



Decision memorandum

DATE: 27 August 2009
DEPARTMENT: Financial Stability Department/Asset Management Department
REFERENCE: Jonas Niemeyer / Jan Schüllerqvist
HANTERINGSKLASS:

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 2009-681-AFS

■ The Riksbank's lending in SEK with commercial paper as collateral

Proposed decision

- The facility with loans in SEK and with commercial paper as collateral will be wound up.
- The last issue in this programme will take place on 2 September 2009.

Background

On 28 October 2008 the Executive Board of the Riksbank decided to introduce a Special loan facility with commercial paper as collateral.¹

Reasons for and formation of existing loans

The decision was taken in the light of the assessment that there was an increased risk of a credit crunch building up. The purpose was to facilitate the banks' lending to companies as directly as possible. The commercial paper market was functioning poorly, partly as a result of risk premiums rising. Instead of obtaining funding in the market, a number of large companies began to draw on earlier-agreed bank facilities, which were cheaper as they had been negotiated prior to the crisis. This put a strain on the banks' liquidity.

The assessment was that the Riksbank should not provide direct loans to non-financial companies, partly because this would mean that the Riksbank deviated from its traditional role as the banks' bank, and partly because the Riksbank does not have the operations necessary to lend to a larger circle of borrowers. Instead the loans were to be granted to the banks, which would thus also bear the credit risks and manage the customer contacts with the

¹ See the Executive Board's decision memorandum dated 28 October 2008.

companies. To ensure that the Riksbank would receive reliable collateral the loans in this programme are limited to companies with a satisfactory credit rating, in practice at least A-2/P-2 or equivalent. The collateral will also be accepted if the bank can show that the company had an internal rating corresponding to A-2/P-2. A further requirement is that the commercial paper is from non-financial listed companies domiciled in Sweden. To begin with the loans were granted with a maturity of three months and at a fixed interest rate. The minimum bid rate in the auction (in practice the interest rate that was used) was set at the repo rate at the time of the auction plus an addition of 40 basis points.

On 12 February 2009 the Executive Board of the Riksbank decided a) to change over to a variable interest rate, b) to cut the minimum addition to 20 basis points and c) to also introduce loans with a maturity of six months and twelve months.

The loans have been offered through auctions that have been held approximately once a fortnight. Throughout this period there has been only slight interest in these loans. A total of SEK 790 billion has been offered, and bids for SEK 8.7 billion have been received and thus accepted, and at present SEK 0.4 billion is outstanding. There have been no bids made at an auction since 18 March. A compilation from the results of all of the issues is contained in Appendix 1.

Considerations

Contacts with market agents indicate that the facility has had some effect in facilitating the functioning of the market, although the credit volumes have been limited. The knowledge that it is possible to use commercial paper as collateral with the Riksbank has facilitated issues of commercial paper. The facility thus appears to have fulfilled a role.

During the spring and summer the general conditions in the financial markets as a whole have improved. Liquidity and risk appetite have returned, which has made it easier for companies to find funding in the markets. The need for this facility has thus declined. Nor have any bids been received in the auctions held since 18 March. It is therefore appropriate for the Riksbank to wind up this facility.

It can also be noted that if the banks have collateral (that is accepted by the Riksbank) it is cheaper to borrow through the ordinary SEK loans. This funding can also be used to finance lending to companies. The facility will in practice only be interesting for a bank that lacks "ordinary" collateral but has access to commercial paper with a rating of A-2/P-2 or lacks a rating.

Given the improved market conditions and the fact that the ordinary SEK loans are continuing, there is thus reason to wind up this special loan programme.

■ The Riksbank had announced prior to the summer that an auction would be held on 2 September and had presented the terms for this (on 26 August). It is therefore appropriate to carry out this issue according to plan – as the final auction within the programme.

Appendix 1 – Results of the commercial paper auctions so far

Auction	Volume offered	Total amount	Maturity	Due date	Outstanding amount
Total	790	8.715			0.4
20081105	40	4.5	91	20090210	
20081119	40	1	91	20090224	
20081205	40	1	89	20090310	
20081217	40	1.3	91	20090324	
20090121	40	0	84	20090421	
20090130	40	0	89	20090505	
20090220	25	0	82	20090519	
20090220	25	0.415	166	20090811	
20090304	25	0.1	84	20090602	
20090304	25	0	336	20100209	0
20090318	25	0	84	20090616	
20090318	25	0.4	168	20090908	0.4
20090401	25	0	84	20090630	
20090401	25	0	336	20100309	0
20090415	25	0	84	20090714	
20090415	25	0	168	20091006	0
20090427	25	0	84	20090728	
20090427	25	0	336	20100406	0
20090513	25	0	84	20090811	
20090513	25	0	168	20091103	0
20090527	25	0	84	20090825	
20090527	25	0	336	20100504	0
20090610	25	0	84	20090908	0
20090610	25	0	168	20091201	0
20090624	25	0	84	20090922	0
20090624	25	0	336	20100601	0
20090805	25	0	84	20091103	0
20090805	25	0	168	20100126	0