

ANNEX TO INVESTMENT POLICY FOR THE GOLD AND FOREIGN EXCHANGE RESERVE

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Annex to Investment policy for the gold and foreign exchange reserve

Introduction

This annex contains investment rules and credit limits that supplement the Riksbank's Investment policy for the gold and foreign exchange reserve. The credit limits apply to the management of the gold and foreign exchange reserves, including the operations conducted to hedge parts of the foreign exchange reserves.

Investment regulations

This section contains the fundamental principles regarding which investments are permitted.

Investments may only be made where the asset type, instrument type, currency, country, issuer or counterparty has been prepared and approved in accordance with the Riksbank's Regulation for application procedure.

Before an instrument type can be approved in accordance with the Riksbank's Regulation for application procedure, established methods for valuation and risk measurement must be available. It must also be possible to record the type of instrument in accordance with the accounting principles stipulated in the Sveriges Riksbank Act.

Investments shall be made in accordance with the overall provisions regarding targets and principles for asset management pursuant to Chapter 9 of the Sveriges Riksbank Act.

Permitted countries

Investments may only be made in countries that are members of the OECD.

Permitted currencies

Investments may only be made in the currencies of countries that are members of the OECD.

Permitted asset types

Investments may be made in the following assets and financial instruments:

- Foreign exchange (including cash balances¹)
- Foreign government securities
- Other readily convertible debt securities denominated in foreign exchange
- Gold, and
- Rights and obligations related to the said asset types (e.g. derivatives and repos).

Other assets and financial instruments require preparation and approval in accordance with the Riksbank's Regulation for application procedure.

Permitted issuers

- Issuers must have their legal domicile in an approved country.
- Issuers of fixed-income securities that are not states and state-guaranteed issues included in the decision on strategic allocation shall have an external credit rating of at least A- or equivalent. The requirement for issuers regarding an external credit rating can also be met if the issuer's obligations are guaranteed by another party that has such a credit rating. Such a guarantee must be designed so that the credit risk is not assessed to be greater than it would be in a situation with direct exposure to the guarantor (e.g. through the guarantee being limited).

Permitted counterparties

- Counterparties, the parties with which the Riksbank enters into agreements, must be legally resident in an approved country.

¹ Cash balance refers to deposits and bank balances including deposits.

- Counterparties shall have an external credit rating no lower than BBB- or equivalent. This rule does not apply to the following counterparties: BIS, ECB, US Federal Reserve and Bundesbank.

- Counterparties shall have an external credit rating no lower than A-, or equivalent, if the counterparty:
 - handles payments on behalf of the Riksbank,
 - is used for the clearing of market-traded and listed derivatives on behalf of the Riksbank,
 - performs securities lending on behalf of the Riksbank,
 - is a custodial bank, i.e. holds securities on behalf of the Riksbank.

This rule does not apply to the following counterparties: BIS, ECB, US Federal Reserve and Bundesbank.

- The requirement for counterparties regarding an external credit rating can be met if a counterparty's obligations are guaranteed by another party that has such a credit rating. Such a guarantee must be designed so that the credit risk is not deemed to be greater than it would be in a situation with direct exposure to the guarantor (e.g. through the guarantee being limited). With regard to the purchase and sale of securities with cash on delivery, the requirement for external credit rating of the counterparty can also be met if the counterparty's parent company meets this requirement.
- Counterparties that conduct securities business must be under the prudential supervision of a public authority or other competent body in the home country. Prudential supervision means that a competent authority or other competent body issues special authorisations for the entities under its supervision in accordance with established suitability criteria and then continually oversees the financial status of these entities as well as the maintenance of the permit criteria (where appropriate at group level). This provision does not apply to the following: national central banks, and central counterparties for derivatives (CCPs)².
- Securities held with a custodial bank must be held in such a way that the Riksbank has a right of reclamation to the securities in accordance with applicable bankruptcy legislation in the event of the bankruptcy of the

² Central counterparty (clearing house) (CCP).

custodial bank. Securities may be held in securities accounts that are used for more than one client, so-called pooled client accounts or omnibus accounts.

- In the case of securities custody at the Riksbank's custodian banks and correspondent banks, credits shall generally not arise. However, credit may be granted to a limited extent if the purpose of the credit is to facilitate the administration of financial transactions at the Riksbank's custodian banks and correspondent banks.
- The custody of the Riksbank's securities holdings must always be divided between at least two custodial banks in such a way that the Riksbank can at all times fulfil its statutory tasks and obligations.
- Credit risks connected with repo transactions shall be restricted by ensuring that the securities covered by the transactions are approved for investment in the management of the gold and foreign exchange reserves.
- In cases where securities lending is performed by a counterparty on behalf of the Riksbank, a so-called lending agent, the credit risk shall be limited by requiring the lending agent to have a minimum credit rating corresponding to A-. The borrower of the security and the counterparty for reinvestment shall have a minimum credit rating corresponding to BBB-. Credit risk shall also be mitigated by requiring collateral in the form of assets eligible as collateral for investment in the management of the gold and foreign exchange reserves.
- The lack of a credit rating may be accepted for a borrower or a counterparty for reinvestment if the lending agent can give the Riksbank an applicable indemnity guarantee.

Restrictions for credit institutions and Swedish companies under the supervision of Finansinspektionen

- The Riksbank shall not have any unsecured exposure to Swedish credit institutions (for exceptions see below). It follows on from this that the Swedish credit institutions under the supervision of Finansinspektionen cannot be counterparties in derivative contracts issued by actors other than an authorised marketplace. Nor can they be recipients of deposits.
- However, credit institutions under the supervision of Finansinspektionen are permitted as counterparties in FX transactions.

Credit limits

Measurement of credit limits

With regard to credit risk, section 5.2 of the Financial Risk Policy shall apply.

Details relating to limits on credit risk exposure shall be applied in accordance with the Regulation for measurement of credit risk determined by the Chief Risk Officer.