



Memorandum

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DEPARTMENT: Financial Stability Department

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■ Extension of the Riksbank's eligible counterparties

Background

The Riksbank established special temporary credit facilities in autumn 2008. Some of these facilities are reserved for the Riksbank's monetary policy counterparties. A monetary policy counterparty must be a credit institution with a registered office or branch in Sweden that is a participant in RIX, the Riksbank's system for large-value payments.

RIX has 20 participants, 16 of which are credit institutions with a registered office or branch in Sweden. The combination of a limited number of participants in RIX together with the requirement that only such participants may become monetary policy counterparties means that few institutions may use the Riksbank's facilities. This situation is different from in many other countries where there is no requirement regarding being a participant in the central bank's payment system in order to be a monetary policy counterparty to the central bank. However, a normal requirement is that a monetary policy counterparty must be a credit institution.

The credit facilities were introduced partly to facilitate the functioning of the markets and partly to avoid the banks' financing problems having negative consequences for the supply of credit to companies and households. Given the limited number of eligible counterparties for the Riksbank's various SEK loan programmes, there is reason to consider whether an extension of the eligible counterparties would be in line with the purpose of introducing loans in SEK with longer maturities.

Considerations

The credit institutions that are not monetary policy counterparties to the Riksbank are obliged to finance themselves on the market outside the banking system or through the Riksbank's monetary policy counterparties, in addition to financing in the form of deposits. As the functioning of the markets is still unsatisfactory and financing at longer maturities in Sweden and abroad is still inadequate, there is a risk that these sources of financing will not be available to the same extent and in the same way as before. This could mean that these credit institutions cannot participate in the same way as before in the supply of credit to companies and households. Such a development is not desirable, and there is thus reason for the Riksbank to temporarily fulfil the function of further

possible source of financing for these institutions in order to facilitate the functioning of the markets.

The institutions concerned could apply to become RIX participants, and in this way be entitled to participate in the Riksbank's facilities aimed at monetary policy counterparties. An extension of the eligible RIX participants to include institutions which do not have a natural requirement for participation in RIX could entail increased operational risks in RIX. It is therefore more appropriate that such institutions should become restricted counterparties rather than participants in RIX.

Eligible counterparties

If one considers extending the eligible counterparties, it may be reasonable to start with the institutions that fulfil the same institutional requirements as the monetary policy counterparties, that is, credit institutions (as defined in the Terms and Conditions for RIX and monetary policy instruments) which have chosen not to be participants in RIX. To facilitate the process of scrutinising these extended eligible counterparties, only institutions with a registered office in Sweden should be permitted. The requirements for becoming a restricted counterparty should correspond to the requirements for becoming a RIX participant, however with the exception of the requirements primarily of a technical nature and which are attributable to participation in the actual RIX system.

The proposed extension of the eligible counterparties covers most of the Swedish credit institutions. To what extent these institutions can use the Riksbank's credit facilities depends on, for instance, the institution's access to collateral considered eligible by the Riksbank, which may be limited. It should therefore be noted that it is uncertain what effect an extension will have on the supply of credit in the economy. Although this extension of the eligible counterparties only risks having a limited effect on the granting of credit at present, the proposal should be able to contribute to reinforcing financial stability to some extent by making it possible for more institutions to gain access to credit from the Riksbank and by facilitating the functioning of the markets.

Charges

The RIX participants who currently enjoy the privilege of being counterparties to the Riksbank pay substantial charges for participation in RIX. These charges consist of (i) an entry fee, (ii) a monthly fee, (iii) a monthly fee for collateral management, (iv) an additional fee and (v) a transaction fee. As the extended eligible counterparties will be allowed access to some of the benefits that otherwise ensue from participation in RIX, the extended eligible counterparties should also pay charges. These charges should include the first three types of fee.

As the extended eligible counterparties are counterparties to a more limited extent than the RIX participants, the entry fee and monthly fee should only be a percentage of the charge paid by a RIX participant; around half of the charge paid by the RIX participants would seem appropriate. The collateral management can be considered to be the same as for the RIX participants, which means that the extended eligible counterparties ought to pay the entire monthly fee for collateral management. The proposed charge will entail some minor cost in addition to the interest set in the auction procedure. This can be compared with the counterparties concerned normally having to pay interest on their borrowing above what applies on the interbank market.

Use of the Riksbank's facilities

■ The restricted counterparties ought to be able to use the facilities offered by the Riksbank that are on occasion opened up to these particular counterparties. This use would be on the same conditions that apply to other counterparties. It should apply, for instance, to the Riksbank's programme of loans in SEK and possibly also the Riksbank's programme of loans in SEK with commercial paper as collateral. To enable a greater number of institutions in the extended eligible counterparties to participate, there is reason to consider reducing the minimum amount for bids in these facilities for all counterparties.

The more detailed terms for becoming a restricted counterparty should be set by the Head of the Monetary Policy Department in consultation with the Head of the Asset Management Department and the Head of the Financial Stability Department. The right to decide on the more detailed terms of the Riksbank's different temporary credit facilities has already been delegated to the Head of the Monetary Policy Department. This delegation should also include a decision on the extended eligible counterparties for the credit facility.

There has been consultation on this matter between the Monetary Policy Department, the Asset Management Department and the Financial Stability Department.

Proposed decision

It is proposed that the Executive Board decide:

that credit institutions (as defined in the Terms and Conditions for RIX and monetary policy instruments) with a registered office in Sweden shall have the opportunity to take part in certain of the Riksbank's facilities, and

that responsibility for deciding on the detailed terms for becoming a restricted counterparty and which facilities these counterparties can use will be delegated to the Head of the Monetary Policy Department in consultation with the Head of the Asset Management Department and the Head of the Financial Stability Department.