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Annex A

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■ Proposed amendments to the Terms and Conditions for RIX and Monetary Policy Instruments

This annex presents the revisions that are needed to be included in the Terms and Conditions for RIX and Monetary Policy Instruments (Terms and Conditions) in order to implement the proposed new provisions on collateral for credit at the Riksbank.

The Riksbank's Terms and Conditions for RIX and Monetary Policy Instruments consist of an accession agreement, a master document and a number of appendices and sub-appendices. The terms and conditions for collateral for credit at the Riksbank are mainly regulated by Annex H4 Collateral Instructions. The proposed new provisions for this collateral consequently mean amendments are required in Annex H4 and a number of editorial consequential amendments to the Master Document.

1. Amendments to the Master Document

1.1 Point (b) in Section 1.1 (Eligible collateral) under Heading 1 Securities as collateral for credit under section E Conditions for Collateral, etc.

The change is editorial and caused by the amendments in Annex H4 which, in accordance with the current proposal for amended provisions, will no longer specify any conditions/exceptions for "own-name" securities.

Current wording

(b) A debt instrument that meets the requirements in 1.1 (a) is not accepted as collateral by the Riksbank if the debt instrument:

- (i) has been issued by the Counterparty or by a company with close links to the Counterparty (as defined in Annex H4 Collateral Instructions) *unless the security fulfils the special requirements stated in Annex H4 Collateral*

Proposed wording

(b) A debt instrument that meets the requirements in 1.1 (a) is not accepted as collateral by the Riksbank if the debt instrument:

- (i) is issued by the Counterparty or by a company with close links to the Counterparty (for definitions, see Annex H4 Collateral Instructions),

■ *Instructions,*

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| <p>(ii) has been issued or guaranteed by a Credit Institution, unless the security meets the special requirements stated in Annex H4 Collateral Instructions,</p> <p>(iii) is linked to equity (see Annex H4 Collateral Instructions),</p> <p>(iv) has subordinated payment rights (see Annex H4, Collateral Instructions), or</p> <p>(v) is an asset-backed security (ABS). However, this type of security can be accepted in accordance with the transition provisions described in Annex H4 Collateral Instructions.</p> | <p>(ii) has been issued or guaranteed by a Credit Institution, unless the security meets the special requirements stated in Annex H4 Collateral Instructions,</p> <p>(iii) is linked to equity (see Annex H4 Collateral Instructions),</p> <p>(iv) has subordinated payment rights (see Annex H4, Collateral Instructions), or</p> <p>(v) is an asset-backed security (ABS). However, this type of security can be accepted in accordance with the transition provisions described in Annex H4 Collateral Instructions.</p> |
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2. Amends to Annex H4

2.1 Point a. in section 2.1 (Collateral for Credit) under heading 2 Eligible collateral

The change is a result of that it is no longer relevant to mention anything about securities issued by the Counterparty or a company with close links to the Counterparty. Since the new concentration-limit rule being proposed encompasses covered bonds with a credit rating corresponding to at least AA-, it will also not be relevant to accept securities with a credit rating less than AA-.

Current wording

- a. The following applies with regard to credit ratings:
1. A security must have at least the lowest acceptable credit rating to be accepted as collateral.
 2. Securities, *with the exception of those covered by 3, must have a credit rating corresponding to at least A- to be accepted as collateral.*
 3. *Securities issued by Credit Institutions or issued by the Counterparty itself or a company with close links to the Counterparty (that is, such securities covered by sections 2.1.1 a.-c. below) must have a credit rating corresponding to at least AA- to be accepted as collateral.*
 4. The credit rating must be confirmed by an external rating from one or more of the credit rating agencies the Riksbank acknowledges: Standard & Poor's, Moodys Investor Services and Fitch Ratings.
 5. It is not possible to confirm the credit rating of a security through a possible guarantor's credit rating.
 6. For securities other than those covered by section 2.1.1 a.-c. below (issued by Credit Institutions *or issued by the Counterparty itself or by a*

Proposed wording

- a. The following applies with regard to credit ratings:
1. A security must have at least the lowest acceptable credit rating to be accepted as collateral.
 2. Securities must have a credit rating corresponding to at least AA- to be accepted as collateral.
 3. The credit rating must be confirmed by an external rating from one or more of the credit rating agencies the Riksbank acknowledges: Standard & Poor's, Moodys Investor Services and Fitch Ratings.
 4. It is not possible to confirm the credit rating of a security through a possible guarantor's credit rating.
 5. For securities other than those covered by section 2.1 1 a-c. below (issued by Credit Institutions), confirmation of only the issuer's credit rating is acceptable.
 6. If there are credit ratings published by more than one of the above agencies, at least two of the credit ratings must meet the Riksbank's requirements for

■ *company with close links to the Counterparty*), confirmation of only the issuer's credit rating is acceptable.

7. If there are credit ratings published by more than one of the above agencies, at least two of the credit ratings must meet the Riksbank's requirements for credit ratings.
8. The Riksbank can always choose to assess the credit rating in a way other than using the external credit ratings, whereby the Riksbank's own assessment will determine whether a security is accepted as collateral.

credit ratings.

7. The Riksbank can always choose to assess the credit rating in a way other than using the external credit ratings, whereby the Riksbank's own assessment will determine whether a security is accepted as collateral.

2.2 Point a. (Securities issued by the Counterparty itself or by a company with close links to the Counterparty ("own-name securities") in section 2.1.1 Further requirements etc. for specific security types) under heading 2 Eligible collateral

This amendment has been made to generalise the term "close links" so that it does not only refer to close links to Counterparties. This generalisation is not intended to amend the application of any other provision in the Terms and Conditions, but instead aims to make it possible to refer in the Terms and Conditions to a closely-linked issuer that is not a Counterparty. This way it will be possible to include the second paragraph (point b.) of the concentration-limit rule in the amended section 3.3.2. which is accounted for below.

Current wording

Proposed wording

a. Securities issued by the Counterparty itself or by companies with which the Counterparty has close links ("own-name securities")

a. Securities issued by closely-linked issuers

A company is considered to have close links if

An issuer is considered to have close links to another entity (such as a Counterparty or another issuer) if

1. the Counterparty directly, or indirectly through one or more of its ownership interests, owns at least 20% of the capital in the issuer,
2. the issuer directly, or indirectly through one or more of its ownership interests, owns at least 20% of the capital in the Counterparty, or
3. a third party owns more than 20% of the capital in the Counterparty and more than 20% of the capital in the issuer, either directly or indirectly, through one or more ownership interests.
4. Securities issued by the Counterparty or by companies with which the Counterparty has close links are only accepted if
 - i. the security has been guaranteed by a central government and assessed as having a credit rating that corresponds at least to the central government's credit

1. the other entity directly, or indirectly through one or more of its ownership interests, owns at least 20% of the capital in the issuer,
2. the issuer directly, or indirectly through one or more of its ownership interests, owns at least 20% of the capital in the other entity, or
3. a third party owns more than 20% of the capital in the other entity and more than 20% of the capital in the issuer, either directly or indirectly, through one or more ownership interests.



- rating, or*
- ii. the security is covered (see section 2.1.1 c below).*

2.3 Section 2.1.3 (Credit accounts administered by Euroclear Sweden) under heading 2 Eligible collateral

This amendment means that the proposed new concentration-limit rule in section 3.3.2. does not apply to collateral submitted for intraday credit that is administered by Euroclear Sweden. This amendment is necessary in order to ensure the proposed new concentration-limit rule will not affect credits that have been granted by the Riksbank to RIX participants with the aim of facilitating securities settlement in Euroclear Sweden.

Current wording

Securities which according to section 3.3 below are included in group B are *not* accepted as collateral for CB credit in accordance with the Master Document C.4.1 (c).

Proposed wording

Securities which according to section 3.3 below are included in group B are accepted *without limitation of what is stated in section 3.3.2* as collateral for CB credit in accordance with the Master Document C.4.1 (c).

2.4 Section 3.3 (the Limit Rule) under heading 2 Valuation and risk management

This amendment introduces the proposed new concentration-limit rule level of 60 per cent.

Current wording

The eligible collateral is divided into two groups. One of these, group A, comprises the collateral that can be left unlimited, while group B comprises collateral that may amount, at most, to 40 per cent of the Counterparty,s total adjusted market value ("collateral value").

Proposed wording

The eligible collateral is divided into two groups. One of these, group A, comprises the collateral that can be left unlimited, while group B comprises collateral that may amount, at most, to 60 per cent of the Counterparty,s total adjusted market value ("collateral value").

2.5 Point a. in section 3.3.1 (Collateral included in group A) under heading 3
Valuation and risk management

The amendment in the first paragraph of the point is editorial. By removing point 3, the proposal is introduced that covered bonds should no longer be accepted without limitation.

Current wording

a. Securities that meet the requirements *reported above under* 2.1 and 2.1.1 a.-b. and also have a credit rating corresponding to at least AA- and comprise one of the following types are included in group A are not subjected to a concentration limit:

1. Securities issued by central governments, local governments or authorities abroad.
2. Securities issued by international bodies.
3. *Covered securities issued by Credit Institutions, but only if the security has not been issued by the Counterparty or a company with close links to the Counterparty.*
4. Securities issued by Credit Institutions that have a guarantee from a central government or local government (kommun or landsting in Swedish) but only if the security has not been issued by the Counterparty or a company with close links to the Counterparty.
5. Securities issued by other companies, on condition that the security has not been issued by the Counterparty or by a company with close links to the Counterparty, and is not an asset-backed security.

Proposed wording

a. Securities that meet the requirements *specified in sections* 2.1 and 2.1.1 a.-b. *but are not covered by 3.3.2 below* and that also have a credit rating corresponding to at least AA- and comprise one of the following types are included in group A are not subjected to a concentration limit:

1. Securities issued by central governments, local governments or authorities abroad.
2. Securities issued by international bodies.
3. Securities issued by Credit Institutions that have a guarantee from a central government or local government (kommun or landsting in Swedish) but only if the security has not been issued by the Counterparty or a company with close links to the Counterparty.
4. Securities issued by other companies, on condition that the security has not been issued by the Counterparty or by a company with close links to the Counterparty, and is not an asset-backed security.

2.6 Points a. and b. in section 3.3.2 (Collateral included in group B) under heading 3 Valuation and risk management

Along with the changes to these two points a. and b. the old concentration-limit rule is replaced with a new one, separated into two points (a. and b.), in accordance with the proposal. This means that it will no longer be possible to post collateral that (i) was issued by the Counterparty itself (or by an issuer with close links to the Counterparty), even if such securities have a credit rating that corresponds to at least AA- and are guaranteed by a state (or equivalent), (ii) consists of longer-term securities with a rating below AA-. Furthermore, the limit of the share of collateral included in group B in the total collateral value is amended from 40 per cent to 60 per cent. The proposed new concentration-limit rule will be given effect in accordance with a transitional provision (see section 2.7 further on in this annex).

In addition to this, a new additional limit is being introduced (via a new point b.) that stipulates that no more than 50 per cent of the share of a Counterparty's total collateral value composed of covered bonds may be issued by the same issuer or issuers who are closely linked. This part of the concentration-limit rule will also be given effect in accordance with a transitional provision, but at a later date than the part of the concentration-limit rule introduced in point a.

Current wording

Securities that meet the requirements described above in sections 2.1 and 2.1 a.-b. and that comprise one of the following types are included in group B and may not exceed, in total, 40 per cent of the total collateral value:

- a. Securities issued by the Counterparty itself or a company with close links to the Counterparty and with credit ratings not below AA- and
 - 1. the security has been guaranteed by a central government or local government (kommun or landsting in Swedish) with unlimited powers of taxation and the security is assessed as having

Proposed wording

- a. Securities that are covered in accordance with section 2.1.1 c. and that otherwise meet the requirements described above under sections 2.1 and 2.1.1 a.-b. and that have a credit rating corresponding to at least AA- are included, subject to the provisions of point b. below, in group B and may not exceed, in total, 60 per cent of the total collateral value if such securities are issued by an entity other than the Counterparty itself or an entity with close links to the Counterparty.
- b. No more than 50 per cent of the share of a Counterparty's total collateral value composed of securities in group B may be issued by the same issuer or issuers who are closely linked.

- *a credit rating that corresponds at least to the central government's credit rating, or*
 2. *the security is covered (see section 2.1.1 c above).*
- b. *Securities issued by companies that are not Credit Institutions and that have a credit rating below AA- but not below A-.*

2.7 Section 3.3 (Application of the concentration-limit rule) under heading
3 Valuation and risk management

This amendment means that the supplementary provisions for the concentration-limit rule are adjusted in accordance with (i) the proposed limit of 60 per cent and (ii) the proposed further limit that no more than 50 per cent of the share of a Counterparty's total collateral value composed of securities in group B may be issued by the same issuer or issuers who are closely linked.

Current wording

If the collateral value for the securities pledged by a Counterparty as collateral and which are included in group B exceed 40 per cent of the total collateral value for all securities pledged by the Counterparty as collateral (both group A and group B), the collateral value of the securities in group B shall be reduced so that it amounts to only 40 per cent of the total collateral value. This means that the collateral value for the securities included in group B can amount to a maximum of $\frac{2}{3}$ of the collateral value of the securities included in group A.

Example: if the total value of group A is 100 and the total value of group B is 80, the value of group B will be reduced to 66.7 and the total value will be 166.7 (66.7 is 40% of 166.7).

Proposed wording

If the collateral value for the securities pledged by a Counterparty as collateral and which are included in group B exceed 60 per cent of the total collateral value for all securities pledged by the Counterparty as collateral (both group A and group B), the collateral value of the securities in group B shall be reduced so that it amounts to only 60 per cent of the total collateral value. This means that the collateral value for the securities included in group B can, subject to the provisions stated below, amount to a maximum of 150 per cent of the collateral value of the securities included in group A.

Example: if the total value of group A is 50 and the total value of group B is 100, the value of group B, subject to the provisions stated below, will be reduced to 75 and the total value will be 125 (75 is 60 per cent of 125).

In addition, it shall apply that if more than 50 per cent of the share of a Counterparty's total collateral value composed of securities in group B are issued by the same issuer or issuers who are closely linked, the collateral value is reduced for the securities included in group B so that (i) it only amounts as stated above to 60 per cent of the total collateral value and (ii) that 50 per cent of this share does not include securities that are issued by the same issuer or issuers who are closely linked. All in all, this means that more than 50 per cent of the collateral value for the securities included in group B may be issued by the same issuer or issuers who are closely linked, and in addition to this the collateral value for these securities can amount to a maximum of 150 per cent of

the collateral value of the securities included in group A.

Example: If the total value for group A is 50 and the total value for group B is 100, of which 70 have been issued by one issuer, and the other 30 have been issued in equal parts by two other issuers, the value for group B will be reduced by 60, of which 30 is composed of securities issued by one issuer, and the other 30 by two other issuers. The total value amounts to 110. The calculation is based on the fact that 60 does not exceed 60 per cent of 110 and that 30 is 50 per cent of 60.

Note that if all securities in group B had been issued by the same issuer, then the collateral value of these securities would have been 0, and the total collateral value in the current example would have been 50, consisting only of securities included in group A.

2.8 Transitional provisions in Annex 5 to Annex H4

This provision is new and means that the proposed new concentration-limit rule is given effect from a certain specified date. Other amendments that are not covered by the transitional provisions, will enter into force the day specified in connection with the publication of the amended Terms and Conditions on the Riksbank's website. This stepwise implementation may lead to all of the proposed amendments being incorporated at the first publication, but not entering into force until a later date. The relevant effective date will be announced by an additional publication of the new Terms and Conditions. Up until this date, the transitional provisions will apply. The final point (e) means the securities included in group B according to the proposed new terms and condition are not accepted in monetary policy repos from the day on which the other proposed new terms and conditions enter into force.

Current wording

Proposed wording

Annex 5 – Transitional provisions

(a) Sections 3.3 and 3.3.2 a. do not apply during the period up to and including [] May 2016.*

(b) Point b. in section 3.3.2 does not apply during the period up to and including [] September 2016.*

(c) For the period to and including [] May 2016, the provisions applying to securities included in group A according to section 3.3.1 will also apply to securities that (i) are covered in accordance with section 2.1.1 c., (ii) have been issued by an entity other than the Counterparty itself or an entity with close links to the Counterparty, (iii) fulfil the requirements specified in sections 2.1 and 2.1.1 a.-b. and (iv) have a credit rating corresponding to at least AA-.*

(d) For the period from [] May 2016 to and including [*] September 2016, section 3.3.2 a. shall apply, without reservation as to point b. in the same section, for securities included in group B according to section 3.3.2.*

(e) Without prejudice to points (a)-(d) above, section 3.3.2. shall be deemed to apply when interpreting section 2.2 c.