

Regulation

DECISION DATE: 22/05/2017
DECISION BY: The Executive Board
APPLICABLE FROM: 22/05/2017
RESPONSIBLE DEPARTMENT: General Secretariat/Risk Division
RESPONSIBLE MANAGER: Chief Risk Officer

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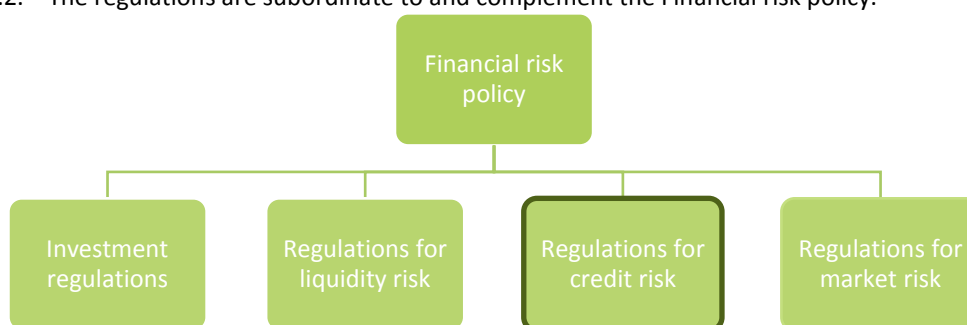
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Regulations for credit risk

1. Introduction and purpose

- 1.1. The regulations in this document stipulate the general principles for the management of credit risk.
- 1.2. The regulations are subordinate to and complement the Financial risk policy.



- 1.3. The purpose of the regulations is to ensure:
 - 1.3.1. that all the credit risks at the Riksbank are identified,
 - 1.3.2. that reliable methods for measuring credit risks are used at the Riksbank,
 - 1.3.3. that identified credit risks are managed and reported in a way that provides a good understanding of credit risks at the Riksbank,
 - 1.3.4. that the limits and other forms of control adopted by the Executive Board concerning credit risk are monitored and reported.
- 1.4. The regulations are complemented where appropriate by regulations decided on by the Head of the Markets Department and the Head of the Risk Division in line with their areas of responsibility.

2. Definition

- 2.1. Credit risk is defined as the risk of loss due to counterparties or issuers failing to meet their financial commitments.
- 2.2. Credit risk is divided into issuer, counterparty and settlement risk.

3. Measuring credit risk

- 3.1. When calculating credit risk, all of the financial assets of the Riksbank shall be included.
- 3.2. The method used to measure the Riksbank's total credit risk shall be the Basel II standard method for calculating capital requirements.
- 3.3. The ongoing measurement of credit risk shall be complemented by stress tests. These shall consist of both scenario-based tests in which the impact of market risk factors is analysed in line with various macroeconomic scenarios, and sensitivity tests, where certain selected variables are exposed to stress individually.

4. Issuer limits

- 4.1. For the issuers Bank for International Settlements (BIS) and United States, the limits for net exposures are unrestricted.
- 4.2. The total net exposure to an individual issuer, excluding the BIS and United States and depending on credit rating, may not exceed the sums given in the table below. The concentration limits, i.e. the limits for the total net exposure to issuers for different intervals of credit rating, are shown in the table below.

Credit rating	Limits for net exposure to an individual government, mSEK	Limits for net exposure to other individual issuers*, mSEK	Concentration-Limits for issuers, mSEK
AAA	Unlimited	6 000	Unlimited
AA+ to AA-	20 000	3 500	Unlimited**
A+ to A-	8 000	1 500	20 000
BBB+ to BBB-	4 000	750	

* If the asset allocation in the Investment policy for the gold and foreign currency reserve – over and above US agencies – comprises promissory notes issued by companies, the limits for groups and sectors (industries) shall be set by the Executive Board.

** Unlimited given that individual issuers keep within the stipulated limit levels.

- 4.3. Within the framework of the limits in 4.1 and 4.2, the responsible head of department shall set limits for individual issuers. The set limits shall be specified in a special list.

5. Counterparty limits

- 5.1. The total net exposure to an individual issuer, depending on their credit rating, may not exceed the sums given in the table below. The concentration limits, i.e. the limits for the total net counterparty exposure for different intervals of credit rating, are shown in the table below.

Credit rating	Limits for net exposure to individual counterparty, mSEK	Concentration limits for counterparties, mSEK
AAA	2 500	30 000
AA+ to AA-	2 000	
A+ to A-	800	
BBB+ to BBB-	400	

* For BIS, IMF and central banks in the US and in countries with an AAA credit rating, unrestricted net and concentration limits apply, i.e. they shall be excluded when calculating the total counterparty exposure.

- 5.2. Within the framework of the limits in 5.1, the responsible head of department shall determine limits for each individual counterparty and set maturity limits for them for permitted instruments. The set limits shall be specified in a special list.

6. Settlement limits

- 6.1. The total net exposure to an individual counterparty, depending on their credit rating, may not exceed the sums given in the table below. The concentration limits, i.e. the limits for the total settlement exposure for different intervals of credit rating, are shown in the table below.

Credit rating	Limits for settlement exposure to individual counterparty, mSEK	Concentration limits for settlement, mSEK
AAA	5 000	30 000*
AA+ to AA-	4 000	
A+ to A-	1 600	
BBB+ to BBB-	800	

** For BIS, IMF and central banks in the US and in countries with an AAA credit rating, unrestricted settlement and concentration limits apply, i.e. they shall be excluded when calculating the total settlement exposure.*

- 6.2. Within the framework of the limits in 6.1, the responsible head of department shall set settlement limits for each individual counterparty. The set limits shall be specified in a special list.

7. Joint limits

- 7.1. If two or more issuers are closely linked, the Riksbank's total net exposure to these issuers shall be within the issuer limit for that issuer with the highest issuer limit.
- 7.2. Exposure to government-backed issuers and exposure via holdings of government-guaranteed securities shall be jointly limited with the government issuing the guarantee.
- 7.3. If two or more counterparties are closely linked, the Riksbank's total net exposure to these counterparties shall be within the counterparty limit for that counterparty with the highest counterparty limit.
- 7.4. If an institution or a closely-linked group of institutions are both issuers and counterparties, the total of the issuer and net counterparty exposures of these shall, in addition to what is stipulated above, fall within the issuer limits stipulated in point 4.1 or 4.2.
- 7.5. If two or more counterparties are closely linked, the Riksbank's total settlement exposure to these counterparties shall be within the settlement limit for that counterparty with the highest settlement limit.

8. Responsibility and limit infringements

- 8.1. For all limits, the Head of the Risk Division determines a method for the application of external credit ratings and the exact definition of the terms net exposure, settlement exposure and closely linked.
- 8.2. If a limit is lowered due to a reduced credit rating for a country, issuer or counterparty and an immediate divestment of the position concerned would be damaging to the Riksbank, the responsible head of department may decide to allow the limit to be exceeded for a limited period of time. The decision shall be explained, documented and given a time limit.
- 8.3. If a counterparty that has pledged collateral to the Riksbank fails and the Riksbank holds the securities concerned, then the credit risk limits may be temporarily exceeded. The responsible head of department shall decide how quickly this excess should be eliminated. The decisions shall be documented, explained and given a time limit.