the Riksbank. Such a committee could consist of members from the Riksbank, Finansinspektionen and, potentially, external experts.

If a less far-reaching organisational model for macroprudential policy were chosen, in which the macroprudential tools were divided up among different authorities, the Riksbank believes that a council bearing the right of recommendation placed within the Riksbank is a better solution than the FCC's proposal. However, such a council would not have as much power to act as a decision-making body and is thus not an organisational solution primarily advocated by the Riksbank.

■ *With regard to macroprudential tools, the Riksbank is of the opinion that immediately putting in place a sufficient number of macroprudential tools in order to counteract the identified threats to stability in the financial system in an effective and efficient manner is a matter of urgency. As macroprudential policy is a new policy area, it is also important to establish a procedure for evaluating and subsequently developing and modifying such a toolbox. In order to ensure that such work is conducted with a structured and long-term approach, both the toolbox itself and the procedure for modifying it should have clear foundation in law.*

According to the Riksbank, a Swedish macroprudential toolbox should contain, at an absolute minimum, a set of complementary tools aimed at counteracting risks associated with high credit growth and indebtedness. More specifically, the Riksbank advocates that the toolbox should initially contain countercyclical capital requirements, sectoral capital requirements and mortgage caps. In addition, it should be supplemented with tools which manage risks associated with the dependency of Swedish banks on market funding and liquidity. The forthcoming macroprudential policy body should then also be commissioned with the immediate task of ensuring the ability to manage other systemic risks using the Swedish toolbox. The Riksbank would also like to point out that the suitability of using minimum reserve requirements as a macroprudential tool is currently being investigated at the Riksbank.

The Riksbank supports the FCC's proposal regarding government liquidity supply measures. According to the Riksbank, these proposals entail substantial improvements in terms of the Swedish government's possibilities of taking measures to support liquidity supply in a period of crisis.

In the matter of the tasks of the authorities, the Riksbank supports the FCC's proposal regarding amendments to the Sveriges Riksbank Act. The Riksbank also welcomes the proposal to specify the Riksbank's task as clarity regarding the responsibilities and powers of the respective authority is important when several authorities have the same overarching task. The Riksbank also emphasises that the tasks of the authorities concerned relating to macroprudential policy need to be specified and adapted to the organisational solution ultimately selected.

In addition, the Riksbank agrees with the FCC's conclusions regarding funding arrangements for crisis management. Like the Commission, the Riksbank considers that there is a need of a resolution fund to be established before a banking crisis occurs and that the deposit guarantee should be devised as an insurance premium. In relation to fees, the Riksbank agrees with the FCC that there ought to be separate fees for deposit guarantee and systemic stability. The Riksbank also emphasises that the stability fees should in time have the form of an eternal risk premium and not be tied to a targeted fund size.

The Riksbank also shares the FCC's opinion of no further statutory regulation being required regarding the exchange of information, provision of information and confidentiality in the cases specified in the interim report, with the exception of the opinion regarding statutory regulation with respect to confidentiality for the protection of public interest. In this case, the Riksbank believes that a clarification in the Public Access to Information and Secrecy Act may be required.

Furthermore, the Riksbank supports the Commission's proposal for changes in legislation in cases where current statutory regulation is not deemed to permit the flow of information between authorities judged necessary.

■ 1. Organisational structure for macroprudential supervision

The Riksbank shares the FCC's view that it is important to build up better knowledge about systemic risks, and thereby develop a better overview of this type of risk. However, the Riksbank is of the opinion that knowledge about systemic risks must be supplemented with organisational structures which counteract tendencies towards a so-called inaction bias (i.e. tendencies of not reacting as frequently and promptly as needed to stability risks). Efficient tools for counteracting systemic risks should be tied to such structures.

In this context, the Riksbank believes that the institutional framework for macroprudential policy in Sweden proposed by the FCC risks leading to ambiguity regarding who is to act in the event of a threat to the stability of the financial system emerging (ex ante responsibility). It would probably thus also be difficult to hold a party to account for macroprudential policy measures once a crisis has emerged (ex post accountability). Such ambiguity in the allocation of responsibilities risks creating a macroprudential structure with decision-making power that is too weak.

In order to achieve a clear allocation of responsibilities and sound decision-making power, the Riksbank is of the view that *one* macroprudential policy body with clear responsibility for macroprudential policy and well defined tools for its task should be established. With this as a starting point, there are a number of fundamental aspects to take into account in the choice of organisational structure. First of all, the macroprudential policy body should have sound, enduring capabilities for analysing risks to the financial system as a whole. Second, it must be possible to conduct the work of the macroprudential policy body in a resource-efficient manner. Third, account must also be taken of the fact that macroprudential policy is to interact with adjacent policy areas both in Sweden and abroad.

In this respect, the Riksbank is well-placed to shoulder responsibility for macroprudential policy in Sweden. The analytical perspective in macroprudential policy is the same as that of the Riksbank in the financial stability analysis already conducted at the Riksbank. The Riksbank also possesses deep, extensive macroeconomic expertise for its monetary policy analysis. Possessing both of these analytical perspectives is crucial to the ability to assess the repercussions between the financial and real sector in the event of different types of risk. The Riksbank thus already possesses today, and will also continue to possess in the future, relevant analytical capabilities in the macroprudential policy area. Certain macroprudential policy measures and monetary policy measures furthermore affect the economy similarly. The interaction between macroprudential and monetary policy can thus entail a certain need to coordinate decisions about interest rates with those regarding macroprudential policy measures. The Riksbank is also an active participant in the international bodies in which the majority of macroprudential policy development work is conducted and will be conducted in the next few years. At the same time, it is important to capitalise on the operational and analytical competence possessed by Finansinspektionen. This can be achieved by establishing clear collaboration structures between the Riksbank and Finansinspektionen. It is also important to identify structures to ensure democratic support and insight.

The Riksbank advocates that the Riksbank alone be responsible for macroprudential policy in Sweden. In a solution whereby the Riksbank is given the leading role in macroprudential policy, decision-making with respect to macroprudential policy measures can be organised in different ways. One of several solutions is that the decisions be taken by the Executive Board in consultation with the General Council. This solution would be appropriate in the event of the introduction of just a handful of macroprudential tools in Sweden, such as the countercyclical capital buffer and one or two more tools, all of which focus on more cyclical risks. Primary responsibility for decisions about tools for counteracting cyclical risks being

allocated to the Riksbank is a position also expressed in the FCC's interim report. This solution is also simple in organisational terms.

However, more tools will probably be needed to prevent the build-up of systemic risks. In that case, it could be more difficult to evaluate the appropriateness of the policy conducted, and the extent to which it gives rise to unintended effects on other areas. A higher number of tools also involves a larger scope for decision, and potentially more extensive effects on the economy. This places greater demands on clear structures for accountability and democratic insight. Also, the need for coordination with adjacent policy areas will be even more important. With more macroprudential tools, allocating the responsibility for decisions about macroprudential policy measures to a specially composed decision-making committee at the Riksbank could be considered secondarily. Such a committee could consist of members from the Riksbank, Finansinspektionen and, potentially, external experts.

If a less far-reaching organisational model for macroprudential policy were chosen, in which the macroprudential tools were divided up among different authorities, the Riksbank believes that a council bearing the right of recommendation placed within the Riksbank is a better solution than the FCC's proposal. However, such a council would not have as much power to act as a decision-making body and is thus not an organisational solution primarily advocated by the Riksbank.

The proposal of the Financial Crisis Commission

In its interim report, the FCC indicates that it is necessary to accumulate better knowledge about systemic risks. According to the FCC, this is best achieved within the framework of a broad and open collaboration. As a platform for this, the FCC proposes a macroprudential council in which the Riksbank and Finansinspektionen consult each other ahead of decisions about macroprudential policy measures. This council would include the Riksbank, Finansinspektionen and two independent experts as members, while the Ministry of Finance would have the possibility of participating as an observer. It is proposed that the council should seek to promote greater knowledge about systemic risks and the development of macroprudential tools, as well as analyse risks and discuss appropriate measures. A council secretariat would be established at the Riksbank. The FCC also proposes that the council be regulated by law in order to ensure continuity. However, responsibility for decisions about macroprudential policy measures is not proposed to rest with the council, but with the Riksbank and Finansinspektionen. The FCC proposes that both authorities be given a statutory responsibility for macroprudential policy and have the ability to be allocated with macroprudential tools. Furthermore, the authorities are to consult each other ahead of decisions about the use of macroprudential tools.

The Riksbank's opinion and proposal

Sweden was not among the countries hardest hit by the latest global financial crisis. However, serious problems arose in the Swedish financial system too, forcing the Riksbank and other authorities to take a number of measures. The crisis made it clear that in Sweden, like in many other countries, there is a lack of both clear mandates and tools to prevent and manage shocks in the financial system.

In light of this, the Riksbank considers it a matter of urgency that the Swedish government's ability to both prevent and manage financial risks be strengthened. A key aspect in terms of the preventive work is to attain an appropriate and smoothly functioning organisation of the new policy area called macroprudential policy. In this context, the Riksbank is of the opinion that there is a need in Sweden to set up an organisational solution for

■ macroprudential policy characterised by decision-making power and which capitalises on the extensive knowledge about systemic risks in the financial system that already exists today. It is the Riksbank's position that, to this end, a macroprudential policy body with a clear mandate should be appointed. This macroprudential policy body should also be allocated with efficient and well-defined tools by the Riksdag (the Swedish parliament) and the Government, in the customary manner.

Lessons learned from the last financial crisis – the need for expertise development, decision-making power and efficient tools

The Riksbank shares the FCC's view that it is important to accumulate better knowledge about systemic risks. The last financial crisis clearly showed that nobody had a sufficient overview of the risks in the financial system, either globally or in individual countries. Nobody understood the serious imbalances which were building up over a long time, which then contributed to the crisis erupting in the autumn of 2008. At the same time, it is important to point out that extensive knowledge about systemic risks already exists today. This is particularly true for central banks, which have been analysing this type of risk for a long time. However, as the FCC indicates in its interim report, this knowledge needs developing and strengthening.

The Riksbank believes, however, that accumulating knowledge about systemic risks does not suffice. Structures are also needed that counteract tendencies towards a so-called inaction bias – that is, a situation in which authorities refrain from taking measures even though there are signs of heightened risks.

For example, the signs of heightened risks which had nevertheless prevailed in several countries before the autumn of 2008 did not lead to appropriate countermeasures being taken. One reason for this was deficiencies in the distribution of responsibility and powers for the financial stability work of authorities. The financial supervisory authorities around the world have, as a rule, not had any pronounced systemic perspective in their monitoring, but have instead been primarily focused on monitoring individual institutions. The authorities – primarily central banks – which have had a more comprehensive systemic and macroeconomic perspective in their monitoring have not, however, had a sufficient mandate to intervene or tools for this purpose.

Furthermore, it is probable that the passivity which contributed to the emergence of the latest financial crisis was also due to the general difficulty of garnering support for systemic risk prevention measures during a period when no clear shocks occurred. With crisis awareness still high currently, this problem of passivity is not as palpable. However, once the memory of the crisis starts to fade, there is a risk that it will once more be difficult to take measures to prevent risks in the financial system.¹

Although Sweden weathered the latest financial crisis relatively well and was mainly drawn into it because of indirect effects following problems in other countries, this tendency towards passivity was present here too. For example, no countermeasures were taken despite Swedish banks' lending in the Baltic countries had grown very quickly indeed during the years before the crisis, leading to major risks building up in the Swedish financial system.

Besides knowledge and determination, effective and efficient tools are also needed to prevent systemic risks. Even if there had been greater determination ahead of the last financial crisis, the tools available were focused on the state of health and behaviour of

¹ For example, the proposal of the Banking Law Committee for a new regulatory framework for managing distressed banks did not give rise to any legislative amendments after the Committee submitted its report in 2000 (see SOU 2000:66 Public administration of banks in distress).

■ individual participants and companies. Tools specifically focused on stability in the system as a whole therefore need to be developed.

In light of this, the Riksbank is convinced that it is of tremendous importance to clarify responsibilities and powers for managing systemic risks in Sweden, and to develop efficient tools to manage these risks.

Principles for the organisational structure of macroprudential policy

The Riksbank is of the opinion that the general difficulty in acting against systemic risks is a key aspect to take into account when devising a framework for how macroprudential policy is to be conducted in Sweden. This underscores the importance of creating a structure which provides *good decision-making power*. Fundamental to this is clarity about where the responsibility for counteracting systemic risk lies, which in turn requires a clear mandate. In order to counteract systemic risks, the organisation for macroprudential policy also needs to be equipped with efficient and well-defined tools. The organisational structure proposed by the FCC is, according to the Riksbank, too unclear to create such conditions.

In this context, the institutional framework proposed by the FCC, with a council whose focus is on expertise development rather than decisions about measures, and two authorities bearing responsibility for macroprudential policy, risks leading to ambiguity about who is to act if a risk in the financial system emerges (ex ante responsibility). It could also be difficult to hold a party to account for macroprudential policy measures once a crisis has emerged (ex post accountability). Ambiguity in the distribution of responsibility thus risks creating a structure for macroprudential policy which does not provide greater power to act than is currently the case. In terms of the proposed council, a position can be taken in various matters only if the council is entirely unanimous, but its positions have no legal effect. However, in the event of disunity, the council lacks mechanisms (such as voting rules) for attaining a position; rather, each authority acts as it deems fit.

The Riksbank shares, however, the FCC's position that *sound analytical capabilities and continuity* are fundamental to efficient macroprudential policy. The decision-making macroprudential policy body must have substantial and enduring capabilities for analysing risks to the financial system as a whole, and assessing potential suitable measures for preventing such risks.

It is also important to have an organisational solution which guarantees that macroprudential work can be conducted in a *resource-efficient* manner, even if there are seemingly no immediate threats to financial stability. One aspect of this is that the expertise and knowledge that already exists today, and which will exist in the future, should be harnessed. Incorporating an economic efficiency perspective is thus key in the work of setting up the organisational structure for macroprudential policy. However, in the organisational structure proposed by the FCC, it cannot be ruled out that the distribution of work between the Riksbank and Finansinspektionen will be inefficient when the two of them are striving to perform both thorough systemic risk analyses and assessments of which tools ought to be used when needed, and how these should then be calibrated.

The organisational structure must furthermore take account of the fact that macroprudential policy must be able to *interact with adjacent policy areas* in an efficient manner from a public perspective. An important fundamental aspect to consider in this respect is the link with monetary policy, which is within the Riksbank's area of responsibility, and traditional supervision of financial institutions (microprudential supervision), for which Finansinspektionen is responsible.

The Riksbank furthermore finds it crucial that Sweden can *act efficiently in the international cooperation* in the macroprudential policy area. Macroprudential policy is a policy area

■ under development, for which a lot of the work takes place in the international arena, so participation and influence in this work have a bearing on how macroprudential policy will be conducted in Sweden. This aspect is of tremendous importance to future financial stability work, because stability risks run across national borders to a great extent, as was clearly shown not least during the last crisis. Having solid fundamentals for active participation in international stability risk discussions is therefore of importance to financial stability in Sweden too.

In this context, the Riksbank would also like to bring up the recommendation about national macroprudential mandates issued by the European Systemic Risk Board (ESRB) in December 2011. The recommendation specifies that EU countries should provide *one* body – an institution or a council – with the responsibility of implementing macroprudential policy. Giving the responsibility of action to two authorities, as is proposed by the FCC, is thus not in line with the ESRB’s recommendation. To the extent that the macroprudential council is to be seen as a responsible body for macroprudential policy, it is also far too weak because it can neither decide on nor issue recommendations about the application of any tools.

Another important aspect is the matter of *autonomy and democratic control*. As the FCC ascertains, macroprudential policy and monetary policy have a shared feature in that decisions in these policy areas can be controversial and not particularly popular with the general public, which can lead to the passivity described above. This is often given as a reason for macroprudential policy, just like monetary policy, needing to be given a high degree of autonomy.

A prerequisite for a high degree of autonomy is, however, that the objective of the work delegated to a macroprudential policy body is clear and assessable. In this respect, the difference between monetary policy (which is guided by a quantified inflation target) and macroprudential policy (the objective of which is financial stability) is substantial, because the objective of macroprudential policy comprises many different dimensions. For example, macroprudential policy can be about reducing and preventing excessive credit growth, reducing liquidity risks and maturity mismatches in the banking system, and increasing the financial infrastructure’s resilience to shocks. In all cases, it is hard to formulate a simple and clear target. Evaluating macroprudential policy decisions and holding the decision-makers to account is therefore harder. There is therefore reason to make the democratic control of macroprudential policy even stronger than it is for monetary policy. In addition, the democratic control of macroprudential policy is important because certain types of decision in this policy area can have significant distributional consequences. The degree of autonomy must thus relate to accountability in a balanced manner. The Riksdag’s and the Government’s participation and responsibility in the framework of this process are described elsewhere in this response.

Organisational structure of macroprudential policy

It is the Riksbank’s view that the future organisation of macroprudential policy in Sweden should be established with reference to the principles described above. It is thus important to identify a solution that ensures that necessary decisions are taken, which presupposes clarity about which body bears responsibility for counteracting risks that have emerged, and that this body has well-defined tools for its task. At the same time, the solution must ensure that the decision-making body has substantial and enduring capabilities for analysing financial stability matters, and that these capabilities are used in an economically efficient manner in terms of both resource utilisation and interaction between macroprudential policy and adjacent policy areas. The organisational solution must also contribute to Sweden’s ability to act efficiently in the international cooperation in the macroprudential policy area. In addition, the Riksbank also finds that the possibility of

■ suitably combining political autonomy of the decision-making body with democratic insight is an important aspect to observe.

In order to achieve the decision-making power required in macroprudential policy work, the Riksbank is of the opinion that *one* macroprudential policy body should be appointed, with a clear mandate to make decisions about macroprudential policy measures. It would then be clear where the responsibility for identifying and counteracting emerged systemic risks lies. Exactly how such a decision-making body should be organised is not clear cut, but the fundamental aspects discussed above provide certain guidance.

A key aspect is about analytical power and economic efficiency. The discussion about a suitable organisational structure must, in an initial step, be based on an analysis of the extent to which the knowledge required in macroprudential policy exists today, and where it exists, because it ought then to be harnessed. How close the analysis already being performed is to macroprudential policy also provides an indication of the link between the other tasks of each authority and macroprudential policy.

In practice, the Riksbank's present task to promote a safe and efficient payment system involves it working to achieve stability in the financial system as a whole. In order to fulfil its task, the Riksbank works partly in a preventive manner by identifying and in different ways counteracting risks in the financial system, and partly with managing crises should they nevertheless occur. The preventive work focuses on the ongoing stability assessment continually performed by the Riksbank and published in the Financial Stability Report. The analysis aims to identify risks and vulnerabilities among key participants in the Swedish financial system, such as banks and financial infrastructure companies, and to encourage these participants in different ways to manage the identified risks.

In order for the payment system to be safe and efficient, the Riksbank, like other central banks, needs to be able to manage a financial crisis and other serious shocks in the financial system. Here, the Riksbank has a special role because, as a central bank, it can quickly supply the financial system with liquidity when needed. A prerequisite for doing this in an economically efficient way is sound knowledge about the financial system and its participants, and the current state of stability. The Riksbank's stability analysis also fulfils this function and is thus crucial not only to the preventive work, but also to the Riksbank's ability to act in a crisis. On the whole, the Riksbank's task in this area has led to it building up extensive capabilities for systemic risk analysis over the last 15 years.

Because the Riksbank is also responsible for monetary policy with the aim of maintaining price stability, the Riksbank also has an advanced analytical framework for assessing macroeconomic developments. Access to advanced analytical frameworks for both financial stability and macroeconomy also enables the Riksbank to analyse repercussions between the financial and real sector in depth. This is of great importance to macroprudential work, because certain macroprudential policy measures can affect the credit volume in the economy in different ways, and hence the consumption and investment decisions of households and companies. Macroprudential policy and monetary policy affect the economy similarly. Both of these policies affect inflation and economic activity, largely through the same channels. The interaction between macroprudential policy and monetary policy can thus entail a certain need to coordinate decisions about interest rates with those regarding macroprudential policy measures.

The Riksbank has also gained an increasingly prominent role in the international work on developing standards and regulatory frameworks for macroprudential policy. For instance, the Riksbank represents Sweden in the Bank for International Settlements (BIS), whose primary task is to promote international monetary and financial cooperation. The International Monetary Fund (IMF) is another international forum in which the Riksbank, together with the Ministry of Finance, represents Sweden and contributes funding to the IMF's loans to countries in economic distress. The Riksbank also has substantial possibilities

■ to help prevent and warn of systemic risks in the framework of the collaboration with the ESRB, which issues warnings and recommendations in the event of threats to financial stability in the EU, and provides opinions about forthcoming financial legislation in the EU from a macroprudential policy perspective.

Finansinspektionen also has important systemic risk management competence. By issuing regulations and granting authorisation to conduct financial operations, supervising to ensure compliance with the regulations and, when needed, intervening against infringements, Finansinspektionen bears responsibility for large parts of the regulations that govern the financial sector in Sweden today. As part of its task of working to secure a stable and well-functioning financial system and achieve sound consumer protection in the financial system, Finansinspektionen also performs some general financial stability analysis which complements the authority's thorough knowledge about individual financial institutions and their risk models. Finansinspektionen also possesses extensive operational expertise and practical experience of the regulation and implementation of policy measures.

Although macroprudential and microprudential tools can affect the same variables, the purpose of the measures in each policy area differs. Macroprudential policy focuses on stability in the financial system as a whole, while microprudential supervision focuses on the stability of individual financial institutions and on consumer protection matters. Microprudential and macroprudential policy decisions thus differ with respect to their purpose, but also the type of analysis they are based on. Macroprudential policy has an analytical focus which, to a greater extent than microprudential supervision, requires advanced analytical frameworks for studies of both the macroeconomy and financial stability, and of how these affect each other. A lesson learned from many financial crises is that the build-up of systemic risk often starts beyond the regulated sector, i.e. at companies that are not formally under supervision. A difficult but important task for macroprudential policy is thus to identify risks arising beyond the actual area of supervision. Macroprudential policy must also complement microprudential supervision with monitoring and analysis to assess financial cycles that can affect the probability and scope of imbalances in the financial system as a whole. In other words, macroprudential policy must be exercised with a broader field of vision than ordinary microprudential supervision. This is also a reason why macroprudential policy has come to form its own policy area.

In light of the respective present roles, tasks and competence of the Riksbank and Finansinspektionen, both authorities thus have links with macroprudential policy. However, this new policy area requires a clear organisational structure which can guarantee a high degree of decision-making power. As already upheld by the Riksbank, the conditions for such decision-making power are best if *one* macroprudential policy body is established. Different models for such an organisational structure, in which the responsibility for macroprudential policy is placed with a new authority, with a decision-making committee or with the Riksbank or Finansinspektionen, are discussed in the FCC's interim report.

To sum up, it can be ascertained that the Riksbank is well-placed to shoulder responsibility for macroprudential policy in Sweden. As evidenced by the account above, the analytical perspective in macroprudential policy is the same as that in the financial stability analysis already conducted by the Riksbank. The Riksbank also possesses deep, extensive macroeconomic expertise for its monetary policy analysis. Possessing both of these analytical perspectives is crucial to the ability to assess the repercussions between the financial and real sector in the event of different types of risk. The Riksbank thus already possesses today, and will also continue to possess in the future, relevant analytical capabilities in the macroprudential policy area. The Riksbank is furthermore an active participant in the international bodies in which the majority of development work on macroprudential policy will be conducted in the next few years.

■ At the same time, the Riksbank is of the view that it is important to capitalise on the operational competence and knowledge about, for instance, individual financial institutions and their risk models possessed by Finansinspektionen. This can be achieved by establishing clear collaboration structures between the Riksbank and Finansinspektionen. It is also important to ensure that there are structures for safeguarding democratic insight and support. This can be achieved in different ways depending on how macroprudential policy decision-making is devised.

In a solution whereby the Riksbank is given a leading role in macroprudential policy, the decision-making can be organised in different ways. The Riksbank is of the opinion that the decision-making structures must be adapted to the extent of macroprudential policy, and the number of tools that will be used. Decisions about macroprudential policy measures can be taken either within the framework of the Riksbank's present decision-making structure, or by a committee within the Riksbank consisting of members from the Riksbank, Finansinspektionen and, potentially, external experts.

Decisions within the framework of the Riksbank's present decision-making structure

Placing the responsibility for making decisions about macroprudential policy measures on the Riksbank is a model which capitalises on existing circumstances in terms of the analytical and international perspective in macroprudential policy. It is also a model based on an existing decision-making structure with well-established operational support, making it simple and quick to initiate. Because the Riksbank, as an authority under the Riksdag with a high degree of autonomy, already has firmly established structures for democratic follow-up and control through the General Council and the Riksdag Committee on Finance, the model also offers an established channel for democratic insight into and control of macroprudential work.

The Riksbank finds that this decision-making model would be most appropriate in the event of the introduction of just a handful of macroprudential tools in Sweden, such as the countercyclical capital buffer and one or two more tools, all of which focus on more cyclical risks. These tools are linked to the development of systemic risk over time, and must therefore be analysed in relation to a macroeconomic course of events. It is also in the use of such tools that a need for coordination with monetary policy arises. This makes it reasonable for the Riksbank, with its extensive competence in following and analysing macroeconomic aspects, and with its responsibility for monetary policy, to be given the main responsibility for the decisions about the tools against more cyclical risks. This position is also expressed in the FCC's interim report. If this organisational structure is selected, with the Riksbank bearing responsibility for the decisions, it will be easier to manage conflicting objectives between macroprudential policy and monetary policy. The possibilities of synergies between these two policy areas would then be greatest. Such a solution would also help offload monetary policy from some of the conflicting objectives that can arise, for instance, when the repo rate needs to be set with reference to both shorter- and longer-term considerations in monetary policy.

This organisational solution presupposes that the Riksbank, when planning macroprudential policy measures, consults with Finansinspektionen about how these measures relate to microprudential supervision. Such consultation could, in this decision-making model, occur through the Council for Cooperation which already functions today. In order to clarify the distribution of responsibilities and powers in consultation, the Council for Cooperation could also be stipulated in law in a similar way to the FCC's proposal for the macroprudential council.

However, macroprudential policy is a policy area under development, and not all tools are in place yet. Extensive efforts are currently under way in international forums to develop and implement several tools that can be used in the near future to manage risks that could

pose a threat to stability in the financial system. In the framework of these international efforts, three broad groups of tools are being discussed.² The first group comprises tools that manage more cyclical risks. The other two groups comprise tools aimed at addressing systemic risks of a more structural nature. It is in part a matter of setting different types of limitation or requirement on institutions based on their respective contributions to systemic risk, as individual institutions contribute to systemic risk to varying extent. It is also a matter of introducing tools which limit risk-taking and increase resilience in the financial system, for example with reference to the financial system's size, risk concentration and the links between different parts of the system.

As of the turn of the year 2013/2014, the EU countries will probably have the possibility of introducing a number of tools being prepared within the framework of new capital and liquidity requirements according to the so-called CRD IV/CRR proposal. Member states will thus have the possibility of increasing liquidity requirements for banks, beyond the statutory minimum requirements, during periods when systemic risk is considered elevated. The forthcoming regulations enable member states to increase capital requirements for banks during a certain period, which can either take place on an overarching level, or be directed at lending to individual sectors. In addition, the rules enable placing more stringent demands on the banks' exposure when systemic risk is elevated.

Access to several macroprudential tools increases the possibilities of being able to prevent systemic risks from building up. At the same time, it could be harder to assess the appropriateness of the policy conducted, and the extent to which it gives rise to unintended effects on other areas. Greater possibilities to prevent systemic risks from building up also involve the measures having a greater impact on the economy, and a larger decision-making area. This places greater demands on clear structures for accountability and democratic insight. Also, the need for coordination with adjacent policy areas will be even more important.

The Riksbank finds good reason to apply initially the decision-making structure which already exists at the Riksbank, provided that only a handful of tools are to be used, and that the economic effects of the tools can be clearly reported. Some alternatives to the order proposed above which can be considered secondarily are described below.

Decision-making committee at the Riksbank

Establishing a specially composed decision-making committee at the Riksbank with a mandate to make all macroprudential policy decisions is an organisational model which would secure decision-making power and a clear distribution of responsibility when macroprudential policy has developed into an area with different types of tool. Such a committee should be staffed so as to make use of the most prominent expertise in the macroprudential policy area, while at the same time ensuring accountability, clarity and democratic control, and facilitating coordination with other policy areas. The committee could therefore be headed by the Governor of the Riksbank and consist of members from the Riksbank, Finansinspektionen and, potentially, external experts. The committee's members would, however, not represent each institution; rather, they would participate in the work of the committee in a personal capacity ensuing from their office, because the committee is proposed to be a body within the Riksbank. Exactly how the committee should be staffed is not clear cut, however, and several solutions can be considered.

As already discussed, such composition of the decision-making committee can guarantee that macroprudential policy decisions are made based on enduring high analytical capabilities. This applies to the Riksbank's analysis of repercussions between the financial and real sector and risks in the financial system, as well as Finansinspektionen's knowledge

² See for instance *Central bank governance and financial stability*, BIS, May 2011.

■ about microprudential supervision and the business and risk models of banks. This composition also enables supplementing the available analytical capabilities within the Riksbank and Finansinspektionen with valuable external expertise and a broader approach from, for instance, academic research, which would be particularly valuable when the macroprudential toolbox has grown large.

Even in this decision-making model it would be clear who is responsible for the macroprudential policy decisions, which creates power to act and solid accountability possibilities. In addition, such a solution would involve establishing a decision-making body for macroprudential policy which is separated from the decision-making body for monetary policy in both practical and formal terms. This could facilitate accountability and enable synergies. The decision-making committee at the Riksbank would thus bear certain similarities to the Financial Policy Committee, with responsibility for macroprudential policy, appointed in the Bank of England.

The committee – which is thus intended to be a decision-making body in the Riksbank – should be able to make decisions that are legally binding either on the banks directly or on Finansinspektionen. Depending on which of the tool(s) the Riksdag and the Government allocate to the committee, there may be reason to consider certain constitutional aspects. In Chapter 12, Article 2 of the Instrument of Government, it is stipulated that no public authority may determine how another authority shall decide in a particular case pertaining to the exercise of public authority vis-à-vis an individual, or relating to the application of law. This means, for example, that Finansinspektionen cannot be forced to comply with a committee decision on how it is to decide in relation to an individual bank. However, the Instrument of Government does not prevent the committee from deciding, in accordance with law, that Finansinspektionen shall make a decision that is generally applicable to banks, for example a loan cap related to the banks' balance sheet or borrowers' income. This can occur through the committee resolving that Finansinspektionen is to issue regulations with a certain content, provided that the latter has been given such right to adopt regulations by the Government. The committee itself should also be able to issue binding regulations itself for the banks if the Riksbank – of which the committee would be part – is given the right to adopt regulations supported by Chapter 8, Article 13 of the Instrument of Government, which stipulates that the Riksdag may direct the Riksbank to adopt regulations coming within its remit and concerning its task to promote a secure and efficient payments system.

Merger of the Riksbank and Finansinspektionen

The continuous development of the financial system entails that the links between the activities of central banks and supervisory authorities have grown stronger, as clearly evidenced in the latest financial crisis. This process is expected to continue for a long time ahead, and will in all probability lead to the work to promote financial stability both in Sweden and abroad becoming increasingly intricate and demanding in terms of both analytical competence and links to adjacent policy areas. There are therefore growing demands today on in-depth coordination and collaboration between central banks and supervisory authorities. In Sweden, the Riksbank and Finansinspektionen have already commenced this work by establishing the Council for Cooperation.

In recent years, this development has entailed certain countries choosing to merge the operations of their central banks and supervisory authorities in different ways. For instance, the supervisory authority and the central bank in the UK have merged. A similar development is also under way at the EU level through the establishment of the Single Supervisory Mechanism (SSM) at the European Central Bank. International experiences show, however, that such a fundamental organisational change requires many difficult considerations because it involves an extensive reorganisation of entire authority structures. The Riksbank therefore believes, like the FCC, that a merger of the Riksbank and

■ Finansinspektionen is a comprehensive change that affects many areas beyond macroprudential policy. It may therefore be appropriate to wait with such a far-reaching change, and revert to the matter when, for instance, there is more knowledge and experience of the new macroprudential policy area.

Recommending council within the Riksbank

It is thus the opinion of the Riksbank that responsibility for macroprudential policy in Sweden should preferably rest with a body within the Riksbank, and that the responsible body be given clear responsibility and powers for decisions and tools in this policy area. The Riksbank also finds it crucial that a functioning organisational structure for macroprudential policy be established without delay. If, during the political consideration of the proposals for an organisational structure for macroprudential policy, it is judged that it is far too early to establish a single decision-making body, then a less far-reaching organisational model could be an alternative initially. Such an alternative could be to establish a recommending council. Considering the Riksbank's special position in macroprudential policy, as concluded in the rationale above, it could also be advantageous to establish this body within the Riksbank.

Establishing a council within the Riksbank with the right to issue recommendations about macroprudential policy measures is an organisational model which brings greater clarity and decision-making power than the FCC's proposal about a macroprudential council, which does not bear any right of recommendation. Greater clarity and decision-making power can be achieved by making it incumbent upon the council to ensure that the recommendations issued to the Riksbank and Finansinspektionen, which like in the FCC's proposal are both given macroprudential supervision responsibility in this model, are publicly disclosed. The council would thus be obliged to formulate clear positions about which macroprudential policy measures that the Riksbank or Finansinspektionen need to take, and the responsible authority to which the recommendation is directed would subsequently have to explain its action if it chooses not to follow the council's recommendation. Such a model reduces the risk of an inaction bias and increases the possibility of accountability compared with the FCC's solution, which lacks a mechanism for obtaining clear public positions from the macroprudential council.

Because the recommending council may not make decisions about macroprudential tools, it would however not have as much power to act as a decision-making body. This makes the possibility of accountability much more limited in this model compared with the models with a decision-making body.

In order for the recommending council to benefit from the most prominent expertise in the macroprudential policy area and facilitate coordination with other policy areas, it could, in the same way as a decision-making committee within the Riksbank, be staffed with members from the Riksbank, Finansinspektionen and, potentially, external experts. Unlike the FCC's model for the organisation of the macroprudential council, the members would, however, participate in the recommending council in a personal capacity, because the council is proposed to be a body within the Riksbank.

Democratic insight and control in macroprudential policy

In the previous section of this response, the Riksbank emphasised that macroprudential policy is a new policy area which may be equipped with several multifaceted tools in the future. The ability to independently evaluate the appropriateness of the conducted macroprudential policy, and its unintended effects both on other policy areas and on economic development at large, will therefore be important. This places great demands on the macroprudential policy body being given a well-defined mandate, and on the development of clear structures for democratic insight and control. Because there is

■ currently no generally accepted quantified objective for macroprudential policy, similar to the inflation target which guides monetary policy, it is not clear cut, however, how these structures should be devised. Nonetheless, the Riksbank already has statutory and firmly established structures for democratic follow-up and control, mainly through the General Council. If the Riksbank is given a leading role in macroprudential policy, extending the Council's role in this respect could therefore be considered, in the way described in this response.

The General Council's role in macroprudential policy could be more indirect or more direct. In accordance with current provisions for other policy areas, the Council could have a controlling function by monitoring and controlling how the Riksbank conducts its operations in the framework of macroprudential policy, and report its observations to the Riksdag Committee on Finance. The Council could participate in consultations ahead of decisions about macroprudential policy measures taken by the decision-making body. The Council could also be given a direct decision-making function by making the decisions about macroprudential policy measures either independently or together with the Executive Board.

The Riksbank believes that democratic insight and control need to be safeguarded in the macroprudential work. The General Council has an important role in this. However, exactly how the Council's role should be devised in this context is not clear cut. As indicated above, there are different ways of resolving this. The function fulfilled by the Council in macroprudential policy also has implications for the responsibility of the Council in general, e.g. its responsibility to appoint members to the Executive Board. In the work to devise an organisational structure for macroprudential policy, it is important to elucidate these aspects as well.

2. New macroprudential tools

The Riksbank is of the opinion that immediately putting in place a sufficient number of macroprudential tools for counteracting identified risks in the financial system in Sweden in an effective and efficient manner is a matter of urgency. As macroprudential policy is a new policy area, it is also important to establish a procedure for evaluating and subsequently developing and modifying the toolbox. In order to ensure that such work is conducted with a structured and long-term approach, both the toolbox itself and the procedure for modifying it should have clear foundation in law. A statutory procedure would also enable adapting the macroprudential toolbox to any changes in the nature of systemic risks.

It is the view of the Riksbank that a Swedish macroprudential toolbox should contain, at an absolute minimum, a set of complementary tools aimed at counteracting risks associated with high credit growth and indebtedness. The Riksbank thus advocates that the toolbox should initially contain countercyclical capital requirements, sectoral capital requirements and mortgage caps. In addition, the toolbox should be supplemented with tools which manage risks associated with the dependency of Swedish banks on market funding and liquidity. The Riksbank would also like to point out that the suitability of using minimum reserve requirements as a macroprudential tool is currently being investigated at the Riksbank.

In the Riksbank's view, it is also necessary to subsequently extend and modify the minimum toolkit advocated by the Riksbank in this response. The forthcoming macroprudential policy body should therefore be commissioned with the immediate task of ensuring the ability to also manage other systemic risks using the Swedish toolbox.

■ The opinion of the Financial Crisis Commission

In its interim report, the FCC states that new types of tool to prevent both structural and cyclical systemic risks need to be developed within the framework of the new macroprudential policy structure. However, the interim report of the Commission does not contain proposals about which new tools should be introduced, or how they are to be managed. Instead, the FCC describes a number of tools that could be of interest for further development in Sweden, and is also of the opinion that, in the future work on developing the tools, a position should be taken on whether minimum reserve requirements form a suitable macroprudential tool. In addition, the FCC believes that new tools should be introduced gradually so that their effects can be evaluated.

The Riksbank's opinion and proposal

The Riksbank is of the opinion that immediately putting in place a sufficient number of macroprudential tools for counteracting identified risks in the financial system in Sweden in an effective and efficient manner is a matter of urgency. As macroprudential policy is a new policy area, it is also important to establish a procedure for evaluating and subsequently developing and modifying the toolbox. In order to ensure that such work is conducted with a structured and long-term approach, both the toolbox itself and the procedure for modifying it should have clear foundation in law. A statutory procedure would also enable adapting the macroprudential toolbox to any changes in the nature of systemic risks.

In this respect, the Riksbank shares the FCC's opinion that the macroprudential toolbox needs to contain tools to prevent both cyclical and structural systemic risks. Because macroprudential policy is an emerging policy area, it is naturally difficult to determine what constitutes an optimal toolkit. In this context, it is also important to take account of the fact that a series of requirements will be introduced into Swedish law through international directives. These include, for instance, requirements regulating how much and what type of capital banks shall maintain. These regulations are aimed to a relatively high degree at managing risks and vulnerabilities which, in the Riksbank's opinion, are also relevant in Sweden. The Swedish financial system is however characterised by certain specific circumstances which motivate the addition of a number of macroprudential tools to the toolbox. This applies in particular, but not solely, to tools that focus on affecting more cyclical risks. In light of the development in Sweden over recent decades, with rapid credit growth and high household indebtedness, the Riksbank finds that a Swedish macroprudential toolbox should, at an absolute minimum, initially contain a toolkit aimed at counteracting risks associated with high credit growth and indebtedness.

Excessive credit growth often contributes to a great extent to financial crises, and high indebtedness amplifies these. These are risks currently being discussed in Sweden. One of the tools aimed at managing systemic risks ensuing from high credit growth is the countercyclical buffer. It is also the only macroprudential tool that will be incorporated with certainty into Swedish law, as it forms part of the international Basel III Accord and is a part of the regulations at EU level (CRD IV). The countercyclical capital buffer is a powerful and broadly acting tool affecting the entire banking sector. It involves banks being assigned a higher capital requirement in periods of systemic risk build-up, particularly as a result of high credit growth – a requirement which can then be eased when the financial system comes under pressure. The intention is to increase the banks' resilience by getting them to create a buffer when times are good, which they can then use in a downturn phase. By making the cost of capital for credit granting higher in expansive phases and lower in contractionary phases, the capital buffers can also help even out the financial cycles.

■ With only a blunt tool at hand, however, the economic cost of macroprudential policy measures risks being unnecessarily high. When the risks increase, for example in particular segments of the credit market, it could be more efficient to have tools that can address these segments directly. In many countries, directed tools are therefore being introduced as a supplement to the countercyclical capital buffer. The Riksbank believes that this should also occur in Sweden. To this end, sectoral capital requirements appear to be particularly suitable. If for instance the commercial property market starts to overheat, increased capital requirements can be directed solely at that sector, such that banks would be obliged to increase the capital buffer in lending for commercial properties and thus most likely make that type of lending more expensive.³

The macroprudential tools mentioned above are aimed at directly strengthening the resilience of financial institutions. Other tools are instead aimed at influencing the behaviour of borrowers. Different types of loan limitation are among the more tried and tested tools internationally, and have proven relatively effective in macroprudential policy terms. For example, experiences from other countries have shown that a cap on loans to individual sectors, often mortgages for households, can bolster the resilience of the financial system in downturn phases by limiting the credit losses of banks. This type of tool has also proven efficient in that it curbs sharp growth in household indebtedness in the short term. For example, the development in Sweden indicates that the cap on mortgages in relation to property value introduced in the autumn of 2010 in the interest of consumer protection has thus far helped to curb the sharp growth of Swedish household debt.⁴ International experiences also indicate that a combination of mortgage limitations, where a cap on mortgages related to the property value is combined with and a cap related to the household's income or payment capacity, is most effective.⁵

All of the above-mentioned tools can be used separately, but a combination of such tools is probably preferable. Countercyclical capital buffers and sectoral capital requirements, both of which are aimed at financial institutions, could preferably complement each other as described above. In addition, sectoral capital requirements aimed at risks on the supply side of the mortgage market need to be supplemented with mortgage caps, because this tool is aimed at risks that are built up on the demand side. If risks on the mortgage market are not sufficiently limited by these sectoral capital requirements, mortgage caps could thus set further limitations. Also, mortgage caps do not need to be coordinated with other countries, which is the case for capital requirements. Mortgage caps also entail fewer risks of regulation arbitrage across national borders. The Riksbank thus advocates that a Swedish macroprudential toolbox should initially contain countercyclical capital requirements, sectoral capital requirements and mortgage caps to counteract excessive credit growth and indebtedness. The Riksbank's extensive competence makes it reasonable for the Riksbank to initially be given, by the Riksdag and the Government, the main responsibility for decisions about the tools against more cyclical risks, primarily the countercyclical capital buffer, as is also described in the preceding rationale about the future organisational structure for macroprudential policy. The Riksbank should be given the responsibility for the countercyclical capital buffer even if, after the political consideration of the proposals for an organisational structure for macroprudential policy, a macroprudential council is established in line with the FCC's proposal.

³ In the UK, which is one of the countries that has been quickest to establish macroprudential tools, a choice was made to equip the macroprudential toolbox with sectoral capital requirements as a complement to countercyclical capital requirements. In time, leverage ratio requirements could also be used for the purpose of macroprudential policy.

⁴ *The Swedish Mortgage Market 2013*, Finansinspektionen.

⁵ Crowe, C., Dell'Ariccia G., Igan D. and Rabanal P., (2011), *Policies for Macrofinancial Stability: Options to deal with Real Estate Booms: Lessons from Country Experiences* IMF Staff Discussion Note SDN/11/02, February.

■ Furthermore, the Riksbank finds it important for Swedish banks to maintain a certain minimum level of resilience to risks ensuing from strong credit growth, irrespective of the risk profile of their asset portfolio. Such resilience could be achieved if a leverage ratio requirement were assigned to the banks. The leverage ratio requirement will probably be introduced into Swedish law in 2018, in accordance with the provisions of the Basel III Accord. A discussion is currently under way in the international arena about whether this requirement could be used in a time-varying manner; that is, if national authorities should be able to set higher requirements than the minimum requirements of the Basel III Accord when systemic risks in their respective countries are considered elevated. The Riksbank finds it very important for the leverage ratio requirement to be incorporated into Swedish law, and for a position to be taken about whether this requirement should also be added as a macroprudential tool.

The Swedish financial system also features relatively large liquidity risks because Swedish banks are highly dependent on market funding, both in Swedish kronor and in foreign currency. Therefore, these risks also need managing using tools in the Swedish macroprudential toolbox. One way of counteracting liquidity risks is to require banks to maintain sufficient liquidity reserves. In accordance with the Basel III Accord, countries will need to introduce requirements for banks to maintain sufficient liquidity reserves in order to manage short-term outflows in stressed situations (known as the Liquidity Coverage Ratio, LCR). Sweden has opted to move ahead of this provision and introduced such a requirement already in 2013. This requirement can also be used as a time-varying macroprudential tool, such that the authorities are able to introduce higher LCR requirements during periods when systemic risks are considered high. The structural liquidity requirement (known as the Net Stable Funding Ratio, NSFR) could also be possible, and probably efficient to use as a macroprudential tool aimed at counteracting liquidity risks. Work on devising international rules for the structural liquidity requirement has not yet been completed, however. The Riksbank is of the opinion that, as soon as this regulatory framework is ready, this tool should also be considered as a part of a Swedish macroprudential toolbox.

In this context, the Riksbank would like to point out that the suitability of using minimum reserve requirements as a macroprudential tool is currently being investigated at the Riksbank.

The tools described above only constitute a selection of instruments that may be suitable for inclusion in a Swedish macroprudential toolbox. However, systemic risk comes in many different forms, and different types of risk require different types of tool. The Riksbank therefore finds it important to develop a well-considered macroprudential toolbox based on a toolkit sufficient to manage, for instance, systemic risks related to excessive credit growth and indebtedness, and liquidity risks. In the Riksbank's view, it is also necessary to subsequently extend and modify the minimum toolkit advocated by the Riksbank in this response. The forthcoming macroprudential policy body should therefore also be commissioned with the immediate task of ensuring the ability to manage other systemic risks using the Swedish toolbox.

■ 3. Government liquidity supply measures

The Riksbank supports the Financial Crisis Commission's proposal regarding government liquidity supply measures.

The proposal of the Financial Crisis Commission

In its interim report, the FCC states that, under extraordinary circumstances, government liquidity measures may be required to sustain the functions of the financial system. In terms of the distribution of duties between authorities, the FCC believes that the Riksbank ought to have a liquidity-supporting role, and that the Government should be able to take supplementary measures if needed. The Commission proposes that the Riksbank should be able to take liquidity measures as needed in order to counteract serious shocks in liquidity supply, even in cases where the primary aim is not to reach the price stability target. Furthermore, the FCC proposes that the Riksbank should be able to borrow government securities issued by the Swedish government with the aim of counteracting serious shocks in liquidity supply, on the terms agreed with the National Debt Office. According to the FCC's proposal, the Riksbank is to inform the Government ahead of important decisions about liquidity measures.

The Riksbank's opinion and proposal

The Riksbank shares the FCC's view of the Riksbank's role in terms of government liquidity measures to sustain the functions of the financial system. The Riksbank also shares the Commission's opinion that the Riksbank should be given the possibility of taking liquidity-supporting measures in order to counteract serious shocks in liquidity supply, even when the primary aim is not to reach the price stability target. The Riksbank also welcomes the proposal that the Riksbank should be able to borrow government securities issued by the Swedish government with the aim of counteracting shocks in liquidity supply. In the Riksbank's view, these changes contribute to an important improvement in the government's overall possibilities of warding off liquidity supply shocks.

The Riksbank thus supports the FCC's proposal regarding government liquidity supply measures.

4. The tasks of the authorities

The Riksbank supports the Financial Crisis Commission's proposal for amendments to the Sveriges Riksbank Act. The Riksbank also welcomes the proposal to specify the Riksbank's task, as it is particularly important that the roles, responsibilities and powers of the respective authority be clearly specified when three authorities are given the same overarching task in the work to promote a stable and well-functioning financial system.

The Riksbank considers it to be of great importance that the responsibility for macroprudential decisions and tools be clarified as proposed in this response. The Riksbank therefore emphasises that the tasks of the authorities concerned relating to macroprudential policy need to be specified and adapted to the organisational solution ultimately selected.

■ The proposal of the Financial Crisis Commission

The FCC believes that Finansinspektionen, the National Debt Office and the Riksbank should, based on their particular roles and the tools allocated to them, each have the task of working for a stable and well-functioning financial system. The FCC consequently proposes that the Sveriges Riksbank Act should specify that the Riksbank is to work to promote a stable and well-functioning financial system. According to the Commission, the Riksbank should fulfil this task by (1) identifying risks which can lead to serious shocks in the financial system, and taking measures to prevent them; (2) promoting well-functioning liquidity supply; and (3) ensuring that the payment system works well. Furthermore the FCC sees no need to introduce a definition of financial stability into the statute.

The Riksbank's opinion and proposal

It is the view of the Riksbank that the amendments to the wording of the Sveriges Riksbank Act proposed by the FCC bring about better clarity and coincide well with the Riksbank's interpretation of its task. The Riksbank thus supports the FCC's proposal for reformulating the authorities' task in this section.

At the same time, the Riksbank would like to emphasise that the FCC's proposal to give three authorities the same overarching task makes it particularly important to specify clearly the more specific role, responsibilities and powers of each authority in the work to promote a stable and well-functioning financial system. In this context, the Riksbank welcomes the specification of the Riksbank's task proposed by the FCC.

As expressed by the Riksbank in the previous section of this response, it is also of great importance that the responsibility for macroprudential policy decisions and tools is clarified. As far as responsibility for macroprudential policy is concerned, however, the Riksbank does not support the FCC's proposal, but recommends a structure with clearer responsibility, and presents some alternative solutions (see section 1). Therefore, the Riksbank wishes to emphasise even in this context that the tasks of the authorities concerned relating to macroprudential policy need to be specified and adapted to the organisational solution ultimately selected.

5. Funding arrangements for crisis management

The Riksbank shares the Financial Crisis Commission's view of the need to set up a resolution fund which is established before a banking crisis occurs. Like the Financial Crisis Commission, the Riksbank finds that the deposit guarantee should be devised as an insurance premium.

In relation to the stability fee, the Riksbank ascertains that the assessment of its size can be affected by how EU regulations regarding resolution funds are ultimately devised, and how the government's expected costs for a financial crisis are consequently changed. At the same time, the Riksbank emphasises its fundamental view that the stability fees should, in time, have the form of an eternal risk premium and not be tied to a targeted fund size.

■ The opinion of the Financial Crisis Commission

The FCC is of the opinion that, in time, the Stability Fund and Deposit Guarantee Fund should be merged into one fund, a “banking crisis reserve”, but that the government should continue to levy two fees – a stability fee and a deposit insurance fee – to be credited to the banking crisis reserve. The FCC believes that the banking crisis reserve should not have a targeted level and that the funds in this reserve should be put in an account at the National Debt Office or in assets received by the government when providing support to banks. Furthermore, the Commission believes that the deposit guarantee fee should be differentiated according to risk and in line with actuarial practices, and ought to be paid by all deposit-taking institutions. In terms of the stability fee, the FCC believes that this should be paid by all institutions which may receive support. The stability fee should also be calculated such that it can be expected to cover the government’s direct costs for managing problems at an individual institution, but not a systemic crisis.

The opinion of the Riksbank

The Riksbank shares the FCC’s view of the need to set up a resolution fund which is established before a banking crisis occurs. In that context, the Riksbank sees no disadvantage in the Stability Fund and Deposit Guarantee Fund being merged into a banking crisis reserve. The essential factor, according to the Riksbank, is that the government has sufficient resources and capabilities to manage both deposit guarantee matters and the occurrence of a banking crisis swiftly, and that such measures are paid for to the greatest possible extent by the financial institutions themselves. Furthermore, it is the view of the Riksbank that having sufficient funds to create credibility for the Swedish government’s crisis management capabilities is important.

Like the FCC, the Riksbank is of the opinion that there ought to be separate fees for deposit guarantee and systemic stability. For the deposit guarantee, there are today more advanced models for computing premiums in line with actuarial practices than there are models for computing the expected costs of a systemic crisis.

The Riksbank also shares the FCC’s opinion that the deposit guarantee fee should be devised as an insurance premium. However, it is important that the selected insurance premium model does not underestimate the risks of the deposit guarantee potentially needing to be taken in claim. In that context, it is therefore important that the fees are sufficiently high for the banking crisis reserve to be perceived as credible.

In relation to the stability fee, the Riksbank ascertains that the current proposed directive for the EU regulatory framework for managing banks, credit market firms and investment firms in distress (known as the Crisis Management Directive) will probably contain rules about resolution funds. How these rules will ultimately be devised and how the government’s expected costs of a financial crisis will change as a result thereof can naturally affect the assessment of the size of the stability fee.

Finally, the Riksbank would like to emphasise its fundamental view that the stability fees should, in time, have the form of an eternal risk premium and not be tied to a targeted fund size.

■ 6. Exchange of information and confidentiality

The Riksbank shares the FCC's opinion of no further statutory regulation being required regarding the exchange of information, provision of information and confidentiality in the cases specified in the interim report, with the exception of the assessment regarding statutory regulation with respect to confidentiality for the protection of public interest. Because it is not certain that the FCC's assessment of the application of Chapter 18, Article 3 of the Public Access to Information and Secrecy Act (the PAISA) would be upheld when tried by a higher instance, the Riksbank finds reason to provide a clarification in this article such that it also comprises information in the ongoing financial stability work.

Furthermore, the Riksbank supports the Financial Crisis Commission's proposal for changes in legislation in cases where current statutory regulation is not deemed to permit the flow of information between authorities judged necessary.

The Financial Crisis Commission's opinion and proposal

The FCC believes that no further statutory regulation is required with respect to the exchange of information, provision of information and confidentiality in a number of cases specified in the interim report. The Commission finds, for instance, that no further provision for the protection of public interest needs to be introduced for financial stability work, but that the confidentiality provision of Chapter 18, Article 13 of the PAISA suffices. In certain cases, however, changes in legislation are proposed where current statutory regulation is not deemed to permit the flow of information between authorities judged necessary.

The Riksbank's opinion and proposal

In the report, the FCC analyses whether the possibilities of exchanging information through statutorily regulated disclosure obligations between the authorities involved in financial stability work are sufficient.

The Riksbank shares the FCC's opinion regarding the situations raised in the report, where the proposal is that no further statutory regulation is required.

However, on one point the Riksbank is doubtful about the FCC's opinion, that point being the latter's interpretation of the confidentiality provision regarding confidentiality for the protection of public interest in financial stability work. Having sound confidentiality protection to avoid damaging public interest is important. For example, a planned measure may have no effect in certain cases if the information emerges too early.

According to Chapter 18, Article 13 of the PAISA, confidentiality applies to information referable to the activities of an authority that consist of risk and vulnerability analyses with respect to crisis situations in times of peace, or planning and preparations for managing such situations, if it can be assumed that the possibilities of the public to prevent and manage peace-time crises would be obstructed if the information were disclosed.

According to the FCC, Chapter 18, Article 13 of the PAISA is applicable to the preparatory work ahead of and the management of a financial crisis. For this reason, it sees no need for further confidentiality provisions for the protection of public interest.

The preventive financial stability work is normally conducted in the operating activities of authorities. In a strict interpretation of the provision in question, it is therefore not clear cut that financial stability work can be said to consist of planning and preparation ahead of, as well as management of, crisis situations in the way intended by the legislator when the confidentiality provision was introduced. Another aspect that argues against the FCC's



■ broad interpretation of this confidentiality provision is that it is found in the chapter prescribing secrecy for protection primarily in the interest of crime prevention or prosecution, and has the heading risk and vulnerability analyses, etc.

Because it is not certain that the FCC's assessment of the application of Chapter 18, Article 13 of the PAISA would be upheld when tried by a higher instance, there is reason to provide a clarification in this article such that it also comprises information in the ongoing financial stability work.

The FCC also proposes a number of changes in legislation in cases where current statutory regulation is not deemed to permit the flow of information between authorities judged necessary. The Riksbank supports these proposals because the proposed statutory disclosure obligation requirements will bridge the confidentiality requirements and thus better secure the exchange of information between the authorities.

On behalf of the General Council

On behalf of the Executive Board

Johan Gernandt

Stefan Ingves

Maria Svalfors

Eva Cory

The following took part in the Executive Board's decision: Stefan Ingves, Kerstin af Jochnick, Karolina Ekholm, Martin Flodén, Per Jansson and Cecilia Skingsley.

The following took part in the General Council's decision: Johan Gernandt, Sven-Erik Österberg, Peter Egardt, Sonia Karlsson, Anders Karlsson, Gun Hellsvik, Lena Sommestad, Allan Widman, Peter Eriksson, Roger Tiefensee and Hans Birger Ekström.

The facts of the matter were presented by Kerstin Hallsten.