

Decision



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■ Change in the Riksbank's regulations on collateral for credit in the RIX payment system

Background

As of December 2007, the Riksbank accepts covered bonds issued by the counterparty, or by an institution with close links to the counterparty, as collateral for credit in RIX or monetary policy instruments. At the same time, the Riksbank introduced an extra haircut for this collateral and also a concentration limit, which meant that a maximum of 25 per cent of a counterparty's total collateral value could be comprised of this type of security.

On 22 September 2008 the Riksbank decided to raise the permitted level of covered bonds issued by the counterparty or by an institution with close links to the counterparty from 25 per cent to 75 per cent of the collateral value. The decision was made in the light of the measures taken by the Swedish National Debt Office, after consultation with the Riksbank, to increase the supply of treasury bills with the aim of facilitating the functioning of the Swedish money and bond markets.

The international financial turbulence is now clearly affecting the financial markets in Sweden, Swedish banks and other financial market participants and there is a deterioration in the functioning of the long-term loan markets. The Riksbank is therefore now taking measures to facilitate the supply of credit, which has so far involved announcing further lending facilities to a total of SEK 354 billion.

Given this background, and taking into account the earlier deliberations, there is reason for the Riksbank to consider whether the current concentration limit for covered bonds issued by a counterparty or by an institution with close links to the counterparty should be removed completely. For the same reasons, there is also justification for considering lowering the Riksbank's credit rating requirement for the collateral accepted so that this is harmonised with the requirements already applied within the Eurosystem.

Considerations

As noted earlier in connection with the decisions taken in December 2007 and September 2008, neither the central banks of the Eurosystem, nor the central banks in Denmark and Norway have any equivalent to the Riksbank's regulations on extra haircuts and limits in the volume of covered bonds issued by the counterparty or by an institution with close links to the counterparty.

The Riksbank's assessment when making the earlier decisions was that it was appropriate, from a risk point of view, to aim at diversification in the collateral volume pledged to the Riksbank by its counterparties. One means of achieving this aim is to limit the share of the counterparty's collateral that is issued by the same counterparty or by a group of closely-related issuers. The Riksbank further observed that the optimum level for such a limit was not entirely clear. In December 2007 the Riksbank reached the conclusion that 25 per cent was a suitable level. The aim then was that this limit would in a later stage be introduced to apply to all types of collateral. For the purpose of facilitating the functioning of the Swedish money and bond markets this level was raised to 75 per cent in September 2008. At present the limitation only applies to (i) covered bonds issued by the counterparty or by an institution with close links to the counterparty (75 per cent) and (ii) to other securities issued by a Swedish bank or foreign credit institution (25 per cent).

The international financial turbulence is now clearly affecting the financial markets in Sweden, Swedish banks and other financial market participants and there is a deterioration in the functioning of the long-term loan markets. The Riksbank and other government agencies are now therefore taking measures to facilitate the supply of credit. The Swedish National Debt Office has increased the supply of treasury bills through extra auctions of up to SEK 150 billion and then invested the funds in its counterparties with covered bonds as collateral. On 1 October the Riksbank held a first auction of loans in US dollars and on 6 October a first auction was held of three-month loans in Swedish krona. The measures announced by the Riksbank so far correspond to a loan volume totalling around SEK 354 billion. Given this, there is reason for the Riksbank to further increase the possibility to obtain credit from the Riksbank. Although the Riksbank still considers it important to endeavour under normal circumstances to achieve a diversification of the collateral volume pledged to the Riksbank by its counterparties, the Riksbank's assessment is that there are overwhelming reasons for now removing the current concentration limit.

The removal of the limit ought reasonably to refer only to covered bonds issued by the counterparty itself or an institution with close links to the counterparty. For other securities issued by a Swedish bank or foreign credit institution a maximum share of 25 per cent of the total collateral should continue to apply, as this limit is not assessed to have the same effect on the possibility to use the credit scope at the Riksbank.

The Riksbank assesses the creditworthiness of the collateral pledged to the Riksbank on the basis of the credit rating made by & Poor's, Moody's Investors Services and Fitch IBCA. The requirement regarding the minimum credit rating is stated in Appendix 1 of the applicable Instructions for collateral management. These state that the Riksbank requires a minimum credit rating of A/A2¹ for securities with a time to maturity of at least one year. The minimum credit rating required for corresponding collateral in the Eurosystem is A-/A3. The Riksbank thus has a higher credit rating requirement than the Eurosystem at present. The reasons for this are historical rather than based on a different risk analysis from that made by the Eurosystem. As has already been observed, there are now reasons for further increasing the opportunity to use the credit supplied by the Riksbank. Given this background and as part of the Riksbank's endeavour to harmonise collateral requirements as far as possible with those applied within the Eurosystem, the minimum credit rating requirement should now be lowered from A/A2 till A-/A3.

The changes should apply until further notice. The Riksbank will at a later stage revise the regulations regarding collateral and in connection with this determine whether any form of concentration limit should be applied. Such a revision will also include changes regarding collateral that have been made or are planned by other central banks.

¹ A from Standard & Poor's and Fitch IBCA and A2 from Moody's Investors Services.



■ According to the current Rules and Regulations for RIX and monetary policy instruments, the Riksbank must normally submit proposals for changes in the Rules and Regulations to the RIX participants, with a period for consideration of 30 days. The Riksbank must also inform the RIX participants of any changes no later than 15 days before they enter into force. However, the Riksbank may disregard these requirements if special circumstances apply. As this change can only benefit the RIX participants and taking into account the purpose of the change, such circumstances must be considered to apply. The change should come into effect immediately.

There has been consultation on this matter with the Financial Stability Department, the Monetary Policy Department and the General Secretariat and information on the proposed change has been given to the Executive Board of the Riksbank.

Decision

Given the above it is decided that:

- section 3.1.3 in the Riksbank's guidelines for collateral management will be changed in accordance with Appendix 1,
- Appendix 1 to the Riksbank's guidelines for collateral management will be changed in accordance with Appendix 2,
- the change will enter into force on 8 October 2008, and
- section 3.1.3 in Appendix H4 and also Appendix S1 to the Conditions for RIX and monetary policy instruments is changed in the same way and that this change will come into force at the same time as the Conditions for RIX and monetary policy instruments comes into force.

Sophie Degenne

Head of the Asset Management Department