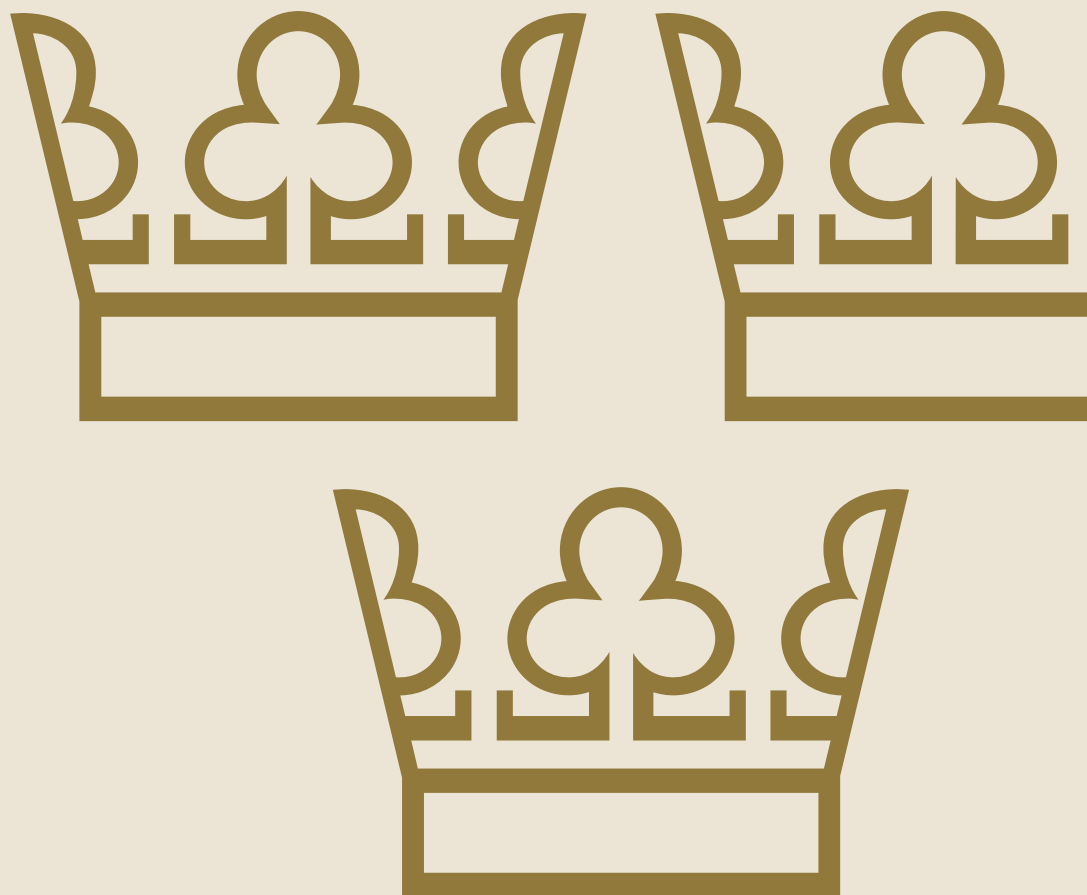


Financial and Risk Policy 2024



Adopted: 2023-12-15
Adopted by: The Board of the Swedish National Debt Office
Information owner: Head of Risk Unit
Version number: 2024:1

Financial and Risk Policy 2024

The Financial and Risk Policy supports the Swedish National Debt Office's risk management and its internal control. The policy provides an overview of the Debt Office's management of financial risks and the chosen risk level in applicable situations. The policy specifies certain principles for the conduct of operations. It also compiles rules, frameworks, and target levels for managing risks that arise in the Debt Office's operations.

Contents

1.	Introduction.....	4
2.	Debt Office risk management	6
2.1	Framework.....	6
2.2	The Debt Office’s risk management process	6
3.	The process Raise and manage loans for the central government	8
3.1	General framework	8
3.2	Principles for the management of central government debt.....	9
3.3	Composition and term to maturity of the central government debt.....	10
3.4	Exchanges between Swedish kronor and foreign currency	14
3.5	Position taking	15
3.6	On-lending to the Riksbank for financing commitments to the International Monetary Fund.....	16
3.7	Credit risk	17
4.	The process Develop and manage the central government payment model including the state’s central liquidity steering.....	22
4.1	General premises and mandate	22
4.2	Principles for reducing credit risk.....	23
5.	The process Issue and manage guarantees and loans.....	24
5.1	General premises and mandate	24
5.2	Principles for management of guarantees and loans.....	24
5.3	Reporting to the Board.....	25
6.	The process Work to ensure that the costs for the final storage of spent nuclear fuel and radioactive waste are covered by those who generate the waste	26
6.1	General premises and mandate	26
6.2	Reporting to the Board.....	26
	Appendix 1 – Risk map.....	28
	Appendix 2 – Definitions	29

1. Introduction

Under the Ordinance (2007:1447) containing Instructions for the Swedish National Debt Office, there must be a description of the main risks associated with the operations of the Debt Office and of how they are to be managed. There must also be internal instructions for managing these risks. The description, the internal instructions and compliance with the instructions are to be kept under continual review. The Ordinance containing Instructions for the Swedish National Debt Office also states that the Board of Directors is to adopt frameworks and guidelines for managing the risks associated with the Debt Office's operations.

The Debt Office conducts various operations, which are regulated by different regulatory frameworks. This can entail differences in how risks are managed, and in the risk levels, per area of operation.

- The issuance of guarantees and credits in the process “Issue and manage guarantees and loans” is preceded by separate decisions from the Riksdag (Swedish Parliament) and the Government. Accordingly, the level of risk in these operations is largely steered by the commitments decided on by the Riksdag and the Government.
- The process “Work to ensure that the costs for the final storage of spent nuclear fuel and radioactive waste are covered by those who generate the waste” is regulated by specific regulations. These largely govern the level of risk involved in this process.
- Under the process “Raise and manage loans for the central government”, the Debt Office has a mandate to make its own decisions about the risk level within the framework established by the Government.
- The risk level in the process “Develop and manage the central government payment model including the state's central liquidity steering” is chiefly governed by the external framework for the operations. The Debt Office can, however, decide on certain risk-mitigating measures.

The Financial and Risk Policy supports the Debt Office's risk management and its internal control. The policy provides an overview of the agency's management of financial risks and the chosen risk level in applicable situations. The policy specifies certain principles for the conduct of operations. It also

compiles rules, frameworks, and target levels when relevant for managing risks that arise as part of the Debt Office's operations. The annual review, reconsideration and adoption of this policy establish a process that ensures the policy remains up to date and relevant.

The Debt Office has a specific decision-making body for resolution, called the Resolution Board. A separate Financial Policy covers matters within the Resolution Board's area of responsibility.

The risk map (Appendix 1) shows the primary risks identified within the framework of the Debt Office's operations. These risks, except for operational risk, are covered by the Financial and Risk Policy. Market and liquidity risks are mainly managed within the framework of the process "Raise and manage loans for the central government" and are therefore described in that section (Section 3). Credit risks are managed to varying degrees in several of the processes and are described in the section for each process where applicable. Operational risk is managed in accordance with the Debt Office's policy for internal governance and control. Business risk, concentration risk, external-environment risk and strategic risk are not given separate sections but are mainly managed within the framework of other risks (see Appendix 2). It should also be noted that there is no separate process for identification and management of reputational risk. Instead, this risk is taken into account in connection with impact assessments of other risks.

The policy sets out Board decisions. Operational decisions that follow from this policy are made by the Debt Office Director General, or officials in accordance with delegation procedures set out in the rules of procedure of the Debt Office and the relevant departments.

2. Debt Office risk management

2.1 Framework

The purpose of risk management work is to identify and manage risks that affect achievement of the Debt Office's objectives or that have an adverse effect on the Debt Office's finances, reputation, and/or operations.

Risk management provides a readiness to act and the ability to plan and execute activities to manage risks. To achieve this, the risks must be known and the measures the Debt Office chooses to take, or not to take, must be the result of deliberate decisions. Risk management, therefore, makes it possible to take decisions on balancing costs and risks.

2.2 The Debt Office's risk management process

The Debt Office is to have a systematic process for risk management. The process is based on five steps:



2.2.1 Identification

Risk identification is based on what has happened and what can happen.

2.2.2 Assessment

The assessment of the financial risks identified is conducted by using quantitative methods and measurements.

2.2.3 Measures and priorities

After the risk has been identified and assessed, the following courses of action are available:

- Eliminate the risk

- Limit the risk
- Transfer (insure) the risk
- Accept the risk

The choice depends on how the particular risk has been assessed, and on the level of risk selected. A trade-off is made between expected cost and risk.

2.2.4 Implementation

The Debt Office's operations are responsible for implementing the chosen measures for achieving the level of risk selected.

2.2.5 Reporting and monitoring

The effects of the risk management measures taken are monitored, evaluated and reported in accordance with the procedures decided on by the agency.

3. The process Raise and manage loans for the central government

3.1 General framework

The management of the central government debt is governed by the Budget Act (SFS 2011:203), which sets out the objective for the management of the central government debt and the purposes for which the Government may raise loans.¹

The Act also states that the Government shall adopt guidelines for the management of the central government debt each year. The Government's decision reflects a desired trade-off between the expected cost and risk of the debt. Under the Act, the Government must also present an evaluation of the management of the central government debt to the Riksdag every two years.

The Government has delegated the right to raise loans and the responsibility for the continual management of the central government debt to the Debt Office.

3.1.1 Objective

Under the Budget Act, the objective is to manage the central government debt in such a way as to minimise the long-term cost of the debt while taking account of the risk in its management. The management of the debt is also to be conducted within the framework of monetary policy requirements.

3.1.2 Decisions by the Debt Office

The Government's guidelines decision for the management of the central government debt entails that the Debt Office is responsible for taking strategic decisions within the framework of the guidelines and for the implementation of these decisions in the operational management of the central government debt. The Debt Office is to establish internal guidelines based on the Government's guidelines. These decisions are to concern the utilisation of the position-taking mandate, the maturities of individual debt types, the foreign

¹ Loans may be raised to: finance current deficits in the central government budget and other expenditure based on decisions by the Riksdag (Swedish Parliament); provide credits and perform guarantees decided on by the Riksdag; amortise, redeem and buy back central government loans; meet the need for central government loans at different maturities in consultation with the Riksbank (Sweden's central bank); and meet the Riksbank's foreign currency reserve needs.

currency distribution in the foreign currency debt and principles for market support and debt maintenance.

This means that the Debt Office must establish intermediate objectives and internal guidelines for the operational management of the central government debt. The Financial and Risk Policy translates the Government's guidelines decisions for the management of the central government debt into operational decisions that guide continual borrowing and debt management. To increase clarity, some of the Government's guidelines decisions are reproduced in the Financial and Risk Policy.

3.2 Principles for the management of central government debt

3.2.1 Debt and market maintenance

The Government's guidelines state that the Debt Office, through debt maintenance and market maintenance, is to contribute to reducing the costs of the central government debt. The Financial and Risk Policy establishes principles for debt and market maintenance that guide the management of the central government debt. These principles show how the Debt Office will contribute to the development and maintenance of well-functioning government securities markets, which is necessary to achieve the overall objective of long-term cost minimisation, taking account of risk.

The following principles are to provide guidance:

- The Debt Office shall act responsibly in all contexts. This includes always treating counterparties in an impartial and objective way and avoiding transactions that may result in damage to the reputation of the Debt Office or the Swedish Government. The requirement of a responsible approach is reinforced in the domestic krona market by the Debt Office's position as the dominant participant.
- The Debt Office shall be as consistent, predictable and open as possible in its information to, and communication with, the market – particularly markets for bonds and treasury bills denominated in Swedish kronor.
- The Debt Office's borrowing shall be characterised by transparency and predictability.

- In the management of the central government debt, the Debt Office is to take refinancing risks into consideration, including by issuing instruments with maturities longer than twelve years.
- The Debt Office shall seek to broaden the investor base for Swedish government securities.
- The Debt Office is to have sales channels that are efficient and have a positive impact on the functioning of the market in Swedish government securities.
- The Debt Office is to support the liquidity of the government securities market by providing repo and switch facilities.
- The Debt Office shall work to ensure that infrastructure is in place that enables the market in Swedish government securities to function effectively.

3.2.2 Entering into transactions

The purpose of the following principle is to reduce the operational risk in the management of the central government debt.

The Debt Office may only enter into transactions that it has the competence, systems and procedures to handle.

3.2.3 Management of the foreign currency debt

The purpose of the following principle is to reduce the risk that transactions cannot be valued on a continual basis.

In managing the foreign currency debt, the Debt Office shall act in markets that are liquid and well-developed. If derivative transactions can be made that lead to the elimination of market risk in a borrowing transaction, lower liquidity requirements in the market in the borrowed currency can be accepted.

3.3 Composition and term to maturity of the central government debt

This section describes how the central government debt shall be allocated to different debt types and how the maturity is to be steered.

The composition of the debt shall be based on nominal amounts at the current exchange rate, including accrued inflation.

The Government has determined that the term to maturity of the central government debt is to be measured as duration, for which the Debt Office uses Macaulay duration.² The Government has further decided that the term to maturity of the central government debt is to be between 3.5 and 6 years. The maturity may deviate temporarily from the maturity interval.

In accordance with the guidelines, the Debt Office is to establish a maturity interval for each of the following debt types: nominal krona debt, inflation-linked krona debt, and foreign currency debt.

Composition and term to maturity are calculated from the net of non-governmental assets and liabilities while accounting for the foreign currency exposure arising in the central government's internal bank operations.³ Position-taking in accordance with Section 3.5 is not included in the calculation.

3.3.1 Nominal krona debt

The nominal krona debt is the part of the central government debt that is not inflation-linked krona debt or foreign currency exposure.

3.3.2 Inflation-linked krona debt

In accordance with the Government guidelines, the share of inflation-linked krona debt shall be 20 per cent of the central government debt in the long term. This share is calculated using nominal amounts at the current exchange rate including accrued inflation compensation.

3.3.2.1 Reporting to the Board

The share of the inflation-linked debt is to be reported on a continual basis as one-month moving averages of daily observations.

3.3.3 Foreign currency exposure

According to the guidelines from the Government, the strategic foreign currency exposure of the central government debt is to be gradually phased out and attain the target level of zero as of 2027. The currency exposure may,

² The Debt Office calculates Macaulay duration on the basis of an approximation of modified duration. For instruments with complex cash-flow structures, the yield can be undefined, and thus modified duration cannot be converted to Macaulay duration. In those cases, Macaulay duration is replaced by modified duration. Modified duration for an individual instrument is calculated on the basis of dollar duration. Instead of calculating the dollar duration analytically, the measure is approximated.

³ Non-governmental assets include on-lending to the Riksbank and other states as well as assets in liquidity management.

however, vary as a result of the currency exchanges that are made in a predictable and transparent manner.

The foreign currency exposure of the central government debt is to be managed in two parts: one strategic part that is to be gradually phased out and one variable part that occurs as a consequence of the Debt Office managing changes in the foreign currency exposure in accordance with the principles in Section 3.4.

3.3.3.1 Reporting to the Board

The foreign currency exposure of the central government debt is to be reported continually based on daily observations, expressed in Swedish kronor using current exchange rates.

3.3.3.2 Strategic currency exposure

In accordance with the Government guidelines, the Debt Office shall set a target level for the distribution of the foreign currency exposure among different currencies.

The strategic currency exposure is to be distributed according to the right-hand column in Table 1. The proportions are to be based on exchange rates on 31 October 2022 and adjusted insofar as rates fluctuate.⁴

Table 1 Currency distribution, proportions of the strategic currency exposure.

Currency	31 Oct 2022	As of 1 Jan 2023
CAD	0.2 % (-31)	0 % (0)
CHF	33.7 % (-3 280)	33 % (-3 212)
EUR	65.4 % (-6 434)	67 % (-6 594)
GBP	0.3 % (-29)	0 % (0)
USD	0.3 % (-34)	0 % (0)

Note: Units, in million, of foreign currency are shown in parentheses. Units of foreign currency shown in the right-hand column are before phase-out.

The phasing out is controlled using a daily pace of reduction. Initially, the daily reduction pace in each currency is to correspond to the strategic currency

$${}^4 \text{Share}_{i,t_{l+1}} = \frac{\text{Share}_{i,t_l} * \frac{\text{Exchange rate}_{i,t_{l+1}}}{\text{Exchange rate}_{i,t_l}}}{\sum_{j=1}^N \text{Share}_{j,t_l} * \frac{\text{Exchange rate}_{j,t_{l+1}}}{\text{Exchange rate}_{j,t_l}}}, \text{ where } i \text{ refers to the specific currency, } N \text{ refers}$$

to the number of currencies in the currency distribution, t_0 refers to 31 Oct 2022, and t_l refers to l :th after t_0 . All exchange rates are expressed in Swedish kronor.

exposure expressed in units of foreign currency prior to phase-out divided by number of trade dates (business days) in Sweden over the 2023-2026 period.

The Debt Office Director General has been granted the authority to make decisions to change the pace of reduction within the framework of the guidelines decided on by the Government, which specify that the foreign currency exposure of the central government debt be gradually phased out and attain a target level of zero as of 2027.

The Debt Office Director General shall determine permissible deviation intervals for the currencies included in the currency distribution and decide on other internal guidelines, to enable an evaluation of the phase-out being conducted relative to a steady pace of reduction over the 2023-2026 period.

3.3.3.2.1 *Reporting to the Board*

The strategic currency exposure is to be reported continually based on daily observations. It is to be expressed in Swedish kronor at current exchange rates, in both absolute figures and relative to a steady pace of reduction over the 2023-2026 period.

3.3.3.3 **Varying currency exposure**

The varying currency exposure that occurs is to be primarily in euro and phased out using currency exchanges in accordance with Section 3.4.

The Debt Office Director General is to also determine the extent to which exposure in currencies other than the euro may occur.

3.3.3.3.1 *Reporting to the Board*

The temporary foreign currency exposure is to be reported continually based on daily observations, expressed in Swedish kronor at the current exchange rate.

The change in exposure is to be attributed to currency exchanges, the process “Raise and manage loans for the central government”, and other processes.

3.3.4 **Maturity of nominal krona debt**

The term to maturity of the nominal krona debt shall be between 3.9 and 6.0 years. The term to maturity may temporarily deviate from the term-to-maturity interval.

3.3.5 Maturity of inflation-linked krona debt

The term to maturity of the inflation-linked krona debt shall be between 3.5 and 4.5 years. The term to maturity may temporarily deviate from the maturity interval.

3.3.6 Maturity, foreign currency exposure

The term to maturity for the foreign currency exposure shall be between 0 and 1 year. The term to maturity may temporarily deviate from the term-to-maturity interval.

The maturities for the individual currencies with exposure that exceeds the equivalent of SEK 5 billion are to be between 0 and 1 year. The maturities may temporarily deviate from the maturity interval. Interest rate re-fixing is to be distributed evenly over time.

The steering of the term to maturity for currencies with exposure up to the equivalent of SEK 5 billion shall be determined by the Debt Office Director General.

3.3.6.1 Reporting to the Board

Maturities are to be reported as one-month moving averages of daily observations. The reporting shall comprise both the debt as a whole and the individual debt types. Deviations are supplemented with an explanation of the sequence of events.

3.4 Exchanges between Swedish kronor and foreign currency

There are a number of factors that give rise to changes in the foreign currency exposure of the central government debt.⁵ Accordingly, needs continually arise for currency exchanges in order to restore the foreign currency exposure of the central government debt in accordance with the Government guidelines.

In accordance with the Ordinance containing Instructions for the Swedish National Debt Office, currency exchanges must be carried out with predictability and clarity.

The Debt Office's exchanges between Swedish kronor and foreign currency shall therefore follow an even exchange path. This is to be determined by spreading the net exchange volume evenly over time. Exchanges made in order

⁵ This entails, among other things, interest payments on foreign currency loans, EU payments, other agencies' foreign currency hedges and the central government's multi-currency cash pool.

to phase out the strategic currency exposure and in connection with possible positions between Swedish kronor and foreign currency are to be excluded.

Minor deviations from the exchange path are permitted.

3.4.1 Reporting to the Board

The determined accumulated exchange path and the actual accumulated exchanges shall be reported on a continual basis.

3.5 Position taking

Positions are transactions that are intended to reduce the cost of the central government debt while taking account of risk, or to reduce the risk for the central government debt while taking account of cost, and that are not justified by underlying borrowing or investment requirements.

The Government has decided that the Debt Office is permitted to take positions in foreign currencies that are potential borrowing currencies and in the krona exchange rate to these currencies. Positions must not be taken in the Swedish fixed income market. Positions in foreign currency may only be taken using derivative instruments in liquid markets.

The Debt Office shall use Value-at-Risk (VaR) to measure the market risk involved in position-taking in foreign currency. The risk is measured as daily VaR at a 95 per cent confidence level. The Debt Office's VaR model is to be evaluated once a year by comparing actual outcomes with forecast outcomes ("backtesting"). The Government has decided that positions in foreign currency are limited to SEK 300 million, measured as daily VaR. Positions in the krona exchange rate may not exceed SEK 7.5 billion.

3.5.1 Continual position taking in foreign currency

3.5.1.1 Portfolio value and risk mandate

The aggregate risk in the continual position-taking in foreign currency is not to exceed SEK 220 million measured as daily VaR. For the calculation of currency and interest rate risk limits as well as the earnings measurement, a notional portfolio value is used. The delegated VaR mandate is to correspond to SEK 200 billion in notional portfolio value.

The currency limit for each currency is ± 6.0 per cent of the value of the notional portfolio.

The interest rate risk limit measured in Swedish kronor is ± 0.90 per cent of the value of the notional portfolio. The interest rate risk limit for each currency is ± 0.60 per cent of the value of the notional portfolio.

3.5.1.2 Measurement of result

The result is measured as the change in the market value (including accrued interest) plus realised flows. The result is to be evaluated over five-year periods.

3.5.1.3 Permitted currencies

Currency and interest rate positions may be taken in the following currencies: Australian dollar (AUD), Canadian dollar (CAD), Swiss franc (CHF), Danish krona (DKK), Euro (EUR), British pound (GBP), Japanese yen (JPY), Norwegian krona (NOK), and US dollar (USD).

3.5.1.4 Reporting to the Board

The result, outstanding positions and utilisation of the risk mandate shall be reported on a continual basis. Any violations of the risk mandate shall be explained.

The result of backtesting of the VaR model shall be reported annually.

3.5.2 Continual position taking in the Swedish krona in relation to other currencies

Continual position taking in the Swedish krona in relation to other currencies is not allowed.

3.6 On-lending to the Riksbank for financing commitments to the International Monetary Fund

In accordance with Chapter 6, Section 4 of the Sveriges Riksbank Act (2022:1568), the Debt Office, as part of central government borrowing, is to raise loans for on-lending to the Riksbank for financing commitments to the International Monetary Fund (IMF). The scope of the commitments is expressed in so-called special drawing rights (SDR) and is determined by the Government or the Riksdag.

A special drawing right is equivalent to the value of the five currencies shown in Table 2.⁶

Table 2 Composition of the SDR currency basket

Currency	Number of units
USD	0.57813
EUR	0.37379
RMB ⁷	1.0993
JPY	13.452
GBP	0.080870

An exposure to SDR occurs when the Debt Office, as part of central government borrowing, raises loans on behalf of the Riksbank. This is because the Debt Office's claim on the Riksbank is expressed in SDR. In order to limit this currency exposure, the Debt Office is to sell the currencies that are included in the SDR basket in proportion to the size of the claim and the respective currency's share of the basket. The Debt Office Director General shall establish the size that any remaining exposure to SDR may be.

3.7 Credit risk

The purpose of rules and limits for credit risks is to set requirements that must be met before transactions are entered into, in order to limit the credit risk, and also to manage credit risks on outstanding transactions.

3.7.1 Reporting to the Board

Breaches of limits and monitoring limits shall be reported.

3.7.2 Counterparty default risks

3.7.2.1 Credit rating requirements

These requirements cover OTC derivative transactions and short-term investments.

The counterparty's long-term credit rating has to be at least A-.

If the counterparty's credit rating is downgraded to below A-, new transactions with the counterparty are only allowed after a decision by the Debt Office Director General in order to reduce the risk. On the basis of a trade-off

⁶ The composition is adjusted every five years, most recently on 8 August 2022. The exchange rate to the Swedish krona is updated daily.

⁷ RMB is divided into two markets: onshore known as CNY and offshore known as CNH. For management of the currency exposure, CNH will be used.

between cost and risk, outstanding transactions may be maintained following a decision by the Director General. The decision is reconsidered if further downgrades of individual credit ratings occur. These decisions are reported back to the Board.

For counterparties in short-term investments, a short-term credit rating can be used if the counterparty has no long-term credit rating. In that case, the short-term credit rating is translated into the equivalent long-term credit rating. As the short-term and long-term rating scales cannot be translated one-for-one, the short-term credit rating is translated to the lowest equivalent long-term rating. The limits shall then correspond to the limits set for the translated long-term credit rating.

3.7.2.2 Calculation methods

The calculation of exposures in Over the Counter (OTC) derivative transactions is based on the market value, taking account of netting in accordance with ISDA agreements.

3.7.2.3 Central counterparty clearing, OTC instruments

Only central counterparties (CCPs) authorised under European Parliament and Council Regulation 648/2012 may be engaged for central counterparty clearing.

No credit rating requirements and no limits are set for CCPs.

The Debt Office's internal regulations for initial counterparties contain specific regulations for each CCP the Debt Office affiliates to.

The use of central counterparty clearing requires no ISDA and CSA for either the CCP or the initial counterparty.

3.7.2.4 OTC derivative transactions

3.7.2.4.1 Contractual requirements

ISDA agreements with a downgrading clause ("rating trigger") and Credit Support Appendix (CSA) are required before OTC derivative transactions may be entered into and remain in the portfolio.

The Debt Office's CSA agreements must include a clause on mutual threshold values set at zero.⁸ Temporary deviations from the thresholds are permitted for practical reasons.

3.7.2.4.2 *Market requirement and maximum maturity*

Transactions are conducted in well-developed markets and in maturities with good liquidity. The maximum maturity is up to and including 20 years.

3.7.2.5 Short-term investments

3.7.2.5.1 *Maximum maturity*

The maximum maturity is 12 months.

Table 3 Limits, short-term investments

Credit rating	Maximum exposure per counterparty according to base limit* (SEK million)	Maximum exposure per counterparty according to extended limit** (SEK million)	Maximum maturity
AAA	8 000	20 000	Dependent on instrument
AA+ to AA-	5 500	15 000	Dependent on instrument
A+ to A	3 000	10 000	Dependent on instrument
A-	1 500	5 000	Five banking days

*Applies in normal circumstances.

** Applies for a limited period of time. Decision on use made by the Debt Office Director General.

3.7.2.6 Extra scope for overnight (O/N) investments

The extra scope for O/N investments is a maximum of SEK 25 billion per counterparty (including the short-term investment limit) for the five largest banks in the Swedish market, and a maximum of SEK 6 billion per counterparty (including the short-term investment limit) for other RIX participants. The sum of all counterparties' utilised extra scope for O/N investments may not exceed SEK 25 billion. The Debt Office Director General can, if necessary, decide on temporary expansion of the aggregate extra scope for total O/N investments.

⁸ This requirement applies to contracts entered into after 23 May 2017.

Counterparties that can be approved for extra O/N scope are RIX participants, provided that they fulfil the conditions set for short-term investment counterparties.

3.7.2.6.1 *Reporting to the Board*

The Board is to be kept informed of the counterparties that have been granted an O/N extra limit and the size of the limit.

Decisions on temporary expansion of the aggregate extra scope for total O/N investments are to be reported to the Board.

3.7.2.7 **Extended limit for investments in other states**

3.7.2.7.1 *Credit rating requirements*

The country's credit rating has to be AAA.

3.7.2.7.2 *Country requirements*

Investments under the extended limit can be made in countries in the euro area and Denmark, Norway, Canada, and the US.

3.7.2.7.3 *Maximum maturity*

The maximum maturity under the extended limit is 4 months.

3.7.2.7.4 *Limit*

SEK 50 billion per country.

3.7.3 **Settlement risk**

To manage settlement risk, the Debt Office will endeavour, where possible, to achieve settlement on the principles of Delivery Versus Payment (DVP) or Payment Versus Payment (PVP).

3.7.4 **Country risk**

Short-term investments and OTC derivatives may only be entered into with counterparties from a country with a long-term sovereign credit rating of at least A-. When approving new investment and/or OTC-derivative counterparties, the counterparty's country of domicile is also taken into account, for instance in regard to international sanctions in which Sweden participates.

3.7.5 Exceptions

Swedish government agencies, the AP Funds and the Riksbank are regarded as risk-free counterparties and therefore not subject to limits.

4. The process Develop and manage the central government payment model including the state's central liquidity steering

4.1 General premises and mandate

The Debt Office is to be responsible for the central government payment model, including the Treasury Single Account (TSA) at the Riksbank. The objective is for the central government payment model as a whole to be cost-effective and secure. The process is regulated by among other things the Capital Supply Ordinance (2011:210) and the Ordinance (2017:170) on government agencies' payments and management of funds (the Payment Ordinance).

According to the payment model, the state's liquidity management shall be centralised. The net of all government agencies' payments shall be financed by the Debt Office and have a direct effect on the government borrowing requirement and central government debt. Risks connected to the central liquidity management are managed in the process "Raise and manage loans for the central government".

The agencies are to follow the principles in the payment model and the framework agreements that the Debt Office procures, but they are responsible for carrying out their payments. The Payment Ordinance and its provisions regulate how the agencies are to reduce the risks in their payment operations.

The Debt Office is to analyse the risks in the payment model each year. Every two years, the Debt Office shall also submit a report on these risks to the Government. The primary means that the Debt Office has for increasing the security of the payment model is through the framework agreements for payment services. The Debt Office may also communicate instructions for the enforcement of the Payment Ordinance.

The financial risks for the Debt Office in connection with the government agencies' payments are mainly within the framework agreement for payment services. The Debt Office is exposed to a credit risk/counterparty risk when funds are in accounts in framework banks during the day or overnight.

The other framework agreements do not contain any appreciable credit risk or counterparty risk. However, there is a reputational risk if, for example, one

party to the agreement does not deliver as agreed. All the framework agreements have a termination clause that entitles the Debt Office to terminate the agreement.

4.2 Principles for reducing credit risk

The aim of the principles is to reduce the credit risk that the Debt Office is exposed to when state funds are in accounts in a framework agreement bank.

4.2.1 Credit-rating requirements for framework agreement banks that provide payment services

The framework agreement banks' long-term credit rating must be at least A- when the agreement is entered into. If a bank's credit rating goes down to BBB- or lower, the Debt Office has the right to terminate the agreement. The credit rating can be determined by weighing together the ratings from several different credit rating agencies specified in each agreement.

In addition to the downgrading clause, the framework agreements shall provide the Debt Office with the right to terminate the agreement if the bank cancels payments, applies for corporate restructuring, enters into liquidation, or is put into bankruptcy.

4.2.2 Account balances during the day in framework agreement banks

The framework agreements shall include principles and measures for limiting account balances overnight (O/N) in government agencies' bank accounts that are covered and emptied against the central government's Treasury Single Account at the Riksbank.

To keep account balances to a minimum, settlements are carried out over the course of the day between each framework agreement bank and the Debt Office. The risk before each settlement is to be kept to a minimum by, whenever possible, netting incoming and outgoing payments.

Account balances that remain after the last settlement is made may remain until the following business day at most. The Debt Office shall follow up on the reason for account balances remaining overnight if they exceed a certain level that it has specified in advance.

5. The process Issue and manage guarantees and loans

5.1 General premises and mandate

The general premises and principles of the central government guarantee and lending operations are regulated by the Budget Act (2011:203). The Ordinance on Lending and Guarantees (2011:211) contains provisions associated with the Budget Act and regulates in further detail the central government guarantee and lending agencies, including the Debt Office's operations. More specific terms and conditions, and exceptions from the general framework, are stipulated in individual decisions by the Riksdag and the Government.

The Debt Office's guarantee and lending assignments are preceded by decisions from the Riksdag and then the Government, in which the assignment and terms and conditions are specified in further detail. Accordingly, the risk level in the portfolio is largely steered by what commitments the Riksdag and the Government decide on.

In addition to specific guarantee and lending assignments, the Debt Office has also been tasked with, together with other guarantee and lending agencies, conducting a risk analysis of the complete portfolio of central government guarantees and loans. A further assignment is to submit supporting documentation for the central government's annual report in regard to its comprehensive guarantee and lending operations. The Debt Office also assist Sida in valuation and pricing of guarantees issued by Sida as part of its development work.

The Government presents the objectives of the guarantee and lending operations in the annual appropriation directions for the Debt Office.

5.2 Principles for management of guarantees and loans

The purpose of the principles is to specify/provide guidance on how the Debt Office will issue and manage guarantees and loans. The operations shall be conducted within the frameworks set by the Budget Act, government ordinances and other regulations in force, and decisions by the Riksdag and the Government while taking account of the objectives specified by the Government.

- The Debt Office is to work for a design of guarantees and loans that allows the expected losses to be estimated reliably. If the guarantees or loans are designed in such a way that the expected loss cannot be estimated reliably, these commitments shall not be handled within the guarantee and lending model.
- The Debt Office is to ensure that the expected loss in guarantees and loans is determined in an unbiased way.
- When evaluating credit risk, the Debt Office shall use methods regarded as best practice, mainly credit rating methodology where appropriate.
- The methods and specific models used by the Debt Office are to be evaluated on a continual basis.
- The evaluation shall focus on material risks in the operations.
- The handling of recourse claims and problem commitments is to be guided by the principles of commercial judgment and equal treatment of debt. The Debt Office is to demand repayment based on an assessment of the debtor's ability to pay. The Debt Office may discharge a claim, in whole or in part, if it is evidently unreasonable to demand payment, or otherwise, if there is sufficient commercial rationale for doing so.

5.3 Reporting to the Board

The unit Guarantees and lending reports on the Debt Office guarantee and lending portfolio annually, or when required, to the Board. Its reporting shall focus on the larger and more complex risks in the portfolio. In addition, the Board shall be informed of the material changes in risk that the Debt Office is obligated to report to the Ministry of Finance and of the outcome of the internal risk monitoring process.

6. The process Work to ensure that the costs for the final storage of spent nuclear fuel and radioactive waste are covered by those who generate the waste

6.1 General premises and mandate

The general premises and principles for financing the costs of final storage of spent nuclear fuel and nuclear waste are regulated under the Act (1984:3) on Nuclear Activities (the Nuclear Act) and the Act (2006:647) on Financial Measures for the Management of Residual Products from Nuclear Activities (the Financing Act). More specific terms and conditions are presented in the Ordinance (2017:1179) on Financial Measures for the Management of Residual Products from Nuclear Activities (the Financing Ordinance).

The basis for how the management of residual products is financed and thus for the work of the Debt Office is that the nuclear power industry, instead of taxpayers, shall bear the costs. If the funding in the form of the fees paid and collateral pledged is not sufficient, the central government may, as part of its ultimate liability, need to finance the excess amount.

The principles for calculating nuclear waste fees, credit risk amounts, and risk margin amounts, as well as certain key assumptions are regulated by the Financing Act and the Financing Ordinance. For reactor owners, the Debt Office proposes nuclear waste fees, credit risk amounts, and risk margin amounts that the Government decides on. For the other permit holders, the Debt Office decides on nuclear waste fees and credit risk amounts. The Debt Office assesses the form and extent of the proposed collateral and submits its opinion on the matter to the Government.

Accordingly, the risk level in the financing system is very much a function of the permit holders' operations and of the framework set by the Riksdag and the Government and is therefore largely beyond the Debt Office's control.

6.2 Reporting to the Board

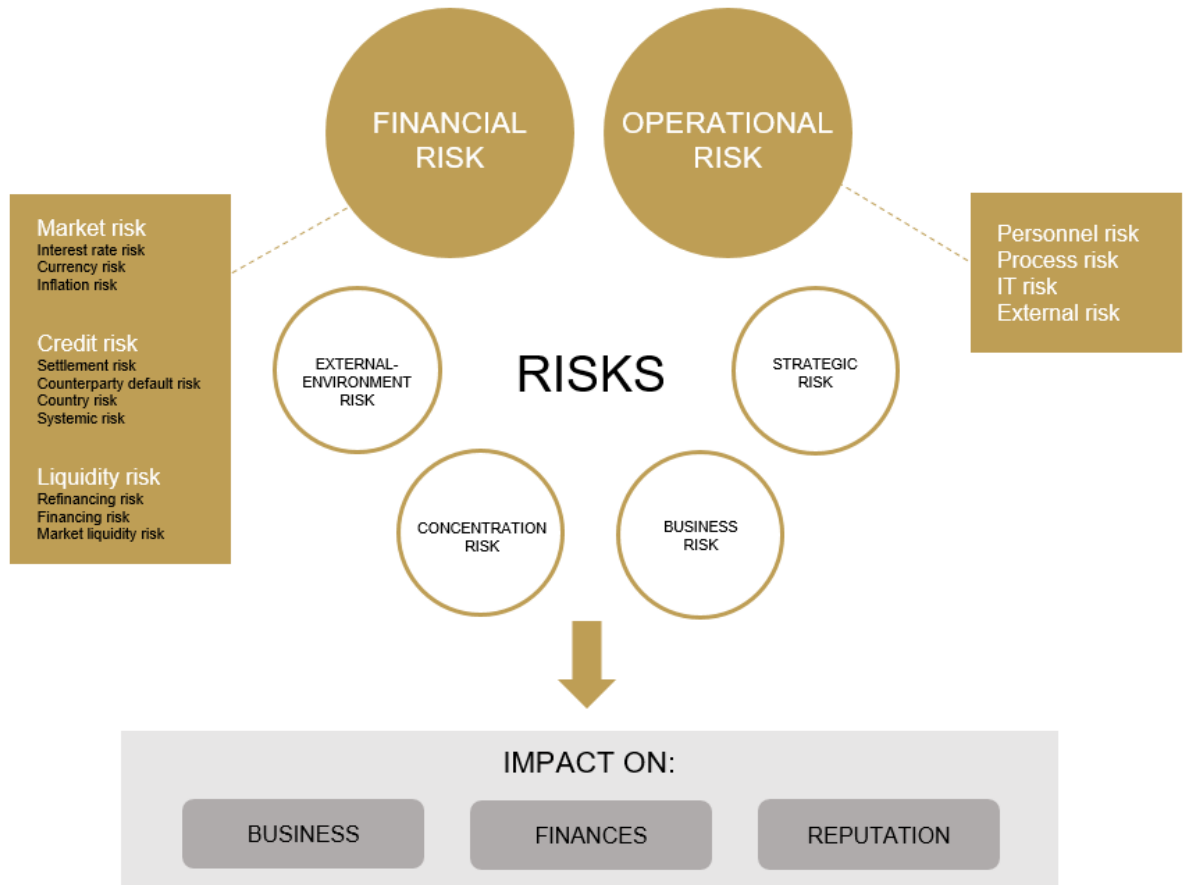
The financing system's financial position shall be reported annually and, if necessary, to the Board. The reporting is to focus on changes in relation to

current nuclear waste fees and collateral, as well as changes in the system's risk profile.

Prior to submitting a proposal on nuclear waste fees, credit risk amounts and risk margin amounts, the Board shall be informed of the work and the considerations on which the Debt Office's position is based.

Appendix 1 – Risk map

The risk map shows the main types of risks identified within the framework of the Debt Office’s operations.



Appendix 2 – Definitions

In these definitions, the term *loss* refers to negative effects on finances, reputation and/or operations.

Business risk is the risk of a loss due to factors in the external business environment, such as lower demand for products or services.

Settlement risk is the risk that one party will not fulfil its undertakings at the time of settlement, i.e., will not deliver currency or securities after the other party has already fulfilled its undertakings.

External risk is risk due to events in the external environment that affect the Debt Office's ability to carry out its assignment.

Financing risk is the risk that it will be difficult and/or expensive to raise new financing.

Inflation risk is the risk of a loss in nominal terms due to higher-than-expected inflation.

IT (Information technology) risk is risk that arises from insufficient design, function, availability, or security regarding our IT systems and their infrastructure.

Concentration risk is the risk of a larger loss due to a concentration on individual and/or correlated risk factors.

Credit risk is the risk that a loss will arise because a counterparty does not fulfil its obligations and the risk that a loss of value will arise from impaired credit quality. Credit risk includes settlement risk, counterparty default risk, country risk and systemic risk.

Country risk is a group of risks associated with doing business with a counterparty in a particular country. These risks mainly refer to the ability of a country to meet its external obligations, expectations about the general development of the economy in the country, political stability and the legislative environment of the country.

Liquidity risk is the risk of not being able to meet payment obligations as they fall due without a substantial increase in the cost of obtaining means of payment. Liquidity risk includes financing risk, refinancing risk and market liquidity risk.

Market risk is the risk of a loss due to unfavourable price movements in the market. Market risk includes interest rate risk, currency risk and inflation risk.

Market liquidity risk is the risk that it will not be possible to realise or cover a position at the current market price because the market is not deep enough or is not functioning as the result of some disturbance.

Counterparty default risk is the risk that the counterparty in a transaction will not fulfil its obligations. Settlement risk is a form of counterparty default risk.

External-environment risk is the risk of loss due to changes outside the Debt Office, for example in the (geo-)political or (global) economic situation.

Operational risk is the risk of loss due to inadequate or failed processes, people, systems or external events. Legal risks are part of operational risks.

Personnel risk is risk related to employees or consultants and which arises because of inadequate staffing, insufficient competence, or because the staff does not follow internal or external regulations.

Process risk is risk that can be attributed to shortcomings in governance or in how the operations and their processes are designed, or to the Debt Office failing to follow internal or external regulations.

Refinancing risk is the risk that it will be difficult and/or expensive to replace maturing loans.

Interest rate risk is the risk that the value of assets and liabilities will change in an unfavourable way when levels of interest rates change.

Strategic risk is the risk of a loss due to misdirected strategic decisions and/or as the result of strategic decisions not having the intended effect.

Systemic risk entails the risk that problems affecting one or more participants spread to other parties and cause general problems in the financial system.

Currency risk is the risk that the value of assets and liabilities will change in an unfavourable way when currency exchange rates change.