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TECHNICAL NOTE ON BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

This Technical Note on Basel Core Principles for Effective Banking Supervision for the Sweden FSAP was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on March 17, 2023.

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March 17, 2023

DETAILED ASSESSMENT REPORT

BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

Prepared By
Monetary and Capital Markets Department

This Detailed Assessment Report was prepared by Leonard Chumo and Fabiana Ladvocat Cintra Amaral Carvalho in the context of an IMF Financial Sector Assessment Program (FSAP) mission in Sweden during April 2022, which was led by Tommaso Mancini Griffoli, and overseen by the Monetary and Capital Markets Department (MCM), IMF. Further information on the FSAP program can be found at http://www.imf.org/external/np/fsap/fssa.aspx

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Glossary

AC	Additional Criterion
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BCBS	Basel Committee on Banking Supervision
BCP	Basel Core Principles for Effective Banking Supervision
BFBA	Banking and Financing Business Act
BIS	Bank for International Settlements
BRRD	Bank Recovery and Resolution Directive (European Union)
BSD	Bank Supervision Department
CCoB	Capital Conservation Buffer
CCP	Central counterparties
CCyB	Countercyclical Buffer
CDD	Customer Due Diligence
CET 1	Common Equity Tier 1
COREP	Common Reporting Framework
CP	Core Principle
CPMI	Committee on Payments and Market Infrastructures
CRD	Capital Requirement Directive
CRD-IV	Fourth Capital Requirements Directive (European Union)
CRE	Commercial Real Estate
CRR	Capital Requirement Regulation
CSD	Central Securities Depositories
CSRBB	Credit Spread Risk in the Banking Book
DSIB	Domestic Systemically Important Banks
DTI	Debt to Income
EBA	European Banking Authority
EC	Essential Criterion
ECB	European Central Bank
ECL	Expected Credit Losses
EEA	European Economic Area
EU	European Union
EV	Economic Value
FATF	Financial Action Task Force
FFFS	Finansinspektionen's Regulatory Code
FI	Finansinspektionen (The Swedish Financial Supervisory Authority)
FINREP	Financial Reporting Framework
FIU	Financial Intelligence Unit
FOLF	Failing or likely to fail
FRTB	Fundamental Review of the Trading Book
FSA	Financial Supervisory Authority
FSAP	Financial Sector Assessment Program
FSC	Financial Stability Committee
FTE	Full Time Equivalent
G-SIB	Global Systemically Important Bank
HQLA	High Quality Liquid Assets
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information and Communications Technology
IFRS	International Financial Reporting Standards

IOSCO	International Organization of Securities Commissions
IRB	Internal Ratings Based Approach
IRRBB	Interest Rate Risk in the Banking Book
IT	Information Technology
KRI	Key Risk Indicators
KYC	Know-Your-Customer
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LTI	Loan to Income
LTV	Loan to Value
MDA	Maximum Distributable Amount
ML	Money Laundering risk
MLRO	Money Laundering Reporting Officer
MoF	Ministry of Finance
MREL	Minimum Requirement for own funds and Eligible Liabilities
NBWG	Nordic-Baltic AML/CFT Working Group
NCA	National Competent Authority
NPE	Nonperforming Exposures
NPL	Nonperforming loans
NSFR	Net Stable Funding Ratio
OECD	Organization for Economic-Co-operation and Development
O-SII	Other Systemically Important Institutions
P2G	Pillar 2 Guidance
P2R	Pillar 2 Requirements
PD	Probability of Default
PEP	Politically Exposed Persons
PSD2	Payment Services Directive 2
QRR	Quarterly Risk Review
RMP	Risk Mitigation Program
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real Time Gross Settlement
RWA	Risk Weighted Assets
SAR	Suspicious Activity Report
SEK	Swedish Kroner
SNDO	Riksgalden (Swedish National Debt Office)
SRB	Systemic Risk Buffer
SREP	Supervisory Review and Evaluation Process
SSMR	Single Supervisory Mechanism Regulation
STR	Suspicious Transaction Report
SVaR	Stressed Value at Risk
TF	Terrorism Financing
UBO	Ultimate Beneficial Ownership
VaR	Value at Risk
WCCA	Written Coordination and Cooperation Arrangements,

EXECUTIVE SUMMARY

1. Since the last financial Sector Assessment Program (FSAP) in 2016, the authorities have adopted a number of regulatory reforms to enhance the resilience of the Swedish financial system. The key changes to the legal framework for banks and banking supervision in Sweden have mainly been a direct result of legal initiatives at European Union (EU) level. The main changes include: (i) revision to the Capital Requirement Regulation (CRR)[1] and transposition of European Directives,[2] (ii) implementation of International Financial Reporting Standard on Financial Instruments (IFRS 9); (iii) the revised Payment Services Directive (PSD2); and (iv) the Banking Recovery and Resolution Directive (BRRD). In addition, Finansinspektionen, the Swedish Financial Supervisory Authority (FI) has also advised of the intention to comply with a large number of European Banking Authority (EBA) guidelines governing banking and banking supervision, including those related to information and communication technology (ICT) and security management, outsourcing arrangements, and internal governance. Further, a large number of EBA technical standards complement the regulatory framework developed at the EU level. Both the EBA technical standards and the EBA guidelines are directly applicable in Sweden.

2. FI has also issued a number of regulations and general guidelines since the last FSAP in 2016, but more is needed. These include regulation on management of credit risks, regulation on governance, risk management and control, guidelines on reporting of significant events, regulations on measures against money laundering (ML) and terrorist financing (TF), and regulation on activities of payment service providers. While significant progress has been made, there are important areas where regulations have not been fully developed, such as country and transfer risk, and related parties.

3. The supervisory framework for banks and its implementation in Sweden is broadly in line with a number of the Basel Core Principles (BCP) essential criteria. However, there are several gaps that should be addressed, so as to enhance the effectiveness of banking supervision in Sweden and to contribute toward ensuring a safe and sound financial system. Most of the shortcomings that have been identified are attributable to gaps in the legal or regulatory frameworks and to significant resource constraints within the banking supervision function at FI. There are also gaps in the existing supervisory processes and tools, and particularly as relates to: the frequency and depth of onsite inspections of Swedish banks' domestic and foreign operations,[3] assessment of banks' stress testing process, approval, and ongoing monitoring of banks' Internal

[1] The CRR as well as implementing and delegated Acts are directly applicable in Sweden.

[2] Capital Requirement Directive (CRD), Banking Recovery and Resolution Directive (BRRD), Anti-Money Laundering (AML) Directives 4 and 5, Second Payment Service Directive and Payment Account Directive and the Mortgage Credit Directive.

[3] In the area of credit risk, majority of onsite were over the last five years, were either thematic onsite or thematic survey with only six being covered on an individual basis.

Rating Based (IRB) models, and assessment of the quality of supervisory reporting by banks. The process for monitoring and screening of banks could also benefit from further automation.

4. Sweden has a relatively efficient supervisory framework that has evolved over the years, but which requires enhancements to align with best practice. FI's supervision follows a risk-based approach, where most of its resources are devoted to the largest institutions and significant branches in Sweden. The three largest banks (category 1 banks) have a structured supervisory process, which involves quarterly risk review meetings and annual Supervisory Review and Evaluation Process (SREP). Since the last FSAP in 2016, FI has made progress in structuring a supervisory process for the next eight largest banks (category 2 banks). These institutions (in category 2) are subject to semi-annual meetings and to biannual SREPs. The banks in the two categories (1 and 2) account for approximately 95 percent of the total assets for the Swedish banking system (if the systemic branches of Nordea and Danske Bank are excluded). The remaining institutions (in categories 3 and 4), which are about 100 institutions, are subject to less frequent supervisory reviews. Until recently, FI has aimed to have SREP reviews for institutions in category 3 at least once every three years, and less frequently and more risk based for institutions in category 4. During 2021, a simplified way of working with SREP for less systemically important institutions was launched, and with this the aim is to be able to have SREP review for institutions in category 3, as well as category 4, about every three years. EBA SREP guidelines stipulates that SREP should be performed every three years for all category 3 and 4 institutions, but FI has had to deviate from this in the past due to resource constraints.

5. Resource constraint continues to be a major challenge for FI, as it is facing difficulties attracting and retaining experienced risk experts. The resource constraint in the banking supervision function at FI, if not fully addressed in a timely manner, would continue to adversely impact the ability to effectively supervise banks in Sweden. The resource constraint, which is due to a limited number of staff, especially in the specialist areas and high turnover, which was about 19 percent in 2021, has severely impacted the whole supervisory process.[4] The issue is particularly acute for activities that are dependent on senior credit risk model and cybersecurity experts, where FI has had significant challenges in attracting and retaining experienced experts. These are also the areas where there will be further demand for additional resources, given the plans to improve supervision of cyber risks within banks, and the high number of new IRB models that have been submitted by banks for approval as a result of the EBA IRB repair work.

6. Supervisory approach, techniques, and tools have also been largely impacted by resource limitation. The limited engagement with high-risk but smaller institutions, the excessive reliance on banks' internal controls and internal audit to ensure high-quality data and information, and the lack of intrusiveness of supervision of both domestic and foreign operations of systemic firms, reflect the limitation of resources in the banking section at FI. Offsite monitoring, screening tools, and supervisory manuals and procedures should also be enhanced to improve the risk assessment within the risk-based approach and to increase supervisory consistency. The current

[4] The total number of staff in the banking section at FI decreased from 165 in 2019 to 136 at the end-2021.

approach to supervision of banks by FI also largely reflects its supervisory strategy where the choice of supervisory activities and allocation of available resources is informed by, amongst others, analysis of risks. FI is also required to ensure that regulations and procedures at its disposal are cost-effective.[5]

7. Different initiatives are needed to address the resource constraint and its impact on supervisory outcome. The government should consider an increase in FI's financing to ensure alignment between the available and the required resources. Further, to reduce the potential uncertainty, the authorities should explore a range of solutions, which could include improving the existing approach by developing, for example, a medium-term plan to increase FI's resources and capacity, which could be supported by the government's public commitment to fund the plan. FI could also consider optimizing current processes and tools by enhancing offsite monitoring and screening tools, further automating processes such as collection and analysis of qualitative data, and improving internal manuals to partly help in overcoming the limitations. Additional recommended actions are presented at the end of this report with this objective in mind.

8. The FI's ability to fully address the identified shortcomings in the supervisory approach, techniques, and reporting is highly dependent on it getting additional resources and changes to the legal framework. To effectively address a number of the identified gaps, FI would need to obtain additional supervisory resources to enhance the scope and depth of its supervisory activities with the aim of: (i) achieving a minimum level of engagement with all the supervised entities, including the set SREP cycle; (ii) meeting the minimum baseline requirements for sound supervisory practices as per the BCPs; and (iii) reducing the risk of significant risks within the supervised banks being missed, and having to respond when problems have already occurred. Priority should particularly be given to: (i) further automation of offsite monitoring processes, so as to ensure that supervisory activities are well targeted, and to facilitate more effective utilization of the limited resources; (ii) phased recruitment and retention of specialized staff in IRB models, cyber risks and governance to ensure a more intrusive level of supervision; and (iii) enhanced onsite inspections involving detailed testing of quality of data, internal controls, etc., covering the material risks, with priority being given initially to systemically important banks. There are also some findings that may require new laws to be passed.

MAIN FINDINGS

A. Responsibilities, Objectives, Powers, Independence (CPs 1–2)

9. FI has been granted a wide legal mandate and clear responsibilities through the Financial Supervisory Authority Ordinance Instruction (2009:93). FI is an integrated authority responsible for the supervision, regulation, and licensing of financial markets and institutions in Sweden, and for measures to prevent financial imbalances with the aim of stabilizing the credit market, while considering the impact of such measures on economic development. The Ordinance

[5] Section 2 of the Financial Supervisory Authority Instruction Ordinance (2009:93).

specifically requires FI to ensure that the financial system is stable and characterized by well-functioning markets that meet the financial services needs of households and companies, provides a high level of consumer protection, and contributes to sustainable development.

10. There may be value in FI considering further the interaction between its multiple mandates and how it would resolve any conflict between them, if this was to arise in future. While it has not happened in the past, there is always the risk of conflict between FI's multiple objectives, which include prudential supervision consumer protection and sustainable development. For example, some consumer protection measures, such as restrictions on foreclosures, could create the wrong incentives and eventually result in adverse impact on financial stability. Given this risk of conflict between the multiple mandates or objectives, it is important for FI to clarify how it would respond in the event of such a conflict, and on measures in place to ensure that the prudential objective (of ensuring a safe and sound banks and banking system) always takes priority over, or is well complemented by, the other objectives, i.e., consumer protection and sustainable development.

11. A significant proportion of FI's financing is from the state budget, but the annual allocations has been short of what is required by FI to achieve effective supervision of the banking system in Sweden. In 2021, about 84 percent of FI's total funding was the appropriation from the state budget to cover the costs for main activities such as supervision and regulation. The appropriation is in turn financed by yearly fees, which are paid in retrospect by the undertakings under FI's supervision. The remaining amount was derived from fees that were charged by FI for specific services that supervised entities sought on a voluntary basis, such as authorizations, notifications, and applications. FI disposes the income from these sources to cover the cost of these specific services. The financing from fees shall, over time, reflect the resources that FI uses to assess the licenses, waivers, and the like. The level of fee shall provide for full cost coverage, and, therefore, FI proposes to the government if the level of fees need to be increased or decreased, or if new fees need to be introduced. The fact that FI's budget is part of the government's annual budget process introduces some uncertainty from year to year, which could impact FI's ability to develop a longer-term supervisory strategy. The allocation from the state budget has also not kept pace with the FI's resource requirements, especially taking into account the size and regional importance of the Swedish financial system, emerging risks and vulnerabilities, new mandate over macroprudential policy and sustainable development, and the evolving financial and regulatory landscape.

12. Resourcing continues to be a major challenge for FI, particularly in the face of high turnover of staff and inability to attract senior-level risk experts. The current level of staff at FI is inadequate to achieve an acceptable minimum level of supervision of domestic and cross-border operations of Swedish banks. In particular, staffing level in the Banking section has decreased for the last three years from 165 in 2019 to 136 in 2021, and turnover has generally been high at about 19 percent, with most staff leaving FI for employment in the regulated credit institutions, where salaries are often much higher. The decrease in staff is mostly within the categories of risk experts and lawyers.[6] FI has also faced challenges in attracting and retaining senior technical experts, and

[6] The operational allocation of resources may also differ between years depending on risks identified during the year.

particularly those with expertise in the supervision of credit risk models and cyber security-related risk, who are required to support and complement the lead supervisors in the risk assessment process.[7] There is also a shortage of staff with expertise in governance and stress testing, and this has impacted FI's supervisory activities. The impact of resource constraint is reflected in FI's inability to undertake more regular and intrusive onsite inspections, challenges in meeting the set timelines related to approval of IRB models, and the target minimum engagement with smaller institutions in categories 3 and 4, as well as investigations taking longer due to the inability to allocate more resources. FI, like all state agencies in Sweden, is required to be effective in the use of its resources and this has, in some instances, been taken into account in deciding the frequency of some supervisory activities, such as data validation.

13. There is no explicit legal protection provided to FI or its staff against liability for actions and omissions in discharging their duties in good faith. The thresholds for successful legal action in Sweden is, however, set at a high level, and the practice in Sweden is currently not strongly litigious compared to some other jurisdictions. Further, the assessors also noted that there is protection given to employees by the Swedish tort law. That is, the law protects an employee from the risk of damage associated with work undertaken in the course of their employment, and that the state is generally liable for damages caused by errors or omission of their employees in the exercise of public authority. The need for explicit legal protection for the supervisor and its employees could, however, become essential in future; particularly given the emergence of nontraditional financial institutions, who are more willing to challenge regulatory decisions and seek damages through the courts, and influence from other jurisdictions, which could gradually result in increased risk of litigation. Sweden should therefore explore the possibility of introducing an explicit legal protection for FI and its staff. This should potentially be done while taking into consideration the relevant provisions of the Tort Liability Act which, amongst others, provide that the state is liable for damages resulting from negligence by state agencies in carrying out their duties.[8]

14. While it is currently not a material concern, the annual appropriation letters from the government could impact on the FI's operational independence and effectiveness. The annual appropriation letters from the government, which contain specific tasks and objectives for FI, could potentially impact on FI's ability to set its own priorities, allocate resources, and establish a supervisory strategy with a long-term horizon, if the specified tasks were to become burdensome. Based on a sample of past appropriation letters that was reviewed by the assessors, the tasks specified required minimal resources commitment by FI. If the tasks were to become resource-intensive and misaligned with FI's core objectives or priorities, then it could impact on the effectiveness of FI. Further, the fact that the letter can also be amended during the year can introduce uncertainty and could impede FI's ability to plan and execute it supervisory program. The

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[7] A review of cybersecurity supervision and oversight as part of the FSAP noted that significantly greater resources are needed to provide adequate coverage of cybersecurity.

[8] The regulation in the Tort Liability Act is built on the principle that it is the employer, in this case the state, who may be liable for damages caused by error or mistake of employees. It also contains provisions on the liability of employees for damages arising from actions that they have taken in the discharge of their duty.

preparation of an appropriation letter is, however, subject to detailed analysis of FI's ability to accommodate the specific tasks in order to prevent unfeasible assignments.

B. Licensing, Change in Control, and Acquisitions (CPs 4–7)

15. Some members of senior management are not formally subject to fit-and-proper assessments, and there is no obligation on banks to notify FI of information impacting on suitability of major shareholders. This is because the Swedish law does not recognize the concept of "senior management" and does require credit institutions to notify FI of any material information that may negatively affect the suitability of a major shareholder. This means that even though applicants for a banking license normally include details of senior management in their application,[9] it is only the board members and the Chief Executive Officer (CEO) who are legally subject to a fit-and-proper assessment as per the current Swedish law. Further, these gaps in the legal framework could impact on FI's ability to continually assess the suitability of major shareholders of credit institutions in Sweden.

C. Supervisory Cooperation and Consolidated Supervision (CPs 3,12,13)

16. Banks in Sweden are supervised on a consolidated basis as well as on an individual bank basis in accordance with applicable EU laws and EBA guidelines. The prudential standards are imposed on banking groups and FI also collects and analyzes a wide range of financial and other information on a consolidated basis. Although FI does not normally directly evaluate the effectiveness of supervision conducted in the host countries in which Swedish banks have material operations, the EU commission normally conducts assessments of the regulatory and supervisory regime of both EU country authorities and of third-country authorities (outside of the EU). Assessments of EU country authorities are done within the scope of the supervisory colleges and also through the EBA's annual assessment of supervisory convergence within the EU, while the assessment of the third-country authorities focuses on whether the third-country regulation is equivalent to that provided within the EU law. FI is also made aware of areas where foreign supervisors may deviate from EU standards, e.g., through information sources such as the comply-or-explain procedure that is part of the implementation of EBA Guidelines.

17. Collaborative work with host supervisors of Swedish banks including through participation in joint onsite inspections should be enhanced once additional resources are available. At the international level, FI has entered into a number of Memoranda of Understanding (MoUs) with foreign regulatory agencies, including those that have supervisory oversight responsibilities over subsidiaries of the large Swedish banks. FI has also established supervisory colleges and leads the supervisory colleges for the three largest Swedish banks in its capacity as the home supervisor, and participates in other supervisory colleges as the host supervisor. While there is effective information exchange between FI and other foreign supervisory authorities, there may be

[9] This includes the Chief Finance Officer (CFO), Chief Risk Officer (CRO), and Chief Operating Officers (COO).

value in enhancing collaborative work and particular in relation to joint onsite inspections with other supervisory authorities, which is currently limited due to the significant resource constraints at FI.

D. Supervisory Approach, Techniques, and Reporting (CPs 8–10)

18. The banking operational section within FI is responsible for supervision of banks and credit market companies in Sweden. The section has five departments, which include: Banking Supervision, Bank Analysis and Policy, Financial Risks, Operational Risk, and Bank Law. The Financial Risk Department consists of experts in market risk, liquidity risk, credit risk, and capital and accounting, while operational risk also covers Information Technology (IT) and information risk, and anti-money laundering (AML) risk. Besides the supervision of banks and credit market companies, the section is also responsible for: (i) supervision of payment services companies; (ii) money laundering matters and issues related to consumer protection; (iii) authorization and review of internal models; (iv) development of regulations in the banking and payment sector at national and international level; (v) risk analysis; and (vi) matters related to capital requirement and reporting. To ensure consistency of supervisory findings, a supervisory committee, which is chaired by the Executive Director of the Banking Operations Section, has been set up. FI staff also normally holds risk seminars, where the risks ratings and findings are challenged by risk experts and peers.

19. The minimum level and type of engagement with credit institutions is predominantly driven by the category of a firm that is based on its systemic importance. The risk ranking (profile) of individual institutions is not usually a factor in determining the SREP cycle, which includes the frequency of the regular risk assessment, except in the case of the recently introduced list of institutions selected for intensified frequent assessments.[10] The limited consideration of risk profiles in determining the supervisory cycle could adversely impact the timeliness of supervisory action for high-risk institutions. Further, although the common practice is to perform an in-depth follow-up within approximately one year after a license has been issued, the need to closely monitor newly licensed institutions is also not formalized through, amongst others, specification of the time period within which a newly licensed institution is required to undergo a full SREP or onsite examination, and also any additional reporting required from such institutions.

20. The level of supervision is not adequately intrusive due to, amongst others, limited onsite inspections. The time spent onsite by supervisors, which is noted as varying but rarely exceeding 3–4 days, is inadequate for undertaking detailed work aimed at evaluating the effectiveness of banks' internal controls, reliability of data provided as part of the supervisory reporting, quality of deployment of the Pillar 1 credit risk models, effectiveness of stress testing processes and methodologies, consistency in classification of exposures, and adequacy of loan loss provisioning etc. The supervisory assessment of performance of the approved IRB models is also, as a consequence of the ongoing IRB repair, currently focused on high level monitoring of model

[10] Amongst others, the intensity of supervision should be much higher for all high-risk banks compared to the lower-risk banks in the same category, e.g., more meetings, more deep dives, more review of credit files, etc.

performance and governance.[11] The lack of a comprehensive onsite process adversely impacts on the supervisors' ability to accurately assess the risks and quality of governance and internal controls within credit institutions, and it could result in the risk of material deficiencies being missed by supervisors. The SREP process is also, in a number of instances, high level. For example, the assessment of internal stress testing does not involve detailed testing.

21. Supervision of Pillar 1 credit risk models should include regular model performance reviews and evaluation of the quality of their deployment by credit institutions. Currently, the monitoring of performance of internal credit risk models is done through the SREP, risk review meetings, and EBA exercises. The ongoing assessment of performance of IRB models could, however, be enhanced through the introduction of a more comprehensive offsite monitoring and onsite testing process, including detailed testing of the performance of specific risk parameters, such as Probability of Default (PD) and Loss Given Default (LGD), to determine that they fully capture the risk profile of banks' underlying exposures.[12] The process could potentially involve collection and analysis of granular model level data from banks, onsite evaluation of the quality of the deployment of the approved IRB models by banks, including assignment of exposures to the specific regulatory approved IRB models, calculation of Risk Weighted Assets (RWAs), and review of banks' data management and model governance arrangements. This is very critical in ensuring the integrity of the models and process used by banks to generate capital requirements and the reliability of the solvency positions reported by the major Swedish banks, which are under IRB approach

22. There is significant reliance on banks' internal controls and internal audit by the supervisor to ensure high-quality data and information. Excessive reliance is also placed by FI on banks' internal review for quality assurance of internal reports such as Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Process (ILAAP), and recovery plans that are submitted to FI for supervisory review. This was attributable to the fact that the degree of onsite work that is possible for FI to conduct, given the available resources, is insufficient to assess whether all information provided by banks is reliable. In particular, FI does not typically carry out regular onsite examination to assess how the data reported by bank is validated.[13] However, in selected cases and areas where FI has reason to believe that there may be data-quality issues, more in-depth supervision may be considered in line with a risk-based approach. While it is important for the banks' internal and external auditors to assess the data that banks report to FI, it is also important for FI to undertake its own independent assessment of the quality of such data in selected cases, especially where there is indication of data quality issues e.g., relatively high number of restatements, frequent or significant issues from the offsite validation process, significant

[11] The IRB onsite inspections undertaken in the last five years (five in total) involved the review of internal governance, validation function, banks' change policies, and banks' modeling approaches.

[12] This could also include independent testing or review on a case-by-case basis of risk differentiate and predictive power of the models, reasonableness of model assumptions, approach to generation of model inputs, such as cure rates, level of and control over manual overrides, etc.

[13] There is a general requirement on all state agencies to make effective use of state's resources, and FI's assessment is that it would not be a well-motivated use of resources if data was to be frequently validated by the supervisor on a detailed level.

reconciliation differences between the regulatory reports and audited financial statements, etc. The authorities could also explore the possibility of requiring the independent external auditors to provide an opinion on the accuracy of credit institutions supervisory returns.

23. There are some inconsistencies in the approach to assessment of risks and formulation of supervisory actions for banks by FI. This was attributed to a limited number of risk experts to support and complement the lead examiners in the supervisory assessment of specialized risk types and business lines, including new business models, cyber-security risks, stress testing process and methodologies, and governance. A detailed assessment supported by experienced risk experts should result in a more consistent approach and supervisory actions that address the root cause of the identified weaknesses. The assessors particularly noted an instance where a change in the supervisory team led to a change in the regulatory approach and intrusiveness. This could, amongst others, be a reflection of FI's risk-based approach justifying a change in scope or the high-level nature of the internal guidelines for the supervisors, coupled with the high turnover of bank supervisors.[14] The authorities should also consider introducing a list of objective criteria to be used to identify institutions that are to be subjected to a higher frequency of SREP or, where applicable, formalizing the role of the list of institutions selected for intensified frequent risk assessments in informing the SREP cycle.

24. The offsite monitoring of banks could be enhanced through implementation of more efficient analytical tools and dashboard. FI has fully automated the generation of performance measures for liquidity risk, with the result being a risk dashboard and ability to produce trend analysis, and peer comparison reports to inform supervisory decision. Although there are standardized data analysis reports in other risk areas, they are not as advanced. This more developed dashboard should be extended to other risk types, so as to facilitate a more effective supervisory monitoring and benchmarking of institutions by the supervisors. FI also collects extensive information for its supervisory exercises; and their analysis, if fully automated, could facilitate a more efficient screening of risks and identification of vulnerabilities to inform better targeted reviews and timely supervisory intervention. This would help in ensuring better utilization of the limited resources by focusing more on high-risk and priority areas and institutions. The information includes those collected as part of the Quarterly Risk Reviews (QRR), such as those on credit exposures (large exposures, watch list, nonperforming loans, forborne exposures) and those collected through the use of the mandatory self-assessment questionnaires as part of the AML/CFT reporting requirements.[15]

[14] The institutions that the assessors met noted that the level of granularly and clarity of the supervisory recommendations sometimes differ depending on the supervisors on the team and the focus of the review. One of the examples given was in the review of cyber security review, which was noted as being at a high level.

[15] FI could consider extending the use of self-assessment questionnaires to other risk areas to further help in prioritization of its supervisory activities and to deepen the implementation of risk-based supervision.

E. Corrective and Sanctioning Powers (CP 11)

25. There are some limitations in FI's corrective and remedial powers, and the formulation of corrective action should also be further enhanced to ensure that the root cause of the identified issue is addressed. Since senior management is not a legal body under Swedish Company Law, FI does not have the power to remove all members of senior management; it can only remove or bar an individual from the board or position of managing director. More direct intervention powers, including the ability to remove senior management, would be more efficient and could lead to more timely outcomes. Further, the formulation of all corrective actions should be enhanced, so as to ensure clarity, especially in relation to the expected outcome, which should be targeted as the root cause of the identified risks or internal control weaknesses. This would, in some instances, require detailed onsite testing of effectiveness of banks' internal control processes, or in-depth review of governance arrangements, data management processes and infrastructure, etc., to inform the formulation of corrective action. To guide intervention and sanction processes, FI has also established two internal procedural documents. That is, (i) intervention process to be applied in the handling of cases that may lead to a decision on supervisory measure or intervention against a legal or natural person; and (ii) sanction procedures to be applied in cases that may lead to sanctions, such as a remark, warnings, penalties, or withdrawal of authorizations.

26. The regulatory decisions by FI can be appealed to the administrative courts. The right of appeal in an important component of the Swedish legal framework. Specifically, FI's regulatory decisions, including sanctions and other forms of intervention (e.g., an order to rectify), can be appealed to the Administrative Court. Further appeal can also be made at the Administrative Court of Appeal and the Supreme Administrative Court. If appealed, FI's decisions are subjected to a comprehensive review by the court, and the court has the possibility to disagree both in matters of fact and in matters of law. However, FI has the possibility to decide that an order to rectify a situation and a decision to withdraw a license come to effect immediately, irrespective of appeal. This means that, should such a decision be appealed, the court needs to decide to stay the execution in order for the decision by FI not to come into effect until the court has made its determination on the appealed decision. The possibility for a claimant to have the execution of the decision stayed is, however, set at a high threshold and is rarely obtained. For other decisions, such as warnings and remarks, there is legal uncertainty until the court has finally determined the appealed decision. However, a decision on leave to appeal is required for a review in substance by the Administrative Court of Appeal and the Supreme Administrative Court. The legal uncertainty that the possibility of appeal could impede effective supervision and could allow the claimant to delay the intervention by FI, and may also reduce the FI's incentives to exercise some of its intervention powers.

F. Corporate Governance and Internal Audit (CP 14, 26)

27. Since the last FSAP in 2011, a definition of senior management has been added in FI's regulations; however, FI regulation does not entail management functions responsibilities for others than the board of directors and the managing director. "Senior management" is not a

legal body under Swedish Company Law. According to FI's regulations, responsibilities relating to management activities are held by the board of directors or by the managing director. FI's regulation also defines senior management as "the managing director, the deputy managing director and other members of the management group or a similar body that report directly to the board of directors or the managing director," and outlines the board of directors' oversight function and managing director's executive function. However, the definition of senior management in FI's regulation does not entail management function responsibilities for others than the board of directors and the managing director, but it is relevant for and has impact on, for example remuneration practices and composition of the risk committee. In this sense, responsibilities for the senior management related to day-to-day management of the bank have not been clearly implemented. The fact that Swedish Company Law does not have the concept of "senior management" affected a number of supervisory processes and assessments, including suitability assessment as part of the licensing process, taking corrective actions and the ability to sanction all members of a banks' senior management, and assessment of corporate governance, risk management practices, specific-risks provisions, among others.[16]

G. Capital (CP 16)

28. Credit risk is by far the most significant component of RWA and most of the credit RWA is calculated based on an IRB model. The credit RWA of the three largest banking groups in Sweden[17] represent 81.2 percent of their total RWA.[18] On the other hand, market risk and operational risk only represent 2.6 percent and 8.6 percent of their total RWA, respectively. About 80 percent of the credit RWA is calculated using an IRB model (advanced or foundation). As at fourth quarter 2021, the three largest banks were required to maintain: minimum capital requirement of 8.0 precent, systemic risk buffer (SRB) of 3.0 percent, Other Systemically Important Institutions (O-SII) buffer of 1.0 percent, capital conservation buffer (CCoB) of 2.5 percent and Pillar 2 requirements between 1.7 percent and 1.9 percent. In response to the COVID pandemic, FI lowered the countercyclical buffer (CCyB) from 2.5 percent to zero percent in March 2020. A CCyB rate of 1.0 percent was decided in September 2021, and will be applied from September 2022. As at fourth quarter 2021, the three largest banks were also subject to a Pillar 2 Guidance (P2G) of 1.5 percent.

29. There are several shortcomings in the supervision of IRB models used in the calculation of RWAs. In recent years, FI has faced considerable challenges retaining internal model experts. The staffing situation is at times affected by substantial turnover driven by tough competition for experienced credit risk model experts from the private sector, particularly since the start of the review of the IRB approach conducted by the EBA in 2019. For example, the number of

[16] Amongst others, senior management is referenced in the CPs on credit risk, market risk and interest rate risk in the banking book (IRRBB).

[17] The three largest banking groups in Sweden represent more than 72 percent of Swedish banks' total lending and include SEB, Swedbank and Handelsbanken (SHB).

[18] According to the Pillar 3 disclosures.

credit risk model experts decreased by 50 percent between 2020 and 2021 (from 12 to only 6). As a consequence, FI's capacity to continuously review bank's IRB models, to approve new models (or material changes to existing models) in an effective and timely manner has been significantly impaired. There have been cases where issues in IRB models that were not detected and addressed by FI in a timely manner have led to a material underestimation of RWA.

30. The capital framework in Sweden is more in line with international standards as set by Basel Committee on Banking Supervision (BCBS) as compared to the EU. Sweden does not make use of all the discretions available in the CRR and, therefore, it is more in line with the international standards as set by Basel Committee on Banking Supervision. For instance, Sweden has not exercised the waiver applicable to the consolidation of insurance companies.[19] It has also not used the extended transitional phase-in, and applies a risk weight floor to mortgage exposures. Remaining findings raised in the EU Regulatory Consistency Assessment Program (RCAP) still hold, but are considered not to be material.[20]

H. Risk Management (CPs 15, 17–25)

31. Since last FSAP, Sweden has improved its supervision of risk management practices and regulations. However, a broad range of material issues remain. FI's capacity to assess the quality of credit institutions' risk management processes and practices, including the effectiveness of internal controls and alignment of practices with regulatory requirements is limited, and more needs to be done to enhance the quality of supervisory oversight.

32. The risk assessment methodology, also referred to as "handbook" should be made more granular and comprehensive. The assessment methods are not adequately detailed, does not clearly specify how supervisors should assess particular risks or control function and does not make direct reference to provisions of EBA guidelines, which would be helpful for supervisors in understanding the factors and considerations that should be taken into account in their assessments. Although benchmarking of supervisory assessments is a mandatory step in FI's process, this shortcoming could lead to inconsistencies in the assessments between different supervisors, with less intrusive supervision and supervisory assessments taking longer due to lack of clear guidelines. Taking into consideration FI's resource constraints, a two-step approach could be taken toward improving the quality of the handbook. First, changes could focus on increasing precision in the methods, so as to achieve consistency and facilitate supervisors' assessment. Second, improvements could aim at enhancing comprehensiveness and depth of the manual to increase the level of intrusiveness of supervision.

33. There are notable gaps in the supervisory assessment of banks' internal stress testing processes and methodologies. The assessment of banks' internal stress testing by FI does not fully take into consideration the expectation that has been set out for supervisors in the BCBS stress

[19] The three largest banking groups in Sweden are engaged in insurance operations indirectly through subsidiaries.

[20] Regulatory Consistency Assessment Program (RCAP) – European Union.

testing principles (2018). For instance, FI does not properly assess if stress testing is used as a risk management tool and to inform business decisions. Further, the handbook does not fully capture stress test analysis, including the approach to supervisory assessment of banks' end-to-end stress testing processes and methodologies. The number of staff dedicated to conducting internal stress testing and assessment of stress testing practices in banks is also very limited, particularly given that the same staff are also responsible for performing the calculation of Pillar II Guidance (P2G). The authorities noted that since FI has developed top-down supervisory stress tests that inform the P2G and other methods for setting Pillar II capital requirements, there is a smaller need for an intrusive examination of banks' internal stress tests, compared to other jurisdictions where banks' own stress testing plays a larger role as an input to banks' capital requirements. However, in-house stress test expertise within banks is still important in order to ensure effective identification risks that might not be well captured by supervisory stress tests and other internal risk assessment tools. The current approach, where there is limited oversight over banks internal stress testing processes and significant reliance on supervisory stress tests, could also distort incentives as banks may not invest enough in appropriate internal tools, as they know that supervisors rely primarily on their own techniques, among others.

34. Supervisory activity on credit risk, problem assets, and provisioning has been impacted by the lack of intrusive supervision. The credit risk expert team has a broad range of responsibilities with a rather limited number of staff. Therefore, the supervisory process for credit risk relies on supervisory expertise and on internal control reports, and focuses on perceived or identified risks instead of performing full assessments. Due to resource constraints, supervisors do not regularly go through credit files, which is needed to challenge institutions' approaches to the classification of exposures and provisioning practices, and to identify any material issues with banks credit risk management and provisioning practices, e.g., misclassification due to evergreening, treatment of forborne exposures, valuation of collaterals, independent reviews, etc.

35. Since the last FSAP, FI has made significant progress with respect to the regulatory framework for credit risk, but gaps remain. In 2018, FI issued regulation on credit risk management, which covers areas such as governance, identification, measurement, credit risk assessments, credit decisions, credits with increased risk, and credits to related parties. FI has also issued general guidelines on credits regarding consumer credit. Despite the new regulation, there is no specific requirement that big, complex, or especially risky exposures are to be decided by the bank's board or senior management, and no specific power for FI to impose limits for exposures to related parties, to deduct such exposures from capital when assessing capital adequacy, or to require collateralization of such exposures. In addition, even though EBA Guidelines[21] provide guidance on the criteria, processes, and policies for renewing and refinancing existing exposures and for approving new exposures, and require an independent review function on the credit risk rating process, the assessors did not find evidence that FI fully assess compliance with these provisions.

[21] EBA Guidelines have the same legal status as a general guideline in Sweden.

36. Since the last FSAP, country and transfer risk have been incorporated into the credit risk regulation, but there are still gaps in regulation and no supervisory process. Sweden is a regional banking hub, acting in particular as the parent jurisdiction for the majority of the systemic entities of the Nordic region. Cross-border banking activity and country exposure is therefore a significant feature of the banking system, even if it is concentrated in some institutions. Since the last FSAP, Sweden has incorporated country and transfer risk in the credit risk regulation. However, there is no evidence of a structured supervisory process (in the SREP assessment, inspections, or thematic reviews) that aims at addressing country risk, as the BCPs require. Further, in the EU regulations applicable to Sweden, countries in the European Union are not considered as third countries from country- and transfer-risk perspectives.

37. FI has also not issued specific regulation on market risk and Interest Rate Risk in the Banking Book (IRRBB), besides the current EU regulation. FI argue that, in addition, it has been able to apply parts of general national banking laws, such as the Banking and Financing Business Act and the Supervision of Credit Institutions and Investments Firm Act, supporting regulations, for instance, the regulation regarding governance, risk management and control, that mention market risk from a high-level perspective. FI published its methodology for assessing Pillar 2 requirement (P2R) for IRRBB to ensure that the risk exposure is identified, measured, and adequately capitalized for the institutions covered by the SREP. However, as in other jurisdictions, the lack of detailed regulation has already proven problematic, such as the boundary between the trading and banking book, which is expected to be addressed in 2025 when the EU implement the fundamental review of the trading book (FRTB).

38. The LCR requirement in Sweden is less stringent than the Basel Standards, but goes beyond the standards in introducing single currency requirements. HQLA definition in Sweden and in the EU includes covered bonds to a larger extent than is specified in the BCBS HQLA requirements. FI has restricted the percentage of covered bonds from Swedish issuers to a maximum of 50 percent of the total liquidity reserve and 70 percent from other issuers, as in the EU regulation. In addition, the BCBS disclosure standards is based on daily observations when calculating LCR values, while in Sweden and in the EU it is based on month-end observations over the 12 months preceding the end of each quarter. To minimize the LCR currency mismatch, FI has introduced an LCR limit of 100 percent for EUR and USD and 75 percent for other significant currencies, including SEK, as a P2R.

39. FI has focused on cyber risks, outsourcing, and third-party risk during the last five years, in addition to business continuity plans. However, more needs to be done. There are some published examples of supervisory reports that help illustrate FI's deep-dive analysis of bank's operational risk management practices. A creation of a database to collect information on outsourcing providers would improve FI's supervision on outsourcing.

I. Disclosures and Transparency (CPs 27–28)

40. The law does not explicitly grant FI with the power to reject or rescind the appointment of an external auditor. FI is not the competent authority for the supervision of auditors in Sweden. However, FI has two formal possibilities to initiate a process to remove an external auditor. One is to report the issue to the competent authority, the Swedish Inspectorate of Auditors, which will make its own assessment of the issue. The other is for FI to file for the removal of the external auditor through the district court in accordance with Companies Act (Chapter 9, Section 22a).[22] In addition, FI can often achieve this objective by putting pressure on a credit institution's board of directors to remove the external auditor; explicit power to remove the auditor grounded in the relevant legislation would be preferable, as it would help speed up the process of removal, if needed.

41. Pillar 3 disclosures have not been properly assessed, despite being used in some instances for supervisory purposes. FI has not focused on assessing Pillar 3 disclosures, even though it uses the information as input into some of the supervisory activities. Disclosure standards in Sweden are generally sound and promote transparency. However, in relation to Pillar 3 disclosures, there may be need for an assessment to ensure that the reported data is of high quality. This would help enhance consistency in disclosures and optimization of available supervisory resources.

J. Abuse of Financial Services (CP 29)

42. Sweden has taken measures to improve its AML/CFT supervision but further improvements are needed.[23] Sweden has transposed the fourth and fifth EU AML Directives into local legislation, mainly through the Act on Measures against Money Laundering (ML) and Terrorism Financing (TF), and FI has also issued more detailed regulations on ML and TF, and banks are required to comply with this legislation and the regulation. FI has also increased its supervisory resources for supervision of ML/TF risks in banks. However, certain gaps remain in its AML/CFT supervision areas, and particularly as it relates to the adequacy of the process for ensuring that supervision of ML/TF risks in banks is well targeted. Specifically, one process (tool) used mainly focuses on the inherent risks and did not facilitate the collection of sufficiently detailed information to fully assess ML/TF risks at the sector and individual bank level. The main limitation is that the questionnaire did not collect sufficiently granular information on geographic exposure and the volume or value of transactions or customers, and on bank's control environment to facilitate the assessment of residual risk and better-informed view on MF/TF risks. However, acknowledging that the tool in question is one of several integral parts of FI's comprehensive risk-identification process,

[22] Chapter 9, Section 22a of the Companies Act provides that an application to the district court to order dismissal may be made by shareholders (who holds not less than 5 percent of the share capital or voting interest), the board of directors and the Financial Supervisory Authority.

[23] See Mutual Evaluation of Sweden: 1st Regular Follow-up Report & Technical Compliance Re-Rating from September 2020. The last full FATF assessment was conducted in 2017 (It assessed Sweden as having moderate effectiveness for AML/CFT supervision).

the impact of these deficiencies is mitigated by other measures and sources of information at FI's disposal. The assessors are also aware that the questionnaire (AML periodic reporting) has been updated to address the identified gaps, and once fully implemented, it should result in a more targeted and effective supervision of AML risks by FI going forward.[24] There are also gaps in the supervision over correspondent banking relationships, and banks' processes and procedures for screening of employees, which have not been a focus of the more recent AML/CFT inspections in the banking sector.

METHODOLOGY

43. This assessment of the implementation of the BCPs by FI is part of the FSAP undertaken by the International Monetary Fund (IMF) in 2022. It reflects the regulatory and supervisory framework in place as of the date of the completion of the assessment. It is not intended to represent an analysis of the state of the banking sector or crisis management framework, which are addressed in the broader FSAP exercise. The BCP assessment mission took place between March 14 and April 5, 2022.

44. An assessment of the effectiveness of banking supervision requires a review of the legal framework, and a detailed examination of the policies and practices of the institution(s) responsible for banking regulation and supervision. In line with the BCP methodology, the assessment focused on banking supervision and regulation in Sweden and did not cover the specificities of regulation and supervision of other financial institutions. The assessors reviewed the framework of laws, regulations, procedures, guidelines, and other materials mainly provided by FI and held extensive meetings with FI officials. The assessors also held additional meetings with select banks, external audit firms, and the Swedish National Debt Office (SNDO). The authorities provided a BCP self-assessment, responses to additional questionnaires, and access to supervisory documents and files, staff, and supervisory systems. In this respect, the assessors appreciate the excellent cooperation received from the authorities and extend their gratitude to the staff who participated and facilitated this exercise.

45. The standards were evaluated in the context of the Swedish banking system's structure and complexity. The BCP must be capable of application to a wide range of jurisdictions, whose banking sectors will inevitably include a broad spectrum of banks. To accommodate this breadth of application, according to the methodology, a proportionate approach is adopted, both in terms of the expectations on supervisors for the discharge of their own functions and in terms of the standards that supervisors impose on banks. An assessment of a country against the BCP must, therefore, recognize that its supervisory practices should be commensurate with the complexity, interconnectedness, size, risk profile, and cross-border operations of the banks being supervised. The assessment considers the context in which the supervisory practices are applied. The concept of

[24] The changes are mostly related to the assessment of undertakings' geographic and cross-border risks.

proportionality underpins all assessment criteria. For these reasons, an assessment of one jurisdiction will not be directly comparable to that of another.

46. The current assessment is based on the 2012 version of BCPs issued by the Basel Committee on Banking Supervision (BCBS).[25] Since the past full assessment conducted in 2011, the BCP standard was revised and reflects the international consensus for minimum standards based on global experience. It is, therefore, important to note that this assessment cannot and should not be compared to the previous exercise, as the revised BCPs have a heightened focus on corporate governance and risk management, their practical application by the supervised institutions, and the assessment performed by the supervisory authority. The revised BCPs stress the effectiveness of a supervisory framework, not only through providing supervisors with the necessary powers to address safety and soundness concerns, but also by heightening the focus on the actual use of those powers, in a forward-looking approach, and on the need for supervisors to ensure compliance with regulatory requirements, and to thoroughly understand the risk profile of banks and the banking system.

47. Sweden has opted to be assessed and graded against both the essential and additional criteria, the highest standards of supervision and regulation. To assess compliance, the BCP Methodology uses a set of essential and additional assessment criteria for each principle. The essential criteria (EC) set out the minimum baseline requirements for sound supervisory practices and are universally applicable to all countries. The additional criteria (AC) are recommended best practices against which the authorities of some more complex financial systems may agree to be assessed and rated. The assessment of compliance with each CP is made on a qualitative basis, using a five-part rating system explained below. The assessment of compliance with each CP requires a judgment on whether the criteria are fulfilled in practice. Evidence of effective application of relevant laws and regulations is essential to confirm that the criteria are met.

48. The assessment has made use of four categories to determine compliance: compliant; largely compliant, materially noncompliant, noncompliant, and non-applicable. An assessment of "compliant" is given when all the essential and additional criteria are met without any significant deficiencies, including instances where the principle has been achieved by other means. A "largely compliant" assessment is given when only minor shortcomings are observed that do not raise any concerns about the authority's ability and clear intent to achieve full compliance with the principle within a prescribed period of time. The assessment "largely compliant" can be used when the system does not meet all essential and additional criteria, but the overall effectiveness is sufficiently good, and no material risks are left unaddressed. A principle is considered to be "materially noncompliant" in case of severe shortcomings, despite the existence of formal rules and procedures and there is evidence that supervision has clearly been ineffective or that the shortcomings are sufficient to raise doubts about the authority's ability to achieve compliance. A principle is assessed "noncompliant" if it is not substantially implemented, several essential criteria are not complied with, or supervision is

[25] Basel Committee on Banking Supervision: Basel Core Principles for Effective Banking Supervision, September 2012: http://www.bis.org/publ/bcbs230.pdf.

manifestly ineffective. Finally, a category of "non-applicable" is reserved for those cases where the criteria do not relate to the country's circumstances.

49. An assessment of compliance with the BCP is not, and is not intended to be, an exact science. The assessment criteria should not be seen as a checklist approach to compliance but as a qualitative exercise involving judgement by the assessment team. While compliance with the BCP can be met in different ways, compliance with some criteria may be more critical for the effectiveness of supervision, depending on the situation and circumstances in a given jurisdiction. Hence, the number of criteria complied with is not always an indication of the overall compliance grade for any given principle. Nevertheless, by adhering to a common, agreed methodology, the assessment should provide the Swedish authorities with an internationally consistent measure of the quality of their banking supervision framework in relation to the BCP, which are internationally acknowledged as minimum standards. Emphasis should be placed on the commentary that accompanies the grade of each principle, rather than on the grade itself.

INSTITUTIONAL AND MARKET STRUCTURE

A. Institutional Framework for Regulation and Supervision

50. FI is responsible for the supervision of the whole financial system in Sweden. It is a full-scope supervisory authority under the government (in practice, Ministry of Finance (MoF)) and with responsibility over the supervision of all institutions and activities across the financial sector. It is also responsible for consumer protection and AML supervision. Further, In December 2017 its macroprudential toolkit was widened. Specifically, the legislative changes, which entered into force in February 2018, strengthened FI's legal mandate to take measures to counteract financial imbalances on the credit market, such as household indebtedness. However, since these types of measures may have macroeconomic impacts and may affect the finances of private individuals, the law includes a requirement for FI to obtain the government's consent before any new regulations are adopted.

51. FI is responsible for supervision of more than 2,000 entities. The supervised entities include banks, credit companies, limited insurance companies (both life and non-life), occupational retirement provision undertakings, mutual benefit societies, pension foundations, insurance intermediaries, stock exchanges, trading venues, central securities depositories (CSD), and clearing firms, some of which are central counterparties (CCP). Self-regulation plays a minor role in Swedish financial markets and there are no active formal self-regulatory organizations for banks in Sweden.

52. FI's Banking Department is responsible for the supervision of banks and bank-like institutions, specialized nonbank lenders, and payment and e-money institutions. As at end-2021, banks consisted of 100 domestic banks (3 are state owned), 6 foreign banks, 12 subsidiaries, and 34 branches of foreign banks. The number of active payment institutions and e-money institutions were about 50 and 5 respectively. For legal or natural persons who wish to conduct business on a smaller scale, it is possible to apply for an exemption from the obligation to

get authorization. If an exemption from the permit requirement is granted, the applicant becomes a registered payment service provider.

53. This BCP assessment focused on the supervision of banks in Sweden. These include limited liability banking companies (large and retail), credit market companies, savings banks, member banks, and foreign branches. These entities tend to have different features. For example, (i) the large banking companies offer a wide range of financial services and have a high proportion of market funding, while retail banking companies tend to focus on secured lending with funding from public deposits and market financing; (ii) savings banks offer traditional banking services in a specific given geographical area and, usually, have the overall objective of promoting the local economy and business; and (iii) member banks are cooperative associations licensed to provide banking services to its members. The assessment also covered the supervision of financial groups and cross-border entities.[26.]

54. The core financial activities can only be legally provided in Sweden by firms that have been authorized by FI and are subject to supervision. There are, however, some marginal activities that are subject to lighter requirements, where registration with FI is sufficient and no effective supervision is carried out. This applies to, for example: (i) professional trading of bank notes, coins, and traveler's cheques issued in a foreign currency, i.e., foreign currency exchange; and (ii) "other financial operations" as set out in the Banking and Financing Business Act,[27] which includes but is not limited to: granting and brokering loans, for example, in the form of consumer credit and loans secured by charges over real property or claims; participating in financing, e.g. by acquiring claims and leasing personal property. Offering for sale cryptocurrencies and digital currencies that are used as a means of payment is considered to be other financial operations.

B. Overview of the Banking Sector

55. The Swedish financial system is large and highly concentrated (Table 1).[28] The banking sector assets were about 300 percent of GDP at end-2021 with the five largest banks[29] accounting for over 75 percent of deposits and lending. Banks are highly exposed to residential and commercial real estate (CRE), and the largest banks account for about 75 percent of the total mortgage lending and mortgages constitute a large part of these banks' lending portfolios; in general, about 50 percent. Large banks mainly finance mortgage loans by issuing covered bonds, to some extent to each other (share of covered bond as a proportion of total liabilities was 15.5 percent at the end of Q4 2021).

[26] There were 22 financial groups in Sweden at end-2021.

[27] Chapter 7, section 1, points 2, 3 and 5–12.

[28] The financial system is defined as all Financial Companies, excluding the Riksbank. Swedish banks are defined as all Monetary Financial Institutions (which includes the Swedish branches of Danske Bank and Nordea but excludes foreign branches and subsidiaries of Swedish banks), excluding the Riksbank. Data as of 2020.

[29] Refers to Handelsbanken, SEB, Swedbank and the Swedish branches of Danske Bank and Nordea.

Table 1. Sweden: The Swedish Financial System

With nly Domestic Entities	Assets (in billions of USD)	Number of Institutions	Assets (in percent of GDP)
Banks	1,738	152	292.1
Domestic legal entities	952	97	160.0
Foreign banks	104	6	17.5
Subsidiaries	348	12	58.5
Branches	220	34	37.0
State-owned	114	3	19.2
Insurance Companies	494	142	83.0
Life insurance companies	412	29	69.2
Non-life insurance companies	83	113	13.9
Pension Fund Administrators	513.6	42	86.3
Other Fund Administrators	529	71	88.9
Total	3,274.6	407	550.3

Data sources: FI.

56. The Swedish banking sector is concentrated, with three large domestic banks with extensive reach across the Nordic-Baltic region[30] and two systemically important branches of large Nordic banks.[31] Collectively, these five banks account for about 75 percent of lending to Swedish households and corporates (or 55 percent counting only the three Swedish banks). Nordea, the largest Nordic bank, changed its domicile from Sweden to Finland in 2018. The large banks face gradually stronger competitive pressure from smaller players across a broad range of their activities, and their market shares have been shrinking, albeit slowly, for many years. In total, the banking sector comprises about 100 domestic banks and 34 branches of foreign banks. In addition, there are about 110 payment service providers which, although they are not formally banks, are also supervised by FI.

57. The major banks in Sweden are also highly interconnected.[32] They are significant owners of one another's covered bonds and have similar exposures to certain industries. Further, they have strong links to other financial market agents, both in Sweden and abroad, such as those who invest in securities issued by the banks. The structure of the banking system, therefore, means that problems in one bank can quickly spread to other banks and markets, and thereby negatively affect confidence in the entire financial system. These problems could arise due to banks' earnings and funding capacity, as well as incidents connected to money laundering or cyber-attacks.

[30] SEB, Handelsbanken (SHB), and Swedbank.

[31] Nordea and Danske Bank.

[32] Riksbank, Financial Stability Report, 2021:2.

58. Large Swedish banks rely on market funding to a large extent, primarily through covered bonds. Deposits as a share of aggregate funding for all deposit-taking institutions has, however, been growing for several years and is now above 50 percent (42 percent in 2015). Swedish households tend to accumulate significant savings in pensions, insurance, and mutual funds, rather than holding large deposit balances. Insurance companies and the state pension funds hold 22 percent and 8 percent, respectively, of outstanding Swedish bonds, reflecting their important role in intermediating savings for mortgage finance through covered bonds. Foreign investors hold about one-fifth of outstanding Swedish SEK-denominated bonds, equivalent to more than 17 percent of GDP. Swedish covered bonds are issued in SEK and foreign currencies (primarily dollars and euros, typically hedged through FX swaps), while the underlying mortgages are SEK-denominated.

59. In general, Swedish banks are profitable and well capitalized compared to European peers. The impact of the pandemic on profits has also been relatively limited. This is partly due to the fact that the three largest banking groups in Sweden offer a wide range of financial services with the commercial banks and their mortgage subsidiaries being the dominant entities in each group. Insurance subsidiaries comprise about 11 percent of the combined assets of the three large banking groups. Conversely, while large Swedish insurers also have banks in their groups, the bank subsidiaries are typically small relative to the insurance business. For the period ending Q4 2021, Swedish Banks had a capital adequacy ratio (CAR) of 23.0 percent. Profitability and asset quality was also robust, with Return on Asset (ROA) of 1.1 percent, Return on Equity (ROE) of 10.7 percent, and nonperforming loans (NPL) ratio of 0.4 percent. The banking sector is, however, highly concentrated in the real estate sector, with 28.3 percent of gross loans being to the residential real estate and 12.5 percent to the CRE.

60. FI sets higher capital standards to increase resilience in the banking sector. FI has introduced a Pillar 2 requirement that considers flow-back risk associated with securitization; pension risk; interest rate risk and additional market risk; risks related to Commercial Real Estate (CRE) lending; credit-related concentration risk and risk weights for exposures to corporates. With respect to buffers, FI has introduced a systemic risk buffer of 3 percent, in addition to the O-SIIs buffer of 1 percent and a countercyclical capital buffer (CCyB) of 1 percent from September 29, 2022. FI aims to raise the CCyB to 2 percent in 2022, if the economic recovery continues, credit losses remain low, and the banks continue to have sufficient capacity to meet the nonfinancial firms' demand for credit. FI has also introduced a Pillar 2 guidance that is communicated to banks based on the outcome of FI's stress test and quantitative and qualitative analysis.

61. FI has been active in setting the CCyB in the past and plans on having a positive neutral rate of 2 percent in the future. FI has applied a CCyB of 2.5 percent from September 2019. FI was therefore able to respond to the exceptional increase in uncertainty caused by the COVID-19 pandemic by lowering the CCyB to zero in March 2020. This worked as intended at the onset of the crisis, as banks were able to handle demand for credit by their customers. Given the decline in economic and financial uncertainty, in September 2021, FI decided to raise the countercyclical buffer rate to 1 percent and the new buffer rate will be applied from September 29, 2022. FI has

manifested that it will apply a CCyB positive neutral rate of 2 percent going forward, to ensure the possibility of freeing up capital for Swedish banks during a crisis.

62. The Swedish banking sector remains highly exposed to the residential real estate market. There is also the risk that, due to a long period of low loss levels, the models used by banks that have been approved to use IRB approach to generate regulatory capital requirement may not be able to generate sufficient capital to fully capture the unexpected credit losses, if they were to crystallize. To address this risk, FI decided in 2013 to apply a risk weight floor for Swedish mortgages in Pillar 2. The floor was first set at 15 percent, but shortly raised to 25 percent. In August 2018 the decision was made to implement the floor in Pillar 1 rather than Pillar 2. The decision came into force on December 31, 2018 for a period of two years.[33] In 2020, FI assessed that the underlying risks necessitating the risk weight floor remained, and that the measure continued to be necessary. FI will reassess in December 2023. The limited data on credit losses also has an impact on the estimation of Expected Credit Losses (ECL) under IFRS 9.

PRECONDITIONS FOR EFFECTIVE BANKING SUPERVISION

A. Sound and Sustainable Macroeconomic Policies

63. Prior to the onset of the COVID pandemic, Sweden had been on a positive growth in GDP of between 1.2 percent and 4.5 percent since 2013. This consistent growth was attributed to its highly competitive trade-dependent economy, with robust institutional and regulatory framework that ensures basic stability and predictability. Sweden has also been able to maintain a competitive edge in knowledge intensive sectors through investment in Research and Development (R&D). In particularly, Sweden ranks highly in a number of indicators of R&D, including public and private spending per capital, number of researchers, number of patent applications, and intellectual ownership licenses.

64. Prudent fiscal policy has kept public debt on a downward trend (35 percent of GDP). This, together with the earlier tightening of macroprudential policies and a well-capitalized financial sector, positioned the economy well to deal with the COVID-19-induced economic crisis, despite some financial vulnerabilities related to the relatively high household debt and exposure to CRE. Further, the structural features of the economy, including a high share of jobs that can be performed from home, a small hospitality sector, and buoyant pharmaceutical and machinery exports ensured that the fallout from COVID-19 pandemic was relatively smaller compared to peers.

[33] This was done in line with the provision of Article 458 of the Capital Requirement Regulation.

B. Framework for Financial Stability Policy Formulation

65. The responsibility for promoting financial stability is shared between the MoF, FI, the Central Bank ("Riksbank") and, the SNDO. The MoF has an overall responsibility for designing the framework for financial stability and is responsible for all primary legislation. FI is the authority responsible for macroprudential policy in Sweden. FI's assessment of risks and vulnerabilities in the financial system (Financial Stability Report) is published half yearly. SNDO is the resolution authority, the designated deposit insurer, and is responsible for precautionary government support. As resolution authority, SNDO can, by means of resolution, wind up or restructure failing credit institutions in a way that maintains critical functions and without any significant impact on financial stability. The Riksbank's work on safeguarding financial stability consists of: (i) preventing financial crises through communication as well as analyzes and oversight of the financial system; (ii) maintaining the tools for managing a financial crisis, should one arise; and (iii) ensuring that there is a central payment system which banks and other agents can use to make payments. The Riksbank's assessment of risks and vulnerabilities in the financial system (Financial Stability Report) are published half yearly.

66. The regulation was amended in 2017 to give FI a stronger legal mandate to implement measures to reduce risks related to, amongst others, household indebtedness. The regulation, which became effective from February 2018, includes a new requirement that credit, and mortgage institutions are to carry out their operations in a way that do not create financial instability in the credit market. It also clarified that the Loan-to-Value (LTV) and Loan-to-Income (LTI) amortization requirements will also be applicable to mortgage institutions. The governance framework stipulated in the new regulation allows for a dual decision-making procedure in special cases. For example, instances where macroprudential measures are expected to directly affect households such as borrower-based measures. Specifically, before introducing measures that may have macroeconomic impact or affect finances of individuals, the law requires FI to obtain consent from the government. In such cases, FI has to submit a proposal to the government in a public document. The government can accept or reject the proposal, but not amend it. The government's decision in relation to FI's proposal, whether yes or no, is also made public. The dual decision-making process, however, does not apply to capital-based or risk-weight measures.

67. The agencies with responsibilities for the financial sector and financial stability cooperate closely through the Financial Stability Council (FSC). The Minister for Financial Markets chairs the FSC, whose members also include the Governor of the Riksbank, Director General of FI, and the Director General of the SNDO. The FSC normally meets twice a year to discuss risks to financial stability and policy measures to prevent financial system imbalances from building up. In the event of a financial crisis, the FSC can meet more often to discuss the need for and specific measures to deal with the crisis. The FSC is, however, not a decision-making body, and each authority represented in the council acts in accordance with their respective mandates and decides independently which specific measures to take.

C. A Well-Developed Public Infrastructure

Judiciary System

68. The Swedish legal system is based on civil law. The Swedish constitution establishes the independence of the courts. The general courts deal with criminal and civil actions while the general administrative courts are responsible for cases concerning public administration, including financial regulation.

A System of Business Laws and Standards

69. Sweden has a robust system of business laws, including corporate, bankruptcy, contract, consumer protection, and private property laws. Domestic financial sector legislation largely derives from EU regulations, directives and decisions which are frequently updated to keep pace with international standards. Specific national rules exist where topics considered relevant are not regulated by EU law or where EU law leaves room for additional national rules.

Accounting Principles and Auditing Standards

70. Sweden has implemented International Financial Reporting Standards (IFRS). There is also a range of high-quality accountancy, audit, legal, and ancillary financial services available in Sweden. FI is responsible for issuing standards required for financial companies. FI's regulations and general guideline regarding annual accounts for credit institutions and securities companies stipulates that all credit institutions and financial holding companies in Sweden regardless of size or if they are listed or not applies IFRS in their consolidated financial statements.

Payments Clearing System

71. The financial infrastructure regarding payments and clearing is well-developed in Sweden. Some parts are at the forefront of development and others need to develop further. For example, securities settlement is well functioning but needs to be better harmonized with the EU in order to provide an even more efficient solution. Sweden also has well-functioning local CCP. The Riksbank is responsible for promoting a safe and efficient payment system and does this by providing payments infrastructure (RTGS), and also by overseeing the financial market infrastructure.

D. Framework for Crisis Management, Recovery and Resolution

72. There are four key authorities with responsibilities relating to crisis management in Sweden. The government (through the MoF) has the overall responsibility for crisis management. FI is responsible for supervising financial companies and financial markets, and for implementing measures to counteract financial imbalances. The SNDO is responsible for resolution, deposit guarantee, and precautionary government support, while the Riksbank is responsible for ensuring a secure and efficient payment system, and for provision of liquidity if financial stability is threatened.

73. The SNDO is the designated resolution authority as per the resolution Act of 2015. The Bank Recovery and Resolution Directive (BRRD) has been transposed into Swedish law through The Resolution Act, Resolution Ordinance, and the Banking and Financing Business Act, and SNDO has been assigned as the resolution authority. In this capacity, it has the powers to assume control of failing institutions and to use its resolution tools to avoid major disruptions to the financial system. It is also responsible for resolution planning, including by ensuring resolvability of banks. As part of the resolution planning mandate, SNDO is expected to decide on a Minimum Requirement for own funds and Eligible Liabilities (MREL) and has the powers to impose measures to remove material impediments to resolution. It is also responsible for monitoring compliance with MREL requirements and has certain powers to address MREL shortfalls.

74. FI is responsible for peacetime recovery planning, while the SNDO is responsible for establishing resolution plans. The assessment of recovery plans for systemically important institutions is carried out by FI in consultation with the SNDO and, for the largest banks, the Riksbank. FI is also invited by SNDO to comment on resolution plans, which are normally updated on a regular basis for all required institutions. Specifically, for systemically important institutions, this is done yearly or in case of an extraordinary event and for l institutions with simplified obligations, updates are done bi-annually.

75. The detailed policies and procedures essential for effective implementation of the Resolution Act are, however, still being developed. This includes contingency plans to be able to promptly take control of an institution in distress and impose a resolution, provision of funding in resolution if required, and arrangements for coordination among the members of the FSC. Further, SNDO has not fully formulated all details of what is to be included in the assessment of resolvability. However, in March 2022, it issued a guidance document based on the EBA published guidelines on improving resolvability for institutions and resolution authorities, aimed at helping Swedish banks understand how certain parts of those guidelines should be interpreted and applied.

E. Public Safety Net

76. The deposit guarantee scheme is administered by the SNDO, which is the designated deposit insurer under the Deposit Guarantee Act. The deposit guarantee covers all accounts with exception of pension accounts, and provides compensation of up to SEK 1,050,000 per person per institution in the event of an institution going bankrupt, or upon a decision by FI to activate the guarantee. The Swedish Act on Deposit Guarantee Schemes transposes the EU Directive on deposit guarantee schemes (Directive 2014/49/EU).

77. The Riksbank has a statutorily defined function as provider of liquidity (lender of last resort) to financial firms. The Riksbank's most important tasks therefore is to supply liquidity to the banking system during periods of normal economic circumstances and in a crisis situation, where necessary. During a stress situation, the Riksbank has several ways of quickly adding liquidity to the system. This can involve providing liquidity to support a specific bank or more general

liquidity support measures aimed at several participants, such as offering loans at longer maturities, or in currencies other than Swedish kronor.

78. SNDO can decide on and provide liquidity support to an institution in resolution or its subsidiaries, bridge institution or an asset management vehicle.[34] The support can be given as guarantees and loans, is flexible in terms of currency and duration, and no collateral needs to be provided. Provision of liquidity in resolution, as well as other forms of financial support allowed in resolution, is funded via the Resolution Reserve, which is a notional account with SNDO.[35] All use of the reserve needs to be approved by the European Commission in accordance with the European Commission's Competition Policy for State Aid. The resolution reserve has a target level of 3 percent of covered deposits. Once the target level is reached, resolution fees will no longer be charged.[36]

79. The SNDO can also provide temporary liquidity assistance to viable credit institution, if necessary to counteract a serious disturbance to the financial system in Sweden. Such support can be provided in forms of guarantees for newly issued liabilities of banks, or to bank liquidity facilities provided by the Riksbank. Issuing of guarantees by SNDO does not require collateral backing. However, all forms of precautionary support needs approval by the government and the European Commission, in accordance with the European Commission's Competition Policy for State Aid.

F. Effective Market Discipline

80. The principle of disclosure and transparency is well established in the Swedish context. With respect to the banking and financial sector, transparency is also supported by the application of the "Pillar 3" disclosure framework of the Basel Capital Accord, which has been implemented in Sweden through the relevant EU legislation (CRR). The FI policy is to disclose as much information as possible. This is in order to give the public insight into what is happening in the financial market. In doing so, it, however, ensures that it does not disclose sensitive information that can affect a firm's competitive position on the market. Specifically, FI publishes on a quarterly basis the capital requirements of the banks in supervisory category 1 and 2 (including the pillar 2 guidance) and on a semi-annual basis a report on the Swedish banking market with statistics for different business model categories. Since 2021, FI publicly announces (on its website) whenever an inspection is opened or concluded, naming the company concerned and the topic of the inspection. Further, FI and the Riksbank both issue semi-annual reports on the stability of the financial system, which are available on their website.

[34] This is pursuant to the Resolution Act (SFS 2015:1016).

[35] The annual resolution fees (as well as assets, recoveries, fees etc. that are obtained as an effect of resolution) are credited to the reserve.

[36] Fee will resume if the reserve falls below the target level.

81. The principle of transparency in public governance is widely regarded as fundamental in Sweden. Provisions on public disclosure and confidentiality are governed by the Public Access to Information and Secrecy Act. As a rule, all information collected by, or communicated from a Swedish authority, is subject to public disclosure upon request. Any exception must be based on an explicit decision in each individual case, stating the legal grounds for keeping the information confidential. Consistent with the Swedish focus on transparency, the minutes of the FSC are made public.

DETAILED ASSESSMENT

A. Supervisory Powers, Responsibilities and Functions	
Principle 1	**Responsibilities, objectives and powers.** An effective system of banking supervision has clear responsibilities and objectives for each authority involved in the supervision of banks and banking groups.[37] A suitable legal framework for banking supervision is in place to provide each responsible authority with the necessary legal powers to authorize banks, conduct ongoing supervision, address compliance with laws and undertake timely corrective actions to address safety and soundness concerns.[38]
Essential criteria	
EC1	The responsibilities and objectives of each of the authorities involved in banking supervision[39] are clearly defined in legislation and publicly disclosed. Where more than one authority is responsible for supervising the banking system, a credible and publicly available framework is in place to avoid regulatory and supervisory gaps.
Description and findings re EC1	The Financial Supervisory Authority ("FI") is an integrated authority, responsible for prudential supervision as well as AML/CFT and consumer protection. Its specific responsibilities and objectives are set out in the Financial Supervisory Authority Instruction Ordinance (2009:93) are in publicly disclosed in FI website. According to Section 1 of the Financial Supervisory Authority Instruction Ordinance FI is responsible for: 1. The supervision, regulation and licensing of financial markets and financial institutions, and 2. measures to prevent financial imbalances with the aim of stabilizing the credit market, while considering the impact of these measures on economic development. Section 2 Financial Supervisory Authority Instruction Ordinance (2009:93) also provides that that within the context of its own decisions regarding resource allocation and planning, the authority should ensure that the financial system:

[37] In this document, "banking group" includes the holding company, the bank and its offices, subsidiaries, affiliates and joint ventures, both domestic and foreign. Risks from other entities in the wider group, for example nonbank (including nonfinancial) entities, may also be relevant. This group-wide approach to supervision goes beyond accounting consolidation.

[38] The activities of authorising banks, ongoing supervision and corrective actions are elaborated in the subsequent Principles.

[39] Such authority is called "the supervisor" throughout this paper, except where the longer form "the banking supervisor" has been necessary for clarification.

	• is stable and characterized by well-functioning markets that meet households and companies' needs for financial services; • provides a high level of consumer protection; and • contributes to a sustainable development. The Banking and Financing Business Act (SFS 2004:297) in Section 2 of Chapter 13 also grants FI with the power to exercise supervision over credit institutions and foreign credit institutions that have established branches in Sweden while Chapter 1 Section 4 Credit Institutions and Securities Companies (Special Supervision) Act (SFS 2014:968) designate FI as the competent authority pursuant to the Prudential Requirements Regulation [Capital Requirements Regulation (EU/575/2013)] and grants it power to exercise supervision over compliance with the Regulations, and Credit Institutions and Securities Companies (Special Supervision) Act]. FI is also a designated responsible authority pursuant to Articles 124, 164 and 458 of the Capital Requirement Requirements Regulation. In discharging its responsibilities, FI is expected to ensure that regulations and procedures at its disposal are cost effective and easy for citizens and companies to understand and follow. In addition to the Ordinance, and as for other governmental authorities, the government issues an annual appropriations letter to FI which may also set out specific responsibilities, tasks and objectives for the authority for the relevant fiscal year. The appropriation letters are publicly disclosed on the government and FI websites and may be amended and revised during the course of the year. The appropriation letter for budget year 2022 included an objective for FI to strengthen the standing of consumers in the financial market through popular financial education.
EC 2	The primary objective of banking supervision is to promote the safety and soundness of banks and the banking system. If the banking supervisor is assigned broader responsibilities, these are subordinate to the primary objective and do not conflict with it.
Description and findings re EC2	FI primary objectives are set out in Sections 1 and 2 of the Financial Supervisory Authority Instruction Ordinance (2009:93) and entails supervisory oversight of the individual institutions and the overall financial system. Section 1 of the Financial Supervisory Authority Instruction Ordinance (2009:93) sets out objectives for FI, which include: (1) supervision, regulation and licensing of financial markets and financial institutions, and (2) responsibility for measures to prevent financial imbalances with the aim of stabilizing the credit market. Section 2 of the FSA ordinance also requires FI to ensure that the financial system: (i) is stable and characterized by a high degree of confidence with financial markets providing the needs of financial services of household and firms; (ii) provide consumers with a high degree of protection; and (iii) contributes to a sustainable development. The responsibility to ensure the financial system provide consumers with a high degree of protection is expected to generally result in a banking system that is safe and sound. Further, as part of its contribution to sustainable development, FI is not expected to raise

	or lower capital requirements for certain types of exposures for the sole purpose of promoting sustainable development. FI is also not allowed to forbid financial firms from financing environmentally unsustainable businesses and activities but instead is expected to require financial firms including banks to consider and manage the relevant risks including those arising from climate change. FI mandate to promote sustainable development as currently envisaged is therefore not expected to result in conflict with the objective of ensuring a safe and sound financial system. There may, however, be value in FI considering further the interaction between its financial stability, consumer protection and sustainability objective and how FI would address or resolve any conflict between them if this was to arise in future. Further, the assignment of responsibilities to staff should take into account due consideration of the potential challenges in balancing between the multiple objectives and appropriate safeguards, including segregation of responsibilities and robust challenge of supervisory decisions should be put in place as necessary. Top supervisory priorities for FI are normally published every year which provide the basis for supervisory activities and the tasks and assignments set by the government, and which is communicated through the annual appropriation letter are normally not resource intensive. While conflict between the multiple mandates that FI has is currently not a risk, the assessors are of the view that if a conflict was to arise between the various objectives, it is not clear whether the financial stability mandate will be prioritized over the other mandate. The assessors in particular note that in the absence of appropriate safeguards there could be conflict between the mandate to ensure a stable financial system and that of promoting sustainable development, which could arise if regulatory policy was to be used to unduly promote investment in green assets or projects in a way that could compromise the stability of the financial system in the long-term.
EC3	Laws and regulations provide a framework for the supervisor to set and enforce minimum prudential standards for banks and banking groups. The supervisor has the power to increase the prudential requirements for individual banks and banking groups based on their risk profile[40] and systemic importance.[41]
Description and findings re EC3	The Capital Requirements Regulation (EU/575/2013) sets minimum prudential standards on capital and liquidity. According to Chapter 1 section 4 of the Special Supervision Act (the Act), FI is the competent authority pursuant to the Capital Requirements Regulation (CRR) and is empowered to exercise supervision over compliance with the CRR and the Act. Chapter 2 section 1 of the Special Supervision Act grants FI with the power to require credit institutions to hold additional own funds to cover risks associated with excessive leverage and requirement for other risks. In the case of Sweden, the power to impose specific own funds requirement apply where:

[40] In this document, "risk profile" refers to the nature and scale of the risk exposures undertaken by a bank.

[41] In this document, "systemic importance" is determined by the size, interconnectedness, substitutability, global or cross-jurisdictional activity (if any), and complexity of the bank, as set out in the BCBS paper on *Global systemically important banks: assessment methodology and the additional loss absorbency requirement*, November 2011.

	1. A bank has not satisfied the supervisory requirements in relation to risk management, capital, liquidity, reporting, transparency, sound business practices and responsibility of the board of directors, and where in the view of the supervisor other measures are not sufficient to address the identified deficiency within a reasonable time[42]; 2. A bank is or may be exposed to additional risks and a separate own funds requirement is necessary to cover these risks; 3. It is likely that a bank will not be able to meet its specific own fund requirements within the next twelve months; and 4. A bank has on repeated occasions failed to conform with a guidance on additional own funds (Pillar 2 guidance) from FI or where circumstances have come to light which may cause misgivings from a supervisory perspective. The Capital Buffer Act (2014:966) contains provisions on different types of capital buffers, and on interventions and restrictions when a bank fails to meet requirements in relation to capital buffers. They include capital conservation buffers, the system risk buffer, countercyclical capital buffer and other systemically important institutions(O-SII) buffer. FI imposes these buffers on the Swedish banks and the requirements are published on a quarterly basis. For example, in February 2022, FI published the Q4 2021 report on capital requirements of Swedish Banks. The report included requirements in relation to: minimum capital, Pillar 2, capital buffers (capital conservation, systemic risks, countercyclical). The systemic risk and O-SII buffers applies to the three largest banks and the Pillar 2 capital charge, which is applicable to all banks, is differentiated across institutions based on their risk profile and covers, amongst others, credit concentration risk, interest rate risk and additional market risk, pension risk and other Pillar 2 requirements. The ability of FI's to issue Pillar 2 guidance is provided for in Chapter 2 section 1c in the Special Supervision Act. FI also has the ability to decide on a specific liquidity requirement for an institution, where necessary (according to Chapter 2 section 2 of the Special Supervision Act). This is to cover liquidity risks that the institution is, or can be, exposed to. The special Supervision Act (Chapter 3 and 4) also provides that the specific own funds and liquidity requirements are applicable on group and/or solo level. In addition to the buffers, the Capital Requirements Regulation provides FI with tools for managing systemic risk and specifically based on Article 124 and 164, FI is able to introduce higher risk weights for exposures within the jurisdiction that are secured against real estate. In view of the risks posed by high real estate prices and highly leveraged households, FI has required Swedish mortgage issuers that use the internal ratings-based (IRB) approach to calculation of risk-weighted exposures to apply a risk-weight floor of 25 percent Swedish mortgages.

[42] Chapter 6, sections 1–3, 4a, 4b, and 5 of the Banking and Financing Business Act.

EC4	Banking laws, regulations and prudential standards are updated as necessary to ensure that they remain effective and relevant to changing industry and regulatory practices. These are subject to public consultation, as appropriate.
Description and findings re EC4	EU Level The majority of new Banking laws and regulation are developed by the EU and the MoF is responsible for the preparation of new level one regulation. FI often supports the MoF with expert knowledge on changing industry practice and evolving regulatory practices. FI also participates to a large extent in the regulatory work at the EBA where it provides its view and position on proposed technical standards and guidelines. FI also normally shares it opinions with the EU Commission on the need for new regulation and responds to the Commission's call for advice on reviewed legislation. National Legislation The MoF is responsible for preparing the Swedish financial legislation at the national level, and FI also provides the necessary support. Section 3 (point 4 and 5) of the Financial Supervisory Authority Instruction Ordinance (2009:93) requires FI to bring up regulatory needs in a yearly consumer protection report and half yearly Stability Report. When FI identifies a need for amendment to existing legislation or for new legislation, it may also make a direct request to the government for amendments or new legislation. FI also has a formal process for regulatory projects including development of new regulation and amendments to existing regulations and general guidelines, which includes a public consultation procedure. The FI has been granted the powers to issue some regulations through several Laws and Ordinances, and FI regulations are decided and approved by FI's Board of Directors. In the drafting or amendment of regulation, which generally is done by FI's legal departments, reference groups consisting of representatives from relevant bodies, such as financial institutions, industry associations and other governmental agencies, are invited to provide comments on the proposals. Public consultation procedure is also required by government regulation and once consultation is done, the input received from various stakeholders are incorporated into the proposal and the matter is then brought before FI's Board for decision. As per the Swedish legal system, FI, however, does not have broad powers to issue binding regulations aimed at ensuring a safe and sound financial system but has to draw these powers from specific laws or ordinances. This feature has the potential to cause delay in issuance of specific regulations aimed at addressing identified risks or vulnerabilities and this is more of an issue where there are gaps in the EU Directives resulting in the need for specific regulations to address the identified gaps or related risks. The power to issue binding regulation is particularly important given the speed of innovation in the Swedish financial sector and emergence of new products and business models which, in some instances, may require FI to issue binding regulations within a short time period so as to address specific risks and vulnerabilities to the Swedish financial system.

<table>
<tr><td>EC5</td><td>The supervisor has the power to:
(a) have full access to banks' and banking groups' Boards, management, staff and records in order to review compliance with internal rules and limits as well as external laws and regulations;
(b) review the overall activities of a banking group, both domestic and cross-border; and
(c) Supervise the activities of foreign banks incorporated in its jurisdiction.</td></tr>
<tr><td>Description and findings re EC5</td><td>Section 3 (first paragraph) of Chapter 13 of the Banking and Financing Business Act (BFBA) require credit institutions and foreign credit institutions which have established branches in Sweden to provide FI with any and all information regarding their operations and related circumstances, where this is requested. FI may also request such information on the operations of a bank from persons who are employed by the bank. Other companies (entities) which are required to provide information on their operations and circumstance to FI (as per the provision of Chapter 6, Section 1 of the Credit Institutions and Securities (Special Supervision) Act) include all entities within a banking group and specifically:
1. a) Companies which are under supervision based on their consolidated situation under Special Supervision Act or a foreign legal Act based on the Capital Requirements Directive (CRD),
b) Companies under supervision according to Article 7 Regulation (EU) 2019/2033
c) Companies part of a consolidate situation through a decision in accordance with Article 8 Regulation (EU) 2019/2033
2. Subsidiaries of a credit institution, a financial holding company, a mixed financial holding company, or an investment holding company,
3. Mixed activity holding companies and subsidiaries of mixed activity holding companies,
4. Mixed financial holding companies, and
5. Entities engaged by a credit institution, a financial holding company, mixed activity holding company, mixed financial holding company, or investment holding company to perform certain work or certain functions.
Section 4 of Chapter 13 of the BFBA also provide FI with the powers to carry out an investigation at the premises of a credit institution and branches in Sweden. However, before conducting an investigation at a branch, FI is required to consult with a competent authority in the country within the EEA which has authorized the foreign credit institution. The BFBA under Section 5 of Chapter 13 also provides FI with the power to collect information from individual entities which are part of a banking group. Specifically, it provides that, where a credit institution is part of a group, the other undertakings in the group shall provide FI with any and all information regarding operations and related circumstances as FI may require for its supervision of the institution.</td></tr>
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	FI may also convene a meeting of the board of directors of a credit institution, and can issue a notice to a bank if its board of directors fails to comply with a request to convene an extraordinary general meeting. Representatives of FI can attend general meeting and board meetings, which it has convened and can also participate in the deliberations (Chapter 13 section 12 of BFBA). Chapter 4 (Section 1-3) of the Credit Institutions and Securities Companies (Special Supervision) Act specifies the supervisory responsibility of FI as a consolidating supervisor, which include exercising supervision over compliance with the consolidated requirements. Chapter 15, Section 15 and 15 (a) of the Act gives FI the power to intervene against foreign credit institutions and undertakings. Specifically: • Section 15 provides that where a foreign credit institution which conducts operations in Sweden fails to conduct its operations in accordance with the applicable legal provisions or if there is a material risk of non-compliance with the provisions, then FI is required to notify the competent authority in the institution's home country and in urgent cases the authority may itself, pending measures to be taken by the competent authorities in the home country, take measures against the institution for the purpose of maintaining financial stability in Sweden. • Section 15 (a) provides that where a foreign credit institution which conducts operations in Sweden does not conduct its operations in accordance with the provisions of the Money Laundering and Terrorist Financing (Prevention) Act (SFS 2017:630) or regulations promulgated on the basis of that Act. The Financial Supervisory Authority may order the credit institution to make rectification. Where the institution does not comply with the order, the Authority shall notify the competent authority in the institution's home country. Where rectification does not take place thereafter, the Authority may enjoin the institution from commencing additional transactions in Sweden.
EC6	When, in a supervisor's judgment, a bank is not complying with laws or regulations, or it is or is likely to be engaging in unsafe or unsound practices or actions that have the potential to jeopardize the bank or the banking system, the supervisor has the power to: (a) take (and/or require a bank to take) timely corrective action; (b) impose a range of sanctions; (c) revoke the bank's license; and (d) cooperate and collaborate with relevant authorities to achieve an orderly resolution of the bank, including triggering resolution where appropriate.
Description and findings re EC6	Chapter 15, Section 1 of the Banking and Financing Business Act (BFBA) provided FI with the powers to intervene where a credit institution has violated its obligations pursuant to BFBA, other statutory instruments that govern the institution's operations, the articles of association, by-laws or regulations, or internal instructions based on statutory instruments

	governing the institution's operations. The BFBA also provides FI with a range of measures that it can take against a credit institution, which include the power to: • issue an order to limit or reduce the risks of the operations in some respect, to limit or refrain from payment of dividends or interest, or to take another measure in order to rectify the situation within a specific time; • issue an injunction against executing resolutions; or • issue an adverse remark. Where the infringement of legal and other requirements by a credit institution is serious, FI is empowered to revoke the license or to issue a warning, if this is deemed sufficient. Chapter 15, Section 3 of the BFBA also set out additional conditions under which a license of a credit institution shall be revoked by FI which includes, amongst others, where the institution: (i) has been placed in insolvent liquidation or an order has been issued to place the institution in compulsory liquidation; (ii) has obtained the license by providing false information or otherwise in improper manner; and (iii) has transferred its entire business. Chapter Section 1-9 The BFBA (Sections 7–9 of Chapter 15) sets out the punitive fines that may be levied in conjunction with an adverse remark or a warning. Chapter 15, Section 1a of the BFBA also provides FI with the powers to, under certain circumstances, intervene against a member of a credit institution's board of directors or its managing director, or a replacement for any such person. The BFBA also has other provisions to ensure that a bank is not engaging in unsafe or unsound practices or actions that have the potential to jeopardize the bank or the banking system. Specifically, Chapter 6, Section 4 requires credit institutions to conduct their business in a sound manner. This provision provides FI with a wide scope for intervention based on possible safety and soundness concerns. Chapter 8 (section 1 and 2) of Credit Institutions and Securities Companies (Special Supervision) Act (SFS 2014:968) contains provisions regarding FI's possibility to intervene through decisions regarding specific own funds requirements and specific liquidity requirements. • Section 1 grants FI with the powers to order the company to limit its operations in any respect within a certain time, to reduce the risks therein, or take any other measures necessary to rectify the situation if it fails to fulfil the requirements of the Prudential Requirements Regulation, the Special Supervision Act, or regulations promulgated on the basis of the Special Supervision Act. • Section 2 grants FI with the power to require an institution to take remedial measures where the holding company fails to meet the requirements that has been imposed pursuant to the Prudential Requirements Regulation, the Special Supervision Act or regulations promulgated on the basis of the Special Supervision Act. • Section 2a provide FI with the power to intervene against a financial holding company or mixed financial holding company which fails to fulfil its obligations

	pursuant to special provisions regarding the requirement for approval of financial holding companies and mixed financial holding companies. Chapter 8, section 2a of Credit Institutions and Securities Companies (Special Supervision) Act enables FI to intervene against a financial holding company or a mixed holding company by, amongst others, ordering it to: • limit, within a certain time, the risks in some respect; • divest or reduce its holding in institutions or other subsidiaries in the group; • transfer to its shareholders the ownership interests in subsidiaries which are institutions; • appoint an undertaking to ensure on a temporary basis, that the requirements in relation to capital and risk management are satisfied; • to limit or refrain completely from paying dividends or interest; or • submit a plan showing how the company shall satisfy the requirement without delay. Chapter 8 of The Capital Buffers Act (SFS 2014:966) also contains provisions regarding FI's intervention and restrictions against a credit institution when certain capital buffers are not met. These provisions are applicable when the credit institution has failed to meet own funds requirements pursuant to The Capital Buffers Act. The reduction or suspension of dividends is regulated by Chapter 8 of the Capital Buffers Act (SFS 2014:966). Automatic restrictions on value transfers are triggered when the bank is in breach of the combined buffer requirement. Section 15 of Chapter 15 of the BFBA sets out specific rules regarding intervention against a foreign credit institution domiciled within the EEA which conducts operations in Sweden. The Act requires FI to notify the competent authority in the institution's home country when such an institution has failed to conduct its operations in accordance with the provisions of the BFBA, or where there is a material risk of non-compliance with the provisions. FI may also in urgent cases, pending measures to be taken by the competent authorities in the home country, take measures against the institution for the purpose of maintaining financial stability in Sweden. Chapter 15, Section 1a, of the BFBA also empowers FI to intervene against a member of a credit institution's board of directors or its managing director. This can take place through an order that the person in question may not serve as a member of the board of directors or managing director of a credit institution, or a replacement for any such person, for a period of not less than three years and not more than ten years; or an order imposing a punitive fine. According to Section 8 (Chapter 15) of BFBA, punitive fine for a credit institution is to be set at an amount not to exceed: • 10 percent of the credit institution's turnover or, where applicable, comparable turnover on a group level during the immediately preceding financial year;

	• two times the profit which the institution realized as a result of the regulatory infringement, where the amount can be ascertained; or • an amount corresponding to five million euro. FI is also empowered by the Money Laundering and Terrorist Financing Act (SFS 2017:630) to intervene in relation to a foreign credit institution where such an institution is in breach of the Money Laundering Act or regulations. Section 9 Money Laundering and Terrorist Financing Act (SFS 2017:630) empowers FI to, in the event of non-compliance with ML and TF requirements, order the legal entity to: take corrective action or if corrective action is not undertaken to cease the operations if the business operator is a legal entity. Sweden has also fully implemented the BRRD, which provides the resolution authority, which is the SNDO, with arrangements to deal with failing banks at national level, and cooperation arrangements to tackle cross-border banking failures. The assessor reviewed a sample of cases where FI has intervened against institutions and noted specific cases and noted the use of adverse remark, punitive fines and revocation of a license. The remark and administrative fine for one of the cases was as a result of deficiencies in governance and controls with regard to AML measures. The decisions including the amount of fine that was imposed are published in FI website and these fines are adequately punitive. For example, one institution was fined SEK 4 billion for non-compliance with Swedish legislation. The assessor also observed a case where an entity's authorization to undertake business was withdrawn due to major deficiencies in governance and controls, and credit risk management.
EC7	The supervisor has the power to review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank and the banking group.
Description and findings re EC7	FI's power to review parent companies and other companies in a banking group stems directly from the relevant provisions transposing the Capital Requirements Directive (2013/36/EU) and the provisions in the Capital Requirements Regulation (EU) 575/2013. As per Section 1 of Chapter 6 of the Special Supervision Act, all companies subject to consolidated supervision are obligated to provide FI with any information that is required for its supervision. This requirement extends to financial holding companies, mixed financial holding companies, mixed activity holding companies as well as subsidiaries to these companies irrespective of whether they are part of the consolidated group or not. Further, according to section 8 of Chapter 1 of the Banking and Financing Business Act, FI's power to supervise and intervene also applies to all companies under consolidated supervision. The Banking and Financing Business Act specifically provides that where a credit institution is under supervision on a consolidated basis, the provisions below shall also apply in pertinent parts to all other companies in the group and that any restrictions on an institution's business shall also apply to companies in the group jointly. • legal provisions regarding the business of a credit institution, recovery plans, intra-group support agreements, operations and holding of property, handling of loans

	and other commitment, amounts of own funds, or legal incompetence (Chapter 6-9 of the BFBA); • Provisions on supervision (Chapter 13 of the BFBA) and provisions on intervention (Chapter 15 of the BFBA); and • Provisions regarding an institution's business and supervision as per Credit Institutions and Securities Companies (Special Supervision) Act.
Assessment of Principle 1	Largely Compliant
Comments	FI has been granted a wide legal mandate and clear responsibilities, which include the supervision, regulation and licensing of financial institutions, providing high level of consumer protection and contributing to sustainable development. It is also the authority responsible for macroprudential policy and for ensuring that the financial system in Sweden is stable and characterized by well-functioning markets. As part of its responsibility to contribute to sustainable development, FI noted that it is not expected to raise or lower capital requirements for certain types of exposures for the sole purpose of promoting sustainable development but is instead expected to ensure that credit institutions consider and appropriately manage sustainability related risks. The assessors did not observe any conflict between FI's multiple objectives and mandates. There may, however, be of value in FI considering further the interaction between its different objectives and mandates and, potentially, a policy on how it would address or resolve conflict between them if this was to arise in future. Any resulting policy could include: (i) safeguards to ensure that measures aimed at protecting consumers or promoting sustainable development do not result in distortion of incentives and potentially adverse impact on financial stability, and (ii) measures to ensure that the prudential (financial stability) objectives always takes priority over or is well complemented by the other objectives, i.e., consumer protection and promotion of sustainable development. The policy could also address the assignment of responsibility to staff including segregation of duties where this is deemed necessary to avoid potential conflict across mandates and objectives. The current national legislations and regulation in Sweden including EU Directives that have been transposed into local legislation grants FI with a range of powers to license, regulate and supervise banks and the banking system in Sweden. These include, amongst others, the power to: (i) impose additional capital and liquidity requirements on a credit institution to cover additional risks and future losses; (ii) intervene against or restrict operations of a credit institution; (iii) take corrective action against a credit institutions, its board member or its managing director; (iv) revoke a credit institutions license; (v) supervise all companies under consolidated supervisions; (vi) collect the necessary information from entities that are part of a supervised banking group and from employees of credit institutions operating in Sweden; and (vii) carry out an investigation at the premises of a credit institution. The assessors found evidence of the use of all these powers except for specific instances where FI took corrective action against a member of

	the board member or managing director. As a consolidating supervisor, FI is also empowered to exercise supervision over compliance with the specified consolidated requirements and to intervene against foreign credit institutions and undertakings with operations in Sweden. FI is also empowered to intervene against a financial holding company or mixed financial holding company, where they have failed to fulfil specific legal and regulatory obligations. The majority of new Banking laws and regulations applicable in Sweden are developed by the EU, and the MoF is responsible for the preparation of the relevant level one regulation and financial legislation at the national level. FI often supports the MoF with the required expert knowledge in the development of the relevant regulations and legislation. The Financial Supervisory Authority Instruction Ordinance also requires FI to bring up the need for new regulation in the half yearly Stability Report and FI can also make requests to the government for amendments to existing legislation or for development of new legislation when it identifies a need. FI also has a formal process in place for regulatory projects which include the development of new regulations and amendment to existing regulations and general guidelines. The process includes a public consultation procedure, and the assessors noted specific examples where regulations were subjected to public consultations As per the Swedish legal system, FI, however, does not have broad powers to issue binding regulations aimed at ensuring a safe and sound financial system but has to draw these powers from specific laws or ordinances, which is not unusual. However, to improve proactivity and flexibility in enacting legally enforceable prudential rules to complement EU regulations, the authorities could exposure the possibility to provide greater delegation to FI or, alternatively, other measures to ensure that gaps in the prudential framework for bank supervision, when identified, receive priority attention by the MoF and the government. This should particularly be the case topics not covered by the EU directives that have to be addressed in national standards.
Principle 2	**Independence, accountability, resourcing and legal protection for supervisors**. The supervisor possesses operational independence, transparent processes, sound governance, budgetary processes that do not undermine autonomy and adequate resources, and is accountable for the discharge of its duties and use of its resources. The legal framework for banking supervision includes legal protection for the supervisor.
Essential criteria	
EC1	The operational independence, accountability and governance of the supervisor are prescribed in legislation and publicly disclosed. There is no government or industry interference that compromises the operational independence of the supervisor. The supervisor has full discretion to take any supervisory actions or decisions on banks and banking groups under its supervision.
Description and findings re EC1	FI is an independent government authority. As a public authority, FI's independent decision-making capacity is provided for in The Instrument of Government (SFS 1974:152), which is a part of the Swedish constitution. The Instrument of Government's regulation of

	the administration of justice and general administration is aimed primarily at protecting the independence of judicial and administrative bodies, which includes FI. Article 2 of Chapter 12 of The Instrument of Government provides that no public authority, including the Parliament, can determine how an administrative authority is to decide in a particular case involving the exercise of public authority vis-à vis a private subject or a local authority, or the application of law. FI therefore has full discretion to take any supervisory actions or decisions on banks and banking groups under its supervision and its independence is protected in the constitution. FI's mission, goals and governance arrangements are clearly defined by the government in an official ordinance with specific instructions for the Financial Supervisory Authority (FI). Further, in line with the applicable law and similar to other authorities under the government, the government annually issues a publicly disclosed Letter of Appropriation to FI. In this document ("letter"), the government outlines more specific objectives, assignments, and reporting requirement for the coming year. Through the document, the government also specifies the funds made available to FI. The Letter of Appropriation can be amended with updated requests during the year and FI is consulted in the preparation of this letter. In discussion with the assessors, FI noted that the tasks assigned by the government through the letter of appropriation are generally minor and are unlikely to materially impact on FI's independence, supervisory activities and priorities or resource commitment. For example, appropriation letter for 2022, requires FI to report on, amongst others, how: (i) the financial appropriation has been used to strengthen supervision of AML and CFT; (ii) supervision of financial institutions management of information and cyber risks has been strengthened; (iii) impact of the supervision of the new capital adequacy rules (amendments to the EU Prudential Regulation and the EU Capital Requirement Directive); and (iv) it supervises credit assessment in accordance with the requirements of Consumer Credit Act. The assessors are, however, of a similar view as expressed in the previous FSAP that the inclusion of specific tasks and assignments for FI in the appropriation letter could adversely impact on FI's effectiveness as an independent supervisory authority. FI processes and practices are also subject to review by the Swedish National Audit Office (SNAO) and Parliamentary Ombudsmen. FI is also required to regularly report to the government in relation to its mission and goals.
EC2	The process for the appointment and removal of the head(s) of the supervisory authority and members of its governing body is transparent. The head(s) of the supervisory authority is (are) appointed for a minimum term and is removed from office during his/her term only for reasons specified in law or if (s)he is not physically or mentally capable of carrying out the role or has been found guilty of misconduct. The reason(s) for removal is publicly disclosed.
Description and findings re EC2	The Director General is appointed by the Swedish government. The appointment is preceded by an open application process where it is possible for everyone to apply for the position. The announcement for the position is published in newspapers and on the

	government website. According to Section 5 of Chapter 12 of the 1974 Instrument of Government, the government is required to consider only objective factors, such as merit and competence when appointing a Director General for FI. The identities of those who have applied for the position as Director General are protected by secrecy in accordance with The Public Access to Information and Secrecy Act (SFS 2009:400) chapter 39 section 5 b. However, secrecy does not apply for the person who is appointed after the appointment has been made. The Director General is normally appointed for a term of six years, which can be prolonged for a period of three years (one or two times). According to section 32 of the Public Employment Act (SFS 1994:26), it is not possible to terminate a Director General who is appointed for a fixed term. However, in accordance with Section 33 of the Public Employment Act, the Director General may be transferred to other public employment, which is appointed in the same manner, where such is necessary for organizational reasons or otherwise necessary in light of the best interests of the authority. In discussions with FI it was noted that, in the past, the government has never removed a Director General of FI during his/her term and that in the event that such a decision was to be taken by the government, then reasons for removal will have to be publicly disclosed. The board of FI, which is responsible for the operation of the authority, is appointed by the government. The government also appoints the chairman and the vice chairman of FI's Board. FI board members have a minimum appointment of three years.
EC3	The supervisor publishes its objectives and is accountable through a transparent framework for the discharge of its duties in relation to those objectives.[43]
Description and findings re EC3	FI is primarily governed by the Ordinance (SFS 2009:93) with instructions for the Financial Supervisory Authority, which details the authority's specific objectives, assignments and responsibilities. In addition, the government annually issues a publicly disclosed Letter of Appropriation to FI. In this document, the government outlines more specific objectives, assignments, and reporting requirement for the coming year. Section 3 of the Ordinance with instructions for the Financial Supervisory Authority prescribes specific, yearly reports the FI is required to provide to the government. The Ordinance on annual report and budget basis (SFS 2000:605) also requires FI like other Swedish authorities to present an annual report to the government, Swedish National Audit Office (SNAO) and the Swedish Financial Management Authority no later than February 22 each year (Chapter 2, Section 1). All reports are also publicly available. Like all other Swedish public authorities, FI, is subject to: • An annual financial audit by the SNAO. In its annual financial audit, The SNAO performs audit and evaluation of whether the financial statements of FI are credible

[43] Please refer to Principle 1, Essential Criterion 1.

	and correct, if they reflect a true and fair view, and whether the leadership of FI are following current ordinances, rules and regulations; and • Regular inspection by the Parliamentary Ombudsmen (PO). The outcome of the inspection by the PO is a report to the management of FI listing issues or shortcomings that may have been noted during the inspection, and the measures needed to remedy them. Where issues are not resolved during an inspection, then a new enquiry may be launched on the ombudsman's own initiative.
EC4	The supervisor has effective internal governance and communication processes that enable supervisory decisions to be taken at a level appropriate to the significance of the issue and timely decisions to be taken in the case of an emergency. The governing body is structured to avoid any real or perceived conflicts of interest.
Description and findings re EC4	FI's rules of procedure and the internal decision ordinance regulates its internal decision-making process. The rules of procedures also regulate decision making in urgent situations, and also specifies allocation of responsibilities between the board of directors and the Director General, and the delegation of decision-making within the organization. FI is also subject to the Internal audit ordinance (2006:1228) and the Ordinance on internal management and control (2007:603) which, amongst others, requires the authority to have an internal audit function responsible for the independent review of the internal management and control so as to ensure that FI performs its duties efficiently and in accordance with the law. FI has established a set of ethical standards for its employees, which include the Director General and the Board members. The standards cover, amongst others, confidentiality, loans from supervised entities, additional occupations, and dealings in financial instruments, to avoid possible conflicts of interest (real or perceived) and/or potential loss of public confidence. FI also has policies and procedures in place for handling situations when an employee leaves FI for work in a supervised institution. For example, where an employee is about to take up a role in a supervised institution, they would be removed from sensitive responsibilities at FI.
EC5	The supervisor and its staff have credibility based on their professionalism and integrity. There are rules on how to avoid conflicts of interest and on the appropriate use of information obtained through work, with sanctions in place if these are not followed.
Description and findings re EC5	The rules on the avoidance of conflicts of interest are set out in Section 16-18 of the Administrative Procedure Act (2017:900) while rules on secondary occupation are set out Section 7 to 7d of the Public Employment Act (SFS (1994:260). Section 14 of the Ordinance with instructions for the Financial Supervisory Authority (2009:93) also contains rules regarding secondary occupation and specifically provides that board members or employees of FI may not engage in trade on their own or third party's behalf, or be associated with entities that are obliged to report, register or hold a license from the Authority (FI). Board members or employees of FI may also not be employed by or accept tasks from such companies. Board members or employees commissioned by the board also need prior permission to hold debt issued by supervised entities.

	FI has also adopted three internal guidelines on ethical issues. They include: (i) Guidelines on secondary occupation, (ii) Guidelines on conflicts of interest, and (iii) Rules and guidelines on bribery. To maintain awareness and develop internal practices of these important issues, FI has an internal Ethical Council led by the Chief Legal Counsel and which has representatives from all Operational sections and Offices. The council meets approximately four times every year and the minutes from these meetings are published on the intranet. The assessor reviewed the minutes of the Ethics Council meetings and noted, amongst others, discussions related to conflict of interest and how information should be appropriately conveyed to FI. From the minutes, the council also addressed questions submitted by staff on conflict of interest. Further, in accordance with Section 15 of the Ordinance with instructions for the Financial Supervisory Authority, FI has established a Disciplinary Committee (Personnel Liability Committee) and has adopted Guidelines for the handling of disciplinary matters. Section 14 of Public Employment Act stipulates that an employee who intentionally or negligently breaches the obligations of his or her employment may be subject to disciplinary sanctions for dereliction of duty. Disciplinary sanctions may include: a warning, wage deduction, suspension from employment or dismissal from employment. Section 22 of the Public Employment Act states that a person who is reasonably suspected of having committed an offence in is employment shall be reported to the public prosecutor for criminal charges where the suspicion relates to certain criminal offences, such as taking a bribe, misuse of office and breach of duty of confidentiality (or other offences, where it may be assumed to result in a sanction other than fines).
EC6	The supervisor has adequate resources for the conduct of effective supervision and oversight. It is financed in a manner that does not undermine its autonomy or operational independence. This includes: (a) a budget that provides for staff in sufficient numbers and with skills commensurate with the risk profile and systemic importance of the banks and banking groups supervised; (b) salary scales that allow it to attract and retain qualified staff; (c) the ability to commission external experts with the necessary professional skills and independence, and subject to necessary confidentiality restrictions to conduct supervisory tasks; (d) a budget and program for the regular training of staff; (e) a technology budget sufficient to equip its staff with the tools needed to supervise the banking industry and assess individual banks and banking groups; and (f) a travel budget that allows appropriate onsite work, effective cross-border cooperation, and participation in domestic and international meetings of significant relevance (e.g., supervisory colleges).

Description and findings re EC6	Financing FI is mainly financed through appropriation from the state budget. In turn, FI levies fees on its supervised entities and passes these funds to the state budget. In 2021, about 84 percent of FI's activities were funded in this manner. The remaining financing is from fees that are charged by FI for specific services, such as approval of licenses or waivers, that supervised entities sought for on a voluntary basis. The financing from fees shall over time reflect the resources that FI uses to assess the license, waivers and the like.. The level of fee shall provide for full cost coverage, and therefore FI proposes to the government if the level of fees need to be increased or decrease, or if new fees need to be added. After the state budget has been adopted by the parliament, the government issues an annual appropriation instruction ("Appropriation Letter") to each administrative authority, including FI. In instances where the appropriations letter imposes a particularly burdensome requirement on FI, the government may also allocate additional funding to ensure the completion of the task, as has happened in the past. Every year, FI requests for funds for the coming years based on what it assesses as needed to effectively deliver on its mandate. It, however, rarely receives the full amount of the funds that it requests from the government and in the latest budget documentation, FI emphasized that it was underfunded. Except for the resources explicitly granted by the government for specific projects, FI has discretion in the way it disposes of its allocation resources. Budget FI's budget has increased substantially since the financial crisis of 2008 and FI is now a significantly larger authority than 10 years ago. FI's mandate has, however, also expanded to include sustainability-related matters and macroprudential policy. This coupled with more regulation and financial institutions to supervise, and emergences of new risks and vulnerabilities to the financial system has meant that the demand for resources has outpaced the increase in budget allocation. FI has also continued to remain relatively small into the size of the Swedish financial sector and as compared to similar financial sectors supervisory authorities in Europe. For example, based on an analysis that was done by FI as part of its budget basis for 2022-2024, it was noted that the Dutch supervisory authority, which has a narrower mandate as compared to FI, has about 100 more employees. The optimal number and skillset of staff required by FI may, however, need to be assessed taking into account amongst others: (i) the number of supervised entities, their business models and risk profile; (ii) emerging risks and vulnerabilities; (iii) staff turnover rate; (iv) the ideal minimum engagement with financial institutions;[44] (v) the expectation of the existing and proposed regulations and supervisory guidelines; and (vi) the initiatives required to ensure compliance with the baseline requirements for effective supervision as per the BCP.

[44] This should be aimed at reducing the risk that supervisory processes do not identify and mitigate significant risks to the banking industry.

	Despite adopting a risk-based approach to supervision where it directs significant supervisory effort to large institutions and high-risk areas, FI has had to continuously reprioritize its supervisory activities to ensure best possible use of its limited resources. This has adversely impacted on the ability of supervisors to carry out more frequent and intrusive onsite examinations and the overall level of supervisory engagement across all institutions. The inability to recruit additional staff has in some instances resulted in re-allocation of more experienced staff to deal with urgent supervisory issues in a reactive manner at the expense of ongoing supervision which should facilitate a more proactive approach to identification and remediation of issues. In its latest analysis to the government to support its funding requirement for the period 2022-2024, FI emphasized the need for a substantial increase in available resources but out of the requested additional funds they will only receive about half for the upcoming three-year-period. The ability of FI to effectively supervise institutions will therefore be likely be adversely impacted due to the resource constraint and this should be addressed to ensure that FI is well-equipped to undertake a more intensive and intrusive supervision of financial institution in Sweden aimed at identification of risks and vulnerabilities in a proactive, effective and efficient manner with the aim of safeguarding the long-term stability of the Swedish financial system.[45] Salary Scales to attract and retain high quality staff There is an explicit understanding in the Swedish labor market that the salary levels of public servants cannot be higher than that of the private sector. FI's current practice is thus to compare its salary level with those offered by other public authorities and to have one of the top-level salary scales as compared to other public authorities in Sweden. FI has, however, faced tough competition for qualified and experience staff from the private sector which is often able to offer higher salaries. FI management specifically noted the challenges in retained experienced Internal Rating Based (IRB) model experts and in attracting senior cyber security experts, which are very critical areas given role of IRB models in determining the capital requirements for some of the largest banks in Sweden and the increasing vulnerability of the Swedish financial system to cyber security risks. In discussion with FI and commercial banks, it was noted that the current salary levels at FI is one of the main contributing factors to the high turnover, which was about 19% in 2021, and the inability to attract more experience staff in all the key areas to complement and support the current resources. The banks particularly noted that FI had limited number of well experienced staff particularly in the assessment of credit risk models, cybersecurity and new business models.

[45] Government authorities in Sweden are required to ensure that their operations are conducted effectively and that the authority makes efficient use of central government funds

	<u>The ability to commission external experts</u> The Swedish Banking and Financing Business Act (Chapter 13, article 9) enables FI to hire and appoint auditors to participate in the audit of a credit institution where needed. FI can also hire external experts for specific assignments, and it currently uses external auditors for the annual assessment of firms' compliance with covered bond regulations. There are, however, limitations to the use of external experts. For example, FI can only hire external experts as long as it uses its funds (the administrative appropriations) within the stipulated framework as per the Financial Supervisory Authority Instruction Ordinance (2009). There may also be activities that, for security reasons, external experts cannot be used. <u>Budget and program for the regular training of staff</u> FI has a specific budget for training of staff and FI managers decide on how this budget is spent on different activities to best address the short-term and long-term training needs of the organization. FI also regularly offers on-boarding programs, training programs for supervisors, leadership programs for managers and variety of seminars on current supervisory topics. <u>Technology budget</u> The general budgetary constraint over the past years has meant that internal development of more efficient supervisory tools including better data analysis tools have been reduced and there is currently a backlog in IT development. <u>Travel budget</u> FI has a travel budget but aims to reduce travel given their good experience in using online meetings since the onset of COVID-19 pandemic and in line with the assignment by the government in the appropriation instruction for 2022 to reduce its carbon dioxide emissions linked to business travel. The reduced travel is not expected to adversely impact on FI's participation in supervisory colleges and international working groups would not be affected. The assessors conclude that FI currently does not have adequate resources to be able to effectively deliver on its mandate to supervise banks in Sweden. This is due to the limited number of staff, high turnover and inability to attract experience technical experts in some of the critical areas including cyber-security and assessment of Pillar 1 credit risk models. The lack of resources at FI was expressed as a major concern in the meeting between the assessors and the industry who also noted the adverse impact of the high turnover at FI on the quality of supervisory engagement.
EC7	As part of their annual resource planning exercise, supervisors regularly take stock of existing skills and projected requirements over the short- and medium-term, taking into account relevant emerging supervisory practices. Supervisors review and implement measures to bridge any gaps in numbers and/or skill sets identified.
Description and findings re EC7	As part of its the annual planning process, FI management assesses the existing set of skills and resources needed to fulfil its mission and this assessment includes a long-term

	perspective. The outcome of this assessment is used to inform short-term and long-term priorities in relation to the required skills, training of staff and need for structural change in skill sets to meet future needs (if required). The assessor noted the planned increase in the number of staff for the banking section to the same level that it was in 2019 (165), which is expected to be achieved before the end of the year. The planned increase is, amongst others, in response to the number of open vacancies and the new mandate under the Swedish Security Act and IT/cyber-related supervision. FI has recently hired new IRB experts in response to the high number of new Pillar 1 IRB models that banks have submitted to FI for approval and also the need to monitor the performance of these models on an ongoing basis once approved. The assessor, however, noted the uncertainties due to the high turnover and limited number of options available for FI to address staff constrains in the short-term other than recruitment of new staff or internal re-allocation of staff. Specifically, the option to use independent external experts to carry out some supervisory activities or short-term secondees from other supervisory authorities is not a common feature.
EC8	In determining supervisory programs and allocating resources, supervisors take into account the risk profile and systemic importance of individual banks and banking groups, and the different mitigation approaches available.
Description and findings re EC8	FI has adopted a risk-based approach to supervision of banks where frequency of supervisory engagement and allocation of resources takes into account the systemic importance of banks and, their risk profile. To facilitate a risk-based approach, FI categorizes the supervised credit institutions in Sweden into four buckets (categories 1 to 4) based on their systemic importance using the O-SII model specified in the EBA Guidelines on the criteria for the assessment of Other Systemically Important Institutions (O-SIIs) as a starting point, which is then complemented with qualitative assessment. Category 1 contains most systemically important institutions in Sweden while category 4 contains the least systemically important institutions. The categorization of institutions by FI is then used as the basis of the application of the principle of proportionality in supervision activities. Specifically, all category 1 institutions (D-SIBs) are subject to annual Supervisory Review and Evaluation Process (SREP), category 2 institutions are subjected to biennial SREP while category 3 credit institutions are subjected to SREP at least every 3years and until recently category 4 institutions have been subjected to SREP less frequently and on a more risk-based basis. During 2021, FI launched a simplified SREP, enabling more frequent SREP for category 4 institutions. The categorization is also used to inform the allocation of supervisory resources. Specifically: • For institutions in category 1 and 2, supervisory teams with risk experts have been established. These teams are led by the Lead Supervisor and the team support the Lead Supervisor in the SREP exercise, the continuous risk assessment, and the day-to-day supervision of the assigned institution.

	• For institutions in category 3 and 4, there are significantly smaller supervisory teams comprising the lead and backup supervisors, and ad hoc engagement by risk experts. For these institutions it is hence the Lead Supervisor that does most of the planned assessments and analysis. As mentioned, however, the lead supervisor can seek support from risk experts should the need arise. Generally, most of the supervisory resources for the general risk assessment performed within SREP are spent on category 1 and 2 institutions, which corresponds to approximately 95 percent of the total assets of the Swedish banking market. Also, more experienced and senior supervisors are normally assigned to larger and more complex institutions or portfolios of institutions. As regards the supervisory program for in-depth examinations and analysis, the risk of individual institutions are taken into account to a larger extent than when deciding on the SREP cycle. FI has also identified a list of institutions selected for intensified frequent risk assessment. This was triggered by the COVID-19 pandemic and the institutions in the list are required to file additional supervisory reports (capital adequacy and credit risk) and are also in general subjected to closer supervisory monitoring by FI. The selection of institutions subject to this intensified supervision is made based on their risk profile. Besides the above mentioned list and the fact that the risk of institutions is taken into account through expert judgement and institution-specific key risk indicators when deciding on the supervisory program for in-depth examinations, FI has not adopted a system for formally ranking institutions on a more frequent information like those received quarterly through COREP and FINREP. Such a system could facilitate timely identification of high-risk institutions in category 3 and 4, which are subject to less frequent SREP, for closer supervisory monitoring and, potentially, intervention. This may be particularly important given that the risk profile of institutions could change significantly between the SREP cycle.
EC9	Laws provide protection to the supervisor and its staff against lawsuits for actions taken and/or omissions made while discharging their duties in good faith. The supervisor and its staff are adequately protected against the costs of defending their actions and/or omissions made while discharging their duties in good faith.
Description and findings re EC9	The BFBA (SFS 2004:297) contains no specific provisions on legal protection for the supervisor or supervisory staff concerning actions taken in good faith in discharge of their duties. In the absence of specific legal provisions, the general provisions on the liability of state agencies (including FI) and their employees as set out in the Tort Liability Act (SFS 1972:207) applies. Under this legislation (Chapter 3, Section 2) the state is liable for damages resulting from negligence by state agencies in carrying out their duties. Such liability may also arise due to damages caused by a state agency who has provided misleading information or advice, or violated fundamental rights (Chapter 3, Sections 3 and 4). The Office of the Chancellor of Justice often represent the state in legal disputes, such as actions for damages against the State. In general, FI does not bear the costs of the

	Office of the Chancellor of Justice's representation. The regulation in the Tort Liability Act is built on the principle that it is the employer, which in this case is the state, who may be liable for damages caused by error or mistake by its employees. There are, however, circumstances in which an employee can be liable for damages for action that they have taken in the discharge of their duties (Chapter 4, Section 1 of the Tort Liability Act) but this can happen only where there are exceptional reasons for imposing such liability. FI is therefore of the view that a strong presumption against personal liability can be implied and that an employee who has caused damages while discharging his or her duties in good faith would not be held liable, and that the Tort Liability Act protects FI staff against liability arising from actions taken while discharging their duties in good faith and against costs of defending their actions made while discharging their duties in good faith. The assessors noted that the lack of explicit legal protection for the supervisor and its staff may not be of a major concern for now given the high threshold for successful legal action and the fact that Swedish society is not strongly litigious as compared to other jurisdictions. The emergence of non-traditional institutions and influence from other jurisdictions may, however, over time result in a shift in business culture in Sweden and hence the need for an explicit legal protection of the supervisor and staff.
Assessment of Principle 2	Materially Non-Compliant
Comments	FI is an independent government authority, and its decision-making capacity as a public authority is provided for in The Instrument of Government, which is a part of the Swedish constitution. The provision in the Instrument of Government is aimed primarily at protecting the independence of judicial and administrative bodies, which includes FI. The FI mission, goals and governance arrangements is also clearly defined in the Financial Supervisory Authority Ordinance and similar to other authorities under the government, it receives a publicly disclosed letter of appropriation in which the government outlines more specific objectives, assignments and reporting requirements. The tasks assigned to FI by the government through the letter of appropriation are generally minor and the assessor, based on the review of the content of the past letters of appropriation, agree with the authorities that these are unlikely to materially impact on FI's independence or resources commitment. The Director General (Head) of FI is appointed by the government in an open and transparent manner for a fixed duration of six years which can be extended for a period of three year (one or two times). Historically, the government has never removed a Director General of FI during his or her tenure, and in the event that a decision is made by the government to remove the head of FI then the reason for his or her removal will have to be made public. The objectives of FI are set out in the Financial Supervisory Authority Ordinance which is publicly available, and FI is accountable to the government and subjected to annual audit by the Swedish National Audit Office (SNAO) and regular inspection by the parliamentary Ombudsmen (PO). Besides the SNAO and the

	government, FI is also required to submit an annual report to the Swedish Financial Management Authority. FI has adopted internal rules and procedures which is the basis of its decision-making process and which, amongst others, set out procedures related to decision-making in urgent situation, and also specifies the allocation of responsibilities between the board and the Director General, and the delegation of decision-making within the organization. It also set out the requirements in relation to the internal audit function. Further, FI has adopted a set of ethical standards for all its employees, which includes the Director General and the board, aimed at dealing with potential conflict of interest. The rules related to conflict of interest and secondary occupations are also set out in existing legislation and specifically the Administrative Procedures Act and the Public Employment Act. To complement this, FI has also implemented internal guidelines in these areas (conflict of interest and secondary employment) and also on bribery. FI also has an internal Ethical Council led by the Chief Legal Counsel and the assessors evidence the operation on the Council through a review of minutes of meetings where conflict of interest, amongst others, was discussed. Further, in accordance with Section 15 of the Ordinance with instruction to the Financial Services Authority, FI has established a Disciplinary Committee (Personnel Liability Committee) and has adopted Guidelines for the handling of disciplinary matters.. The Public Employment Act also provides for prosecution of persons who are reasonably suspected of taking a bribe, misuse of office or breach of confidentiality. The annual supervisory planning by FI involves a stock take of existing resources and required skills. The execution of the supervisory plan, however, continues to be subject to uncertainty due to limited resources, high turnover and the limited options available for FI to address the staff constraints in the short-term as the use of external experts and secondees from other supervisory authorities is currently not a common feature in Sweden. The supervisory program and allocation of resources by FI takes into account the systemic importance of individual banks and, to some, extent, the risk profile of individual institutions. Specifically, the large (category 1) banks are subject to more frequent SREP (one every year) and are allocated more resources which include a lead supervisor supported by a team of risk experts while smaller institutions (category 3 and 4) are subject to less frequent SREP (once every 3 to 5 years) and have significantly smaller supervisory teams comprising the lead supervisors and backup supervisor. For these institutions the Lead Supervisor carry out most of the planned assessment and analysis. However, if needed, the lead supervisor of category 3 or 4 banks can seek support from the risk experts. FI has also identified a list of institutions selected for intensified frequent risk assessment. This was triggered by the COVID-19 pandemic and the institutions in the list are required to file additional supervisory reports (capital adequacy and credit risk) and are also in general subjected to closer supervisory monitoring by FI. The selection of institutions subject to this intensified supervision is made based on their risk profile.

	As per the Swedish legal system, FI does not have broad powers to issue binding regulations aimed at ensuring a safe and sound financial system but has to draw these powers from specific powers or ordinance. Further, The Banking and Financing Business Act (BFBA) contains no specific provisions on legal protection for the supervisor or supervisory staff concerning actions taken in good faith in discharge of their duties. The assessors, however, recognize that this may not be a major concern for now given the high threshold for successful legal action in Sweden and the fact that Sweden is currently not strongly litigious as compared to other jurisdictions. However, the emergence of non-traditional institutions and influence from other jurisdictions may overtime result in a shift in business culture in Sweden and the need for an explicit legal protection of the supervisor and staff. The assessors noted that FI is currently significantly under-resourced, which has impacted on its ability to effectively deliver on its mandate to supervise financial institutions and ensure a stable financial system. Specifically, FI current has limited number of staff, high staff turnover particularly in some of the critical areas, and is unable to attract experienced technical experts to support and complement the lead supervisors. This has impacted on: (i) supervision of credit risk models, governance, cybersecurity and stress testing, (ii) intrusiveness of onsite inspections including the nature of work carried out with days spend onsite by supervisors being limited to only between 3 and 4 days, which is not adequate to undertake detailed supervisor work including testing of effectiveness of banks' internal controls and accuracy of the reported data (iii) ability to meet deadlines for approval of credit risk models, which should be done within 6 months of submission of complete application but which is current not being met, and the ability to have a SREP every 3 years for banks in categories 3 and 4, which is also not being met for some of the institutions, (iv) duration of investigation with some taking longer hence delaying the corrective action, (v) consistency in risk assessment and formulation of corrective action due to, amongst others, assessment not being adequately granular, and (vi) assessment of the quality of data reported by banks, which has resulted in over-reliance on banks' internal control functions to ensure high quality data. The high turnover of staff and the inability to attract experienced experts is attributable to the relatively lower salaries at FI, particularly for some level of staff, compared to those in the private sector, which is the main destination for the staff leaving FI. FI has particularly been disadvantaged when it comes to attracting experienced credit risk model and cybersecurity experts. The shortage in the number of experience staff, if not addressed urgently, would continue to severely impact on the ability of FI to undertake some of the critical supervisory activities and to assess and identify risks in the financial system in a timely manner to facilitate and ensure that risks are addressed in a proactive manner. The rating of Materiality Non-compliant has been assigned mainly due to the significant resource constraint coupled with high turnover which has adversely impacted on: the ability to undertake more regular and intrusive onsite inspections, challenges in meeting the set timelines related to approval of IRB models and the targeted minimum

	engagement with smaller institutions in categories 3 and 4, and investigations taking longer due to inability to allocate more resources.
Principle 3	**Cooperation and collaboration.** Laws, regulations or other arrangements provide a framework for cooperation and collaboration with relevant domestic authorities and foreign supervisors. These arrangements reflect the need to protect confidential information.[46]
Essential criteria	
EC1	Arrangements, formal or informal, are in place for cooperation, including analysis and sharing of information, and undertaking collaborative work, with all domestic authorities with responsibility for the safety and soundness of banks, other financial institutions and/or the stability of the financial system. There is evidence that these arrangements work in practice, where necessary.
Description and findings re EC1	Financial Supervisory Authority Instruction Ordinance (2009:93) requires FI to cooperate with Riksbank and the Swedish Civil Contingencies Agency in matters related to crisis preparedness, and to consult with Riksbank in matters related to the stability of the payment system and with the SNDO on matters concerning the deposit guarantee scheme FI and Riksbank are also required by Chapter 28 (section 4) of the Resolution Act to provide the SNDO with the information that it needs for its activities as per the Resolution Act. Further, SNDO and FI are required by the Resolution Act (Chapter 28, Section 5) to cooperate and exchange information with one another. Through an MOU between the relevant parties, Sweden has established a Financial Stability Council (FSC), which is a forum consisting of representatives of the government MoF, FI, the SNDO, and the Riksbank. The FSC meets twice a year to discuss risks to financial stability and policy measures to prevent the build-up of financial imbalances. In the event of a financial crisis, the FSC will meet to discuss the need for measures to manage such a situation as it happened during the COVID pandemic. The preparatory group, which meets more frequently, contributes to regular exchange of information between the authorities and consideration of relevant financial stability issues. Besides preparing the agenda for the FSC meetings, the preparatory group also discusses analyzes produced by the different authorities. The discussion of risks in the FSC and the preparatory group has led to further analytical and policy work in some areas. Where the need for further analytical work is required, it is conducted either by one individual authority or jointly depending on the area and the outcome is reported back to FSC. Examples of such work are analysis of vulnerabilities in the CRE sector and cooperation on cyber security in the financial sector. The discussions at the FSC normally benefits from the risk analysis undertaken by each of the authorities, which include the financial stability reports that are prepared by FI and the Riksbank based on their independent analysis. The aim of the discussion at the FSC is not to form a joint view of the financial stability risks. However, the minutes from FSC meetings

[46] Principle 3 is developed further in the Principles dealing with "Consolidated supervision" (12), "Home-host relationships" (13) and "Abuse of financial services" (29).

	summarize the authorities' views on the risks for financial stability and indicate where the authorities agree on the risk assessment and, in case relevant, point out in what respect the authorities' views may differ. The authorities noted that the well-established and regular cooperation within FSC in normal times have proved to be very useful in times of crisis and that this was evident in the crisis management work during the Covid-19 pandemic. Specifically, during the onset of the Covid-19 crisis, FSC met more frequently to discuss the development, the effects on the macro economy and financial stability as well as each authority's implemented measures and the need for possible further measures. The preparatory group also had regular meetings and continuous exchange of information to coordinate the crisis management work. In addition to FSC, there are also other forums in Sweden for cooperation and sharing of between the relevant domestic authorities. For example, FI has a formal cooperation arrangement with the Police Authority on AML issues. The arrangements involve (i) FI supporting the Police with financial competence and supervisory information on business models, ownership structure, and clients of individual companies, as well as analyzes of sectors and transaction flows; and (ii) the Police sharing intelligence with FI on current schemes for money laundering and TF, and information on particularly exposed companies and sectors. FI is also part of a forum ("Private-public Collaboration of the Financial Sector") where various financial sector stakeholders collaborate and share knowledge on analysis and scenario exercises aimed at strengthening the resilience of the financial sector to threats and crises. The forum consists of financial institutions, FI, SNDO, the Riksbank, Social Insurance Agency, and Civil Contingencies Agency. The assessors discussed the mechanism of information exchange through the FSC and bilaterally between FI and SNDO and noted that the arrangement was working well in practice. The assessors also noted that The Memorandum of Understanding (MoU) drawn between the Government Offices (MoF), Riksbank, FI, and the SNDO with respect to cooperation regarding financial stability and crisis management though not legally binding provides a good basis for cooperation and information sharing. The MOUs with Swedish Police has also proved very valuable in facilitating the sharing of information related to AML and entities operating in Swedish financial system without an appropriate license.
EC2	Arrangements, formal or informal, are in place for cooperation, including analysis and sharing of information, and undertaking collaborative work, with relevant foreign supervisors of banks and banking groups. There is evidence that these arrangements work in practice, where necessary.
Description and findings re EC2	The Public Access to Information and Secrecy Act (Chapter 8, Section 23) allows FI to disclose nonpublic information to foreign supervisory authorities if: (i) the disclosure takes place in accordance with a special provision in an Act, which include the Swedish laws as well as EU regulations, or ordinance, or (ii) the information would in a corresponding case have been disclosed to a Swedish authority and it appears clear, based on an examination

	by the disclosing authority, that it is compatible with Swedish interests to disclose the information to the foreign authority or international organizations. Section 3 of Chapter 6 of the Credit Institutions and Securities Companies (Special Supervision) Act requires FI to cooperate and exchange information with other foreign supervisors of banks ("competent authorities") in its supervisory operations as required under Sweden's membership in the EU. Specifically, FI is required to cooperate and share information with: (i) other competent authorities, (ii) the European Banking Authority (EBA), (iii) the European Systemic Risk Board (ESRB), (iv) European Securities and Markets Authority (ESMA), (v) authorities within the EEA which supervise insurance undertakings, (vi) public bodies within the EEA, and (vii) other competent authorities involved, in the event a critical situation arises in Sweden which may jeopardize the liquidity of financial markets or the stability of the financial system of another country within the EEA. FI is therefore able to share information with other foreign supervisors of banks or banking groups in line with EU legal provisions where there is a Written Coordination and Cooperation Arrangement (WCCA) within a supervisory college as prescribed in CRD. This is the case for the three large Swedish banks where FI leads the supervisory college in its capacity as the home supervisor. FI is also a participant in other supervisory colleges as the host supervisor, and also participates in a number of resolution and AML colleges for cross-border banks that it supervises. To supplement the WCCA, there is also a multilateral MOU on the supervision of significant branches between supervisory authorities in the Nordic and Baltic countries and ECB.[47] There is also multilateral MOU on cooperation and coordination of cross-border financial stability between the relevant ministries, supervisory authorities, central banks, and resolution authorities of Nordic and Baltic countries. There is also an ongoing work to agree on an MOU between the ECB, Single Resolution Board (SRB) and the authorities of the nonparticipating Member States as well as an MOU between ECB and EU non-SM National Competent Authorities (NCA) as per Article 3 (6) of the Single Supervisory Mechanism Regulation (SSMR).[48] Bilateral agreements or MOUs Regarding information sharing with authorities in third countries (i.e., those not members of EEA), Bilateral agreements or MoUs are needed to enable an effective information exchange with authorities in third countries and FI has MOUs with supervisory in several third countries including China, Russia, United States of America and Ukraine. In addition, after the United Kingdom left the EU, FI signed an MOU on supervisory coordination with the Prudential Regulation Authority and the Financial Conduct Authority to facilitate cooperation and exchange of information. It is, however, worth noting that, in the case of Sweden, a bilateral cooperation agreement is not a prerequisite for exchanging information with a foreign authority as FI may, on request,

[47] Memorandum of Understanding on prudential supervision of significant branches in Sweden, Norway, Denmark and Finland

[48] To be signed in May/June 2022.

	share information with another competent authority if the Public Access to Information and Secrecy Act does not prevent disclosure of such information. FI and the corresponding authorities in the other Nordic countries also have regular informal multilateral meetings, both at Director General level and at Executive Director Banking level. The Nordic-Baltic Directors General also meets twice a year within the Nordic-Baltic Macroprudential Forum, together with the Nordic Baltic Central Bank Governors to discuss risks in financial markets and the macro prudential policy response in the region. As part of the assessment, the assessors reviewed sample of information that is shared between FI and the college of supervisors and bilaterally with other supervisors. We also reviewed sample of minutes of college meetings and the WCCA of the supervisory college and noted that there was effective information sharing arrangement between FI and other foreign supervisors. The assessor, however, noted the limited involvement of FI in joint onsite inspections with other foreign supervisors and especially the ECB which could be valuable as in discussion with the industry, it was noted that ECB's approach to onsite inspection was more comprehensive and consistent. For example, since 2018, FI has been involved in 3 onsite-inspections and deep dives of Nordea, which was led by the ECB/SSM. However, FI does not have the resources to participate in all inspections led by ECB/SSM. The information shared between FI and the other supervisors either through the supervisory college or bilaterally includes group recovery plans, risk assessment documents, supervisory/SREP assessments, supervisory examination plans, information obtained from the bank as part of the quarterly risk review (QRR), general information.
EC3	The supervisor may provide confidential information to another domestic authority or foreign supervisor but must take reasonable steps to determine that any confidential information so released will be used only for bank-specific or system-wide supervisory purposes and will be treated as confidential by the receiving party.
Description and findings re EC3	<u>Domestic Authorities</u> FI is an integrated supervisory authority responsible for the supervision of financial market and institutions in Sweden and can shares confidential information with Riksbank and SNDO, who have the mandate over financial stability and resolution/deposit guarantee respectively. The information sharing with Riksbank and SNDO is guided by the provisions of Public Access to Information and Secrecy Act which has specific provisions related to disclosure and confidentiality. The Act provides that secrecy does not prevent information from being provided to another Swedish authority, as long as there is a provision in a statute or ordinance that the information should be provided to the authority. Therefore, pursuant to the Financial Supervisory Authority Instruction Ordinance, FI may share the necessary information with the Riksbank on matters related to financial stability, and the SNDO on matters related to Deposit Guarantee Scheme. Further, as provided for by the Resolution Act (Chapter 28 Sections 4 and 5), FI may also provide information to SNDO on matters related to resolution of banks.

	The information shared with Riksbank and SNDO is governed by the confidentiality provisions of the Public Access to Information and Secrecy Act. <u>Foreign authorities</u> Chapter 13 (Section 6a) of the Banking and Financing Business Act allows FI to cooperate and exchange information with other foreign supervisory authorities in line with EU-legislation, which is binding in Sweden. Chapter 28 (section 5) of the Resolution Act also allows FI to cooperate and exchange information with corresponding authorities within the EEA and also with the EBA in accordance with the provisions of CRR, CRD and BRRD. As per Chapter 8 (section 3) of the Public Access to Information and Secrecy Act, confidential information may only be provided to a foreign authority if this is regulated in law or regulation (including EU regulation) or if the information under corresponding circumstance could be provided to a Swedish authority. The information exchanged between FI and other supervisory authorities is regulated by EU legislation, which is binding in Sweden. FI is thus able to effectively provide confidential information to other supervisory authorities as the EU directives requires that confidentiality of information is protected and that the information provided must be used only for supervisory reasons.
EC4	The supervisor receiving confidential information from other supervisors uses the confidential information for bank-specific or system-wide supervisory purposes only. The supervisor does not disclose confidential information received to third parties without the permission of the supervisor providing the information and is able to deny any demand (other than a court order or mandate from a legislative body) for confidential information in its possession. In the event that the supervisor is legally compelled to disclose confidential information it has received from another supervisor, the supervisor promptly notifies the originating supervisor, indicating what information it is compelled to release and the circumstances surrounding the release. Where consent to passing on confidential information is not given, the supervisor uses all reasonable means to resist such a demand or protect the confidentiality of the information.
Description and findings re EC4	The provisions of the Public Access to Information and Secrecy Act determine whether information that is received by FI is confidential or not. The Public Access to Information and Secrecy Act also sets out the general provisions on confidentiality in relation to financial markets and based on the provision of the Act, a large proportion of the information held by FI is confidential. For example, according to chapter 30 (section 4) of the Act, information on banks and their customers is confidential. Confidentiality regarding information about a bank applies if it could be assumed that a disclosure could cause damage to the bank. The confidentiality provisions of the Public Access to Information and Secrecy Act also applies to information which FI has received from other foreign supervisors in accordance with binding EU legislation or an agreement with a foreign state entered into by the EU or approved by Swedish Parliament. The information received from other supervisors is therefore considered confidential to the extent that it’s disclosure could harm Sweden’s

	participation in international cooperation under the EU legislation or agreement as per Chapter 15 Section 1a of the Public Access to Information and Secrecy Act. The Public Access to Information and Secrecy Act also provides that where: • Information sharing agreement or EU legislation provides for absolute confidentiality of information, then the same will also apply to FI; • An agreement or EU legislation gives the originator the power to veto against disclosure, then FI should classify such information as confidential; and • Secrecy applies to certain information then the information may not be used by FI outside of the operations for which the secrecy provision applies. Further, where the EU legislation or MOU or similar agreement under which confidential information has been exchanged stipulates that the originator of the information should be informed if there is a request for the information, then FI has an obligation to inform the originator of such information (in the event it receives a request for the information) in accordance with the EU legislation or applicable MOU or agreement. The provisions above means that the information provided to FI by virtue of information gateways created under EU legislation is adequately protected by the confidentiality provisions within the Swedish law, and that the confidential information regarding banks and their customers may not be used by FI other than for supervisory purposes.
EC5	Processes are in place for the supervisor to support resolution authorities (e.g., central banks and finance ministries as appropriate) to undertake recovery and resolution planning and actions.
Description and findings re EC5	The Banking and Financing Business Act and the Resolution Act requires FI (as the bank supervisor) and SNDO (as the resolution authority) to cooperate in a number of areas related to recovery and resolution planning. This cooperation happens at different phases of the supervisory and crisis management activities as follows: Preparation and planning FI is responsible for the assessment of banks' recovery plans and, as required, consults with SNDO in the review process, where SNDO is expected to identify and assess any measures in place which could impact on resolvability of a bank. FI also support the resolution authorities by, among other things: (i) undertaking ongoing supervision of MREL and intervening (after consultation with the SNDO) where an institution has failed to comply with MREL requirements; (ii) exercising oversight over recovery and other key indicators; and (iii) facilitating access to information that is required to update the resolution plan. Use of Intervention Powers FI also support SNDO through the use of its intervention powers to facilitate access to information. Specifically, where an institution fails to provide SNDO with the requested information, FI can use its intervention powers to force an institution to provide the required information.

	Determination that an institution is failing or likely to fail FI is responsible for determining if an institutions is failing or likely to fail (FOLF). FI is required to consult with SNDO and Riksbank before making a FOLF determination for an institution. If an institution is determined to be FOLF, SNDO then determines (after consultation with FI and the Riksbank) whether there are alternative measures that can prevent the institution's failure and, if not, SNDO determines whether resolution is necessary in the public interest. Conduct of resolution actions FI supports the work of the resolution authority by, where applicable: (i) approving the decisions connected to resolution planning which have an impact on the maturity profile of capital instruments; (ii) contributing to decision by SNDO on MREL; (iii) supervising the implemented MREL requirements; (iv) approving portfolio transfers; (v) revoking an institution's license where it has been decided that the institution will enter into compulsory liquidation; and (vi) deciding on whether relevant capital instruments issued by the institution should be written down or converted where necessary and sufficient to prevent the failure of the institution and in the absence of alternative remedies. FI can also support the work of the resolution authority by granting: • The required approval where the sale of business tool is used to transfer shares and the related acquisition requires a permit; • A license in the event that a transfer requires a banking or other license; and • An operating license to a bridge institution in a timely manner. FI is also expected to support SNDO in making decisions on the potential use of bail-in, restructuring or government stabilization, and with information needed for any resolution measures. Other information sharing arrangements FI shall share information from foreign authorities with SNDO in accordance with the provision of the EU legislation, Public Access to Information and Secrecy Act and Written Coordination and Cooperation Arrangement (WCCA). Further, based on the MOU and as required by the Resolution Act and the Banking and Financing Business Act, FI is also expected to share information with SNDO on, among others: negative developments in institutions or other entities within a group which may have serious consequences for institutions, significant sanctions, activation of the deposit guarantee, extraordinary measures and the imposition of Pillar 2 capital requirements. The assessors noted that the cooperation and coordination between FI and the SNDO is still developing and is yet to be fully tested as there have not been noteworthy instances of failures or specific cases of banks, particularly the larger or medium size, going into resolution. The two institutions have, however, strengthened their cooperation and collaboration as it relates to the review of the recovery and resolution plans.

Assessment of Principle 3	Largely Compliant
Comments	FI has entered into cooperation agreements and MOUs with a number of domestic and foreign regulators, which has provided the required platform for interaction, discussion, and information sharing in the areas that are relevant to FI's mandate. At the domestic level, there is active cooperation and information sharing with Riksbank and SNDO as part of the Financial Stability Council (FSC). FI also has information sharing arrangement with Swedish Consumer Agency, Swedish Police and Swedish Pension Agency. The FSC, which meets regularly to discuss risks to financial stability and policy measures to prevent financial imbalances from building up, has particularly enhanced the exchange of information between the domestic authorities on financial stability issues. The minutes of the FSC are public and the FSC has a preparatory group which meets more frequently to facilitate the exchange of information between the members of the FSC. The discussion of risks at FSC has led to further analytical and policy work in some areas. Example of such work are analysis of vulnerabilities in the CRE sector and cooperation on cyber security in the financial sector. At the international level, FI has entered into a number of international MoUs with foreign regulatory agencies, including those that have supervisory oversight over subsidiaries of the large Swedish banks. FI has also established supervisory colleges and lead the supervisory colleges for the three largest Swedish banks in its capacity as the home supervisor. FI also participates in other supervisory colleges as the host supervisor in addition to being a participant in a number of resolution and AML colleges for cross-border banks that it supervises. The assessors noted that while there is effective information exchange between FI and other foreign supervisory authorities, there was limited joint onsite inspections with other supervisory authorities especially the ECB. For example, since 2018, FI has been involved in 3 onsite-inspections and deep dives of Nordea, which was led by the ECB/SSM. However, as it currently stands, FI does not have the resources to participate in all inspections led by ECB/SSM. The information that is shared between FI and college of supervisors which the assessors were able to evidence include: group recovery plans, groups risk assessment documents, ICAAP documents, supervisory examination plans and ad hoc information including response from the banks' quarterly risk reviews information request. FI also has a good framework for exchanging confidential information with other domestic and foreign supervisory authorities, and for preserving the confidentiality of such information. Specifically, the confidentiality of the shared information is governed by the provisions of Public Access to Information and Secrecy Act, EU legislation and MOU that has been entered into by FI and the provisions is such that the information provided to FI by virtues of information gateway created under EU legislation is adequately protected by the confidentiality provisions within the Swedish law, and that the confidential information is only used for supervisory purposes. FI also has a secure platform to facilitate the

	exchange of information with other members of supervisory colleges and the assessors were provided details of the system. The assessors noted that the cooperation and coordination between FI and the Resolution Authority (SNDO) is still developing and is yet to be fully tested as there have not been noteworthy instances of failures or specific cases of banks, particularly the larger or medium size, going into resolution. The two institutions have, however, strengthened their cooperation and collaboration as it relates to the review of the recovery and resolution plans.
Principle 4	**Permissible activities**. The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined and the use of the word "bank" in names is controlled**.**
Essential criteria	
EC1	The term "bank" is clearly defined in laws or regulations.
Description and findings re EC1	Chapter 1, Section 5 of the Banking and Financing Business Act (BFBA) defines the term "bank" as comprising of banking companies, savings banks and members' banks. Further, a "banking company" is defined as "a limited liability company licensed to conduct banking business. The term "bank," as defined, is distinct from the term "credit institution," the latter term being broader in scope and defined by the BFBA (Chapter 1, Section 5) as a bank or a credit market undertaking. Banks but not credit market undertakings may carry out "banking business," which according to BFBA (Chapter 1, Section 3) includes: (i) payment services via general payment systems; and (ii) receipt of funds which, following notice of termination, are available to the creditors within not more than 30 days. The definition of a "bank" in Sweden thus relates to payment services and acceptance of short-term deposits. Both banks and credit market undertakings may carry out "financing business," which is also defined by the BFBA (Chapter 1, Section 4) to include (i) accepting repayable funds from the public; and (ii) granting loans, providing guarantees for loans or for financing purposes, i.e., to acquire claims or grant rights of use in personal property. Both banks and credit market undertakings are credit institutions for the purposes of the EU legal framework, and both are also subject to the prudential requirements of the Banking and Financing Business Act, hence both forms of institution are licensed and supervised by FI. A credit market undertaking is therefore a form of credit institution that meets the terms of the EU directive (accepting deposits from the public and making loans) but which is not a bank as defined under Swedish law.
EC2	The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined either by supervisors, or in laws or regulations.
Description and findings re EC2	The permissible activities are defined in Swedish law. Chapter 7 (section 1) of the Banking and Financing Business Act lists the permissible activities. Specifically, the Act provides that a credit institution may, in its operations:

	1. borrow funds, for example by accepting deposits from the general public or issuing bonds or other comparable debt instruments; 2. grant and broker loans, for example in the form of consumer credit and loans secured by charges over real property or claims; 3. participate in financing, for example by acquiring claims and leasing personal property; 4. provide payment services pursuant to the Payment Services Act; 5. provide means of payment; 6. issue guarantees and assume similar obligations; 7. participate in the issuance of securities; 8. provide financial advice; 9. hold securities in safekeeping; 10. conduct letters of credit operations; 11. provide bank safety deposit services; 12. engage in currency trading; 13. conduct securities operations subject to the conditions prescribed in the Securities Market Act; 14. provide credit information subject to the conditions prescribed in the Credit Information Act; and 15. issue electronic funds pursuant to the provisions of the Electronic Funds Act.
EC3	The use of the word “bank” and any derivations such as “banking” in a name, including domain names, is limited to licensed and supervised institutions in all circumstances where the general public might otherwise be misled.
Description and findings re EC3	Chapter 1, section 9 of the Banking and Financing Business Act provides that only banks, the Central Bank of Sweden (Swedish Riksbank) and foreign credit institutions may use the word “bank” in their business name or otherwise in conjunction with a designation of their business operations. A foreign credit institution may conduct operations in Sweden under the business name that the institution uses in the state in which it has its head office. In addition, an association or other legal person closely linked to banks, Central Bank of Sweden or foreign credit institutions may use the word “bank” in its business subject to consent by FI (second paragraph, Chapter 1, section 9 of the Banking and Financing Business Act). Chapter 1, section 3 of the Banking and Financing Business Act also defines “banking business” to mean business which includes: (i) payment services via general payment systems, and (ii) receipt of funds (deposits) which, following notice of termination, are available to the creditor within not more than 30 days.

	The law, however, does not explicitly restrict the use of derivatives of the word "bank" such as "banking," "banker." etc.. in a name to ensure that the general public is not otherwise misled. In further discussions, the authorities, however, noted that the legislation should be used so that also derivations of the word "bank" (such as "banking," etc.) are included in the restriction.
EC4	The taking of deposits from the public is reserved for institutions that are licensed and subject to supervision as banks.[49]
Description and findings re EC4	In accordance with the Banking and Financing Business Act (Chapter 1, Section 7), apart from investment firms that are allowed to accept deposits in order to facilitate its investment business (subject to a specific consent), only credit institutions[50] are allowed to accept deposits from the public. Both credit institutions and investment firms are under full supervision of FI, and their operations require authorization from FI. Furthermore, the deposits with all these institutions are covered by the Swedish Deposit Guarantee Scheme. Previously, there was a possibility for "deposit companies" to accept deposits from the public of up to an amount of SEK 50,000 per consumer. These deposits were not protected by the deposit guarantee scheme. However, the Deposits Business Act under which these deposit companies operated is no longer in force and since January 1, 2021, it is no longer possible to start such business. The existing deposit companies were allowed to continue with their business until December 31, 2021, and they have now all ceased to operate in Sweden.
EC5	The supervisor or licensing authority publishes or otherwise makes available a current list of licensed banks, including branches of foreign banks, operating within its jurisdiction in a way that is easily accessible to the public.
Description and findings re EC5	FI publishes and maintains a current list of licensed banks in Sweden, including branches, on its website. The list includes banking companies, savings banks, members banks, foreign banks, branches of credit institutions in the EU/EEA, credit market companies, foreign credit companies and other institutions that are supervised by FI.
Assessment of Principle 4	Largely Compliant
Comments	The Banking and Financing Business Act (SFS 2004:297) clearly defines the "banking business" and deposit taking activities is restricted to institutions that are licensed and supervised by FI, which include credit institutions (banks and credit market undertakings) and, subject to a specific consent from FI, investment firms for the sole purpose of facilitating their investment business. The Banking and Financing Business Act also clearly identifies permissible activities for credit institutions, and restricts the use of the word "bank" to only banks, the Central Bank

[49] The Committee recognizes the presence in some countries of nonbanking financial institutions that take deposits but may be regulated differently from banks. These institutions should be subject to a form of regulation commensurate to the type and size of their business and, collectively, should not hold a significant proportion of deposits in the financial system.

[50] banks and credit market undertakings

	of Sweden and foreign credit institutions. FI also publishes and maintain a current list of licensed banks and credit market undertakings in Sweden on its website. The list includes banking companies, savings banks, members banks, foreign banks, branches of credit institutions in the EU/EEA, credit market companies, foreign credit companies and other institutions that have been licensed and are supervised by FI. The law, however, does not explicitly restrict the use of derivatives of the word "bank" such as "banking," "banker," etc., in a name to ensure that the general public is not otherwise misled. However, in the preparatory work of the Banking and Financing Business Act, it is stated that also derivatives of the word "bank" are restriction. Preparatory work (which is also mentioned in connection with CP7, EC 2) is a source of law and is regarded as a reliable source of explanation of the legal text.
Principle 5	**Licensing criteria.** The licensing authority has the power to set criteria and reject applications for establishments that do not meet the criteria. At a minimum, the licensing process consists of an assessment of the ownership structure and governance (including the fitness and propriety of Board members and senior management)[51] of the bank and its wider group, and its strategic and operating plan, internal controls, risk management and projected financial condition-(including capital base). Where the proposed owner or parent organization is a foreign bank, the prior consent of its home supervisor is obtained.
Essential criteria	
EC1	The law identifies the authority responsible for granting and withdrawing a banking license. The licensing authority could be the banking supervisor or another competent authority. If the licensing authority and the supervisor are not the same, the supervisor has the right to have its views on each application considered, and its concerns addressed. In addition, the licensing authority provides the supervisor with any information that may be material to the supervision of the licensed bank. The supervisor imposes prudential conditions or limitations on the newly licensed bank, where appropriate.
Description and findings re EC1	Section 1 of the Financial Supervisory Authority Instruction Ordinance grants FI with the responsibility of licensing of financial institutions including banks in Sweden. Chapter 3 (section 8) of the Banking and Financing Business Act also provides that an application for a license to conduct banking or financing business is to be assessed by FI and that FI will only grant a banking license if the set conditions for conducting banking business (see Chapter 3, section 2 of the Banking and Financing Business Act) are fully met.

[51] This document refers to a governance structure composed of a board and senior management. The Committee recognizes that there are significant differences in the legislative and regulatory frameworks across countries regarding these functions. Some countries use a two-tier board structure, where the supervisory function of the board is performed by a separate entity known as a supervisory board, which has no executive functions. Other countries, in contrast, use a one-tier board structure in which the board has a broader role. Owing to these differences, this document does not advocate a specific board structure. Consequently, in this document, the terms "board" and "senior management" are only used as a way to refer to the oversight function and the management function in general and should be interpreted throughout the document in accordance with the applicable law within each jurisdiction.

	Chapter 15, section 3 of the Banking and Financing Business Act provides that FI shall revoke the credit institutions license if, amongst others, the institution fails to commence business to which it has been granted the license within a period of one year from the time the license was granted.
EC2	Laws or regulations give the licensing authority the power to set criteria for licensing banks. If the criteria are not fulfilled or if the information provided is inadequate, the licensing authority has the power to reject an application. If the licensing authority or supervisor determines that the license was based on false information, the license can be revoked.
Description and findings re EC2	The criteria that need to be met in order to receive a license is set out in Chapter 3, section 2 of the Banking and Financing Business Act (BFBA). In addition, FI has the power to set more detailed criteria and has done so in various regulations, including: • Regulations regarding measures against money laundering and terrorist financing (FFFS 2017:11) • Regulations and guidelines regarding managements of credit risks in credit institutions and securities companies (FFFS 2018:16); and • regulations and general guidelines regarding governance, risk management and control at credit institutions (FFFS 2014:1). FI also has the power to reject an application if the set criteria are not fulfilled or if the information provided is inadequate. It is only if the applicant can show that the criteria is fulfilled, that FI will be able to grant an authorization for an entity to undertake banking business in Sweden. FI has also been granted the power to revoke a banking license if it was obtained based on false information (Chapter 15, section 3 point 7 of the BFBA). Out of the 18 applications for commercial banking licenses that were received by FI in the last 5 years, 4 were declined.
EC3	The criteria for issuing licenses are consistent with those applied in ongoing supervision.
Description and findings re EC3	The criteria used by FI to assess a licensing applicant are consistent those applied in ongoing supervision. Chapter 3, Section 2 of the Banking and Financing Business Act sets the criteria that has to be met by an undertaking in order for it to be granted a license to carry out banking business in Sweden. They include the following, which are also required of an already license bank and are normally assessed by FI as part of ongoing supervision: • Conduct of business or planned business in accordance with the provisions of BFBA and other statutes that govern the operation of banks in Sweden; • Suitability of the significant shareholders, individual board members and management of the undertaking; • Suitability of the board as a whole in terms of expertise and experience; and • Whether the holder or significant holder of a significant holding has a connection with or can increase the risk of money laundering or terrorist crimes.

	Specifically, the above is consistent with the provision of Chapter 13 (Section 2) of the BFBA which provides that with respect to credit institution, supervision should ensure that: (i) business is conducted in accordance with BFBA and other statutes governing the operations of the institutions; (ii) owners and management of the credit institutions satisfy suitability requirements as set out in the BFBA; and (iii) significant owners do not have connection with or are not associated with increased risk of money laundering or terrorist financing. The review of a license application by FI as per the memorandum template that was shared with the assessors that was shared with the assessors (for an actual application) included an assessment of the: applicants business plan and its financial strength and sustainability, an analysis of the ownership structure, the organization structure, the control functions, outsourcing arrangements, suitability of board members and potential owners, related legal entities.
EC4	The licensing authority determines that the proposed legal, managerial, operational and ownership structures of the bank and its wider group will not hinder effective supervision on both a solo and a consolidated basis.[52] The licensing authority also determines, where appropriate, that these structures will not hinder effective implementation of corrective measures in the future.
Description and findings re EC4	Chapter 3, section 2, of the Banking and Financing Business Act provides that where the undertaking has, or may be expected to have close links with another party, a license may be granted only where the links do not hinder effective supervision of the undertaking. FI assesses this as part of its licensing process and where the ownership structure is unclear or non-transparent then the application is not accepted. FI also requires the applicant to provide information on any plans to outsource parts of its business and this is taken into consideration in the assessment to determine whether a license shall be granted. The authorities provided the assessors with a walkthrough of their licensing process and assessors also reviewed sample FI assessment report in relation to application for permit to conduct banking business. The areas assessed by FI include ownership structure, operations of the company, proposed organization structure, details of outsourcing arrangements, suitability of owners and the executive and senior management. FI noted that where any regulatory arbitrage is identified as part of the licensing process then the application is given special attention whether it is in accordance with the legal framework
EC5	The licensing authority identifies and determines the suitability of the bank's major shareholders, including the ultimate beneficial owners, and others that may exert significant influence. It also assesses the transparency of the ownership structure, the sources of initial capital and the ability of shareholders to provide additional financial support, where needed.
Description and findings re EC5	Chapter 3, section 2 of the Banking and Financing Business Act, provides that a license to conduct banking business shall be granted where, amongst other conditions, the holder or anticipated holder of a significant holding is assessed as being suitable to exercise a

[52] Therefore, shell banks shall not be licensed. (Reference document: BCBS paper on shell banks, January 2003.)

	significant influence over the management of a credit institution. The shareholder's financial strength and reputation is also assessed. This is in addition to assessment to determine whether the shareholder has connection with or can increase the risk of money laundering and terrorist financing. The provision is the basis of the fit and proper test of the major shareholders, including the ultimate beneficial owners, which is a part of FI's licensing criteria. Furthermore, according to Chapter 6, section 3 of BFBA there is an expectation that a bank´s business shall be organized and operated in a manner that the institution's structure, connections to other undertakings, and financial position can be assessed. As part of the assessment, FI reviews the suitability of qualifying owners including their capital strength and ownership structure. The assessors also observed a case where, FI using supplementary information, was able to identify an additional qualifying owner based on shares that were held through minority shareholders.
EC6	A minimum initial capital amount is stipulated for all banks.
Description and findings re EC6	Chapter 3, section 5 of the Banking and Financing Business Act provides that a bank shall on commencement of the business have an initial capital of not less than five million euros. Section 6 of the same chapter set the minimum initial capital for a savings bank at one million euros. A member's bank and a credit market undertaking can be allowed to have a lower initial capital of one million euros (rather than five million euros) if the total balance sheet will be less than SEK 100 million (as per Chapter 3, section 7 of the BFBA). A formal consent is, however, required to have a lower initial capital and FI has not given such a consent for many years.
EC7	The licensing authority, at authorization, evaluates the bank's proposed Board members and senior management as to expertise and integrity (fit and proper test), and any potential for conflicts of interest. The fit and proper criteria include: (i) skills and experience in relevant financial operations commensurate with the intended activities of the bank; and (ii) no record of criminal activities or adverse regulatory judgments that make a person unfit to uphold important positions in a bank.[53] The licensing authority determines whether the bank's Board has collective sound knowledge of the material activities the bank intends to pursue, and the associated risks.
Description and findings re EC7	A fit and proper test of the Board members and the CEO is a part of FI's licensing procedure, which include an assessment of whether the individuals have the relevant and sufficient training and experience. To facilitate the assessment, FI collects information from the Tax Authority, Police and the Companies Registration Office. FI also assesses whether the Board as a whole has sufficient knowledge and experience to run the bank. Chapter 3, section 2 of the Banking and Financing Business Act FI's regulation and FI regulation on ownership and management assessment (FFFS 2009:3) details the fit and proper test. The assessment includes whether the person concerned has skills and

[53] Please refer to Principle 14, Essential Criterion 8.

	experience in relevant financial operations commensurate with the credit institution's intended activities, any potential conflicts of interest, and any record of criminal activities or adverse regulatory judgments that make him/her unfit to hold important positions in a credit institution. The Swedish Company Law, however, does not recognize the concept of "senior management" so even though companies' applications often include CV of senior management, i.e., the chief financial officer (CFO), the chief risk officer (CRO), or the chief operating officer (COO) for FI's information, these members of a credit institution's senior management are not subject to formal fit and proper assessments by FI. Based on the assessment reviewed by the assessors, the consideration taken into account by FI in the assessment of suitability include: (i) whether the person has the relevant and sufficient training for the intended positions, (ii) whether the person has relevant and sufficient experience for the intended position. FI also obtains information from the Tax Authorities and the Police to assist in the assessment of fit and proper.
EC8	The licensing authority reviews the proposed strategic and operating plans of the bank. This includes determining that an appropriate system of corporate governance, risk management and internal controls, including those related to the detection and prevention of criminal activities, as well as the oversight of proposed outsourced functions, will be in place. The operational structure is required to reflect the scope and degree of sophistication of the proposed activities of the bank.[54]
Description and findings re EC8	The application for a banking license is expected to include the business strategy, business plan including financial forecast, operating plan, organization chart, a description of outsourcing arrangements, information on the proposed Board and CEO. In its assessment to inform the decision whether to grant a banking license, FI reviews the applicant´s strategic and operating plans, organizational structure, control functions, risk management, outsourcing arrangements, ethical guidelines and measures to combat money laundering and terrorist financing. Where applicable, FI also assesses other issues of significant importance and in such instances may request the applicant to submit additional information. The assessment memorandum for an applicant for a new banking license that was reviewed by the assessors include an assessment of: the company's business plan including financial forecast over a three-year horizon, business model, capital and liquidity position, risk management, organizational requirements including control functions, internal frameworks, outsourcing agreements, ownership management. The source of financing and the reputation of the owners is assessed taking into account the potential risk of the entity being used for money laundering purposes. This amongst others is facilitated by the exchange of information with the relevant authorities including the Swedish Police and the tax authorities.

[54] Please refer to Principle 29.

EC9	The licensing authority reviews pro forma financial statements and projections of the proposed bank. This includes an assessment of the adequacy of the financial strength to support the proposed strategic plan as well as financial information on the principal shareholders of the bank.
Description and findings re EC9	The submission of application for a banking license to FI needs to be accompanied by pro forma financial statement and a three-year forecast. The submission should also include a forecast of own funds and capital requirement over a three-year horizon. There is also an expectation that if a bank, based on its forecast, would need injection of additional capital during the coming three years then this should be explicitly disclosed including the reasons for the shortfall. The analysis of capital requirement is also expected to reflect the scope and nature of planned business. The assessment of an application for a banking license by FI that the assessors reviewed included analysis of start-up capital, financial forecasts, and own funds and capital requirements over a three-year horizon. The assessment of capital requirement took into consideration Pillar 1 risks (credit, market and operational), Pillar 2 risks (interest rate risk in the banking book and concentration risks) and capital buffer requirements. The financial strength of the holder or anticipated holder of a significant holding is also taken into account in the assessment of suitability of such a person in accordance with the requirements of Chapter 3, section 2 of Banking and Financing Business Act.
EC10	In the case of foreign banks establishing a branch or subsidiary, before issuing a license, the host supervisor establishes that no objection (or a statement of no objection) from the home supervisor has been received. For cross-border banking operations in its country, the host supervisor determines whether the home supervisor practices global consolidated supervision.
Description and findings re EC10	Foreign banks from within the EU do not require a formal license from FI to establish a branch in Sweden. There is, however, a notification procedure between the home and host supervisors. Specifically, in such cases, FI requires a notification from the home supervisor stating that it has no objection to the entity opening the branch in Sweden (in accordance with Chapter 4, section 1 the Banking and Financing Business Act). For foreign banks from outside the EU planning to open a branch in Sweden, FI requires the home supervisor of such a bank to give a formal consent before a formal license is granted to establish a branch in Sweden (Chapter 4, section 4 the Banking and Financing Business Act). When FI receives an application for a license from a foreign bank planning to establish a subsidiary in Sweden, FI has to contact the foreign (home) supervisor of the bank before deciding on whether to grant it a license to operate in Sweden. The foreign bank will also be assessed to ensure that it is fit and proper, and this will be informed by the contact with its home supervisor.
EC11	The licensing authority or supervisor has policies and processes to monitor the progress of new entrants in meeting their business and strategic goals, and to determine that supervisory requirements outlined in the license approval are being met.

Description and findings re EC11	The authorities noted that new entrants are followed up more closely than other banks with the same risks and that the normal practice is that an in-depth follow-up is performed one year after a new entrant has started its operations. This should, however, be formalized to ensure that: (i) besides the firm category based on systemic importance (i.e., category 1-4), the frequency of supervisory review (SREP) is also informed by the time since the license was granted, (ii) new entrants are subjected to a detailed onsite examination to assess the effectiveness of their procedures, controls and governance in real practice.
Assessment of Principle 5	Largely Compliant
Comments	The Banking and Financing Business Act and the Financial Supervisory Authority Ordinance clearly identifies FI as the authority responsible for licensing of banks in Sweden. The law also empowers FI to set criteria for licensing banks, reject an application for a banking license, and to revoke a banking license if it determines that the decision to grant a license was based on false information. The current criteria used by FI to assess application for a banking license is broadly consistent with those applied in ongoing supervision of banks and the approach used by FI to assess new applicant is comprehensive and include assessment of: suitability of owners including qualifying shareholders, ownership structure, control functions, outsourcing arrangements, pro forma financial statements and financial forecast including the ability of the bank to meet it capital requirements over a three year the forecast horizon. The assessment of suitability of executives and senior management of a new applicant is also carried out by FI. The scope of this assessment is, however, impacted by a gap in the Swedish law, which does not recognize the concept of "senior management." This means that even though applicants include details of senior management in their application, the members of a credit institution's senior management except the Chief Executive Officer (CEO) and his or her deputy are not legally subject to formal fit and proper assessments by FI. As part of its licensing procedure and as provided for by the Banking and Financing Business Act, FI is required to contact the home supervisor of a bank from outside the EU planning to establish a subsidiary in Sweden before deciding on whether to grant the bank a license to operate in Sweden. FI also assesses the suitability of the foreign bank that is planning to establish a branch in Sweden based on, amongst others, information from its home supervisor. The law also requires that FI should receive a formal consent from the home supervisor of banks from outside EU planning to establish a branch in Sweden. The assessment memorandum for an application for a license that the assessor reviewed showed that FI has a relatively rigorous process which takes into account the expectation of the applicable law, and which is broadly in line with the expectation of the BCPs except for the gap in the legal framework which impact on the scope of suitability assessment

	and the fact that the process for monitoring of new entrants including their ability to meet their business and strategic objectives is currently not formalized. The authorities noted that new entrants are subject to closer follow-up, but the assessor could not evidence that this was the case since this was not documented in the supervisory processes. We would therefore suggest that this should be formalized to ensure that besides the systemic importance of banks, the frequency and intensity of supervisory review takes into account the new entrants. For example, internal policy could clarify that new entrants are to be subjected to more frequent SREP and detailed onsite examination to assess the effectiveness of their governance and internal control arrangements in real practice as compared to entities of similar size and risk profile.
Principle 6	**Transfer of significant ownership.** The supervisor[55] has the power to review, reject and impose prudential conditions on any proposals to transfer significant ownership or controlling interests held directly or indirectly in existing banks to other parties.
Essential criteria	
EC1	Laws or regulations contain clear definitions of "significant ownership" and "controlling interest."
Description and findings re EC1	Chapter 1, section 5 (15) of the Banking and Financing Business Act defines "qualifying holding" as a direct or indirect ownership in an undertaking, where the holding represents ten percent or more of the equity capital or of the voting capital or where the holding otherwise renders it possible to exercise a significant influence over the management of the undertaking.
EC2	There are requirements to obtain supervisory approval or provide immediate notification of proposed changes that would result in a change in ownership, including beneficial ownership, or the exercise of voting rights over a particular threshold or change in controlling interest.
Description and findings re EC2	As per Chapter 14, section 1 of the Banking and Financing Business Act, consent from the FI is required prior to a direct or indirect acquisition of shares in a credit institution which would result in an acquirer becoming a qualifying (significant) holding. This requirement to seek prior consent from FI also apply to acquisitions which would result in an increase in a qualifying holding such that it amounts to or exceeds 20, 30 or 50 percent of equity capital or voting capital for all shares or participating interests or which would cause the undertaking to become a subsidiary. The Banking and Financing Business Act also provides that where the acquisition has occurred as a result of a division of joint marital property, testamentary disposition, corporate distribution, or any other similar measure, consent shall instead be required for the acquirer to retain the shares of participating interests. In these cases, the acquirer is required to apply for consent within six months of the acquisition.
EC3	The supervisor has the power to reject any proposal for a change in significant ownership, including beneficial ownership, or controlling interest, or prevent the exercise of voting

[55] While the term "supervisor" is used throughout Principle 6, the Committee recognizes that in a few countries these issues might be addressed by a separate licensing authority.

	rights in respect of such investments to ensure that any change in significant ownership meets criteria comparable to those used for licensing banks. If the supervisor determines that the change in significant ownership was based on false information, the supervisor has the power to reject, modify or reverse the change in significant ownership.
Description and findings re EC3	Chapter 14, Section 1 of the Banking and Financing Business Act provides that a direct or indirect acquisition of shares or participating interests in a credit institution which would result in the acquirer's total holding becoming a qualifying (significant) holding may only take place after receiving consent from FI. The requirement for prior consent from FI also applies to acquisitions which result in an increase in a qualifying holding. FI only give consent if the set criteria for approval of a change in significant ownership in an existing bank are met, which are the same as the criteria used to assess suitability of shareholders when licensing a bank. Chapter 3, section 2 of the Banking and Financing Business Act forms one of the bases for the assessment of suitability of shareholders when licensing new banks and provides that a Swedish undertaking shall be granted a license to conduct banking business or financing business where, amongst others, the holder or anticipated holder of a qualified holding in the undertaking is deemed suitable to exercise a significant influence over the management of a credit institution. Chapter 14, section 2 of the Banking and Financing Business Act also provides that authorization shall be granted for an acquisition of a qualifying holding where the acquirer is deemed suitable to exercise a significant influence over the management of a credit institutions and where the anticipated acquisition is financially sound. Section 37 of The Administrative Procedure Act gives powers to a Swedish Authority, in this case FI, to change a decision if the decision was due to the party (in this case the applicant) giving incorrect or misleading information. A Swedish Authority also has powers to reverse a decision if it considers the decision to be incorrect due to new circumstances.FI therefore has the power to reverse a decision should it be based on false information.
EC4	The supervisor obtains from banks, through periodic reporting or onsite examinations, the names and holdings of all significant shareholders or those that exert controlling influence, including the identities of beneficial owners of shares being held by nominees, custodians and through vehicles that might be used to disguise ownership.
Description and findings re EC4	Chapter 14, Section 4 of the Banking and Financing Business Act require credit institutions other than a savings banks to submit an annual statement to FI containing the names of persons who hold a qualifying holding of shares or participating interests in the institution and the extent of such holdings. FI has also issued regulations and general guidelines on reporting of owners' qualifying holdings and participating interests (FFFS 2011:14), which require credit institutions to report to FI information on qualifying holdings on an annual basis and whenever there are changes. The regulation, which applies to all credit institutions including savings banks,

	requires credit institutions to report the following information to FI for each owner with a qualifying holding in the credit institution: • Personal identification number or company registration number, alternatively foreign identification number; • Each owner's holdings expressed as a percentage of capital and votes, respectively, for both direct and indirect participations; and • The date the owner's qualifying holding in the institution enters into effect. Further, where the owner is not a Swedish institution, the following will also need to be reported: • Name or business name; • The firm's registered office, city and postal code; • Business code as per the table below; and • Operational description, brief summary of main business. FI shared with the assessors a sample report on qualified owners for one of the banks, which was drawn from the reporting tool.
EC5	The supervisor has the power to take appropriate action to modify, reverse or otherwise address a change of control that has taken place without the necessary notification to or approval from the supervisor.
Description and findings re EC5	Chapter 14, section 6 of the Banking and Financing Business Act provides that where a person who holds a qualifying holding or ownership interest has failed to submit an application for consent to the acquisition of a qualifying holding, FI can prohibit such a holder from representing the shares or participating interest to the extent such are subject to a consent requirement. Also, if the owner of a qualified holding does not fulfil the criteria of being fit and proper, FI may prohibit the holder from representing the shares at a general meeting to the extent that the holding is in violation of the decision. According to Chapter 14, section 7 of the Banking and Financing Business Act, FI may also order an owner to divest a portion of its shares or the ownership rights so that the holding no longer constitutes a qualifying (controlling) holding. FI can also order such owners to divest a portion of their shares in the bank so as to ensure that their holding no longer violates the decision of FI. In one example that the assessors reviewed, FI as part of its investigation identified that one of the licensed entities had unqualified owners who exercised a significant influence over the management of the entity. The unqualified owners acted as if they were qualified owners with control over the company without having received prior approval from FI. This resulted in difficulties by FI and other external parties in establishing the ownership relationships and the company's connections with other entities. It also made FI's supervision difficult. The entity, which also had serious shortcomings in its credit risk management and internal governance, was sanctioned and subsequently given about four

	months to wind-up its operations. During this period the entity remained under FI supervisions and restriction was placed on its operations.
EC6	Laws or regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material information which may negatively affect the suitability of a major shareholder or a party that has a controlling interest.
Description and findings re EC6	Laws or regulations in Sweden do not explicitly require banks to notify FI when they become aware of information affecting the suitability of a major shareholder. There is, however, an obligation under Chapter 14, section 4 of the Banking and Financing Business Act for institutions to report to FI when they become aware of changes in significant ownership.
Assessment of principle 6	Largely Compliant
Comments	The law in Sweden recognizes significant ownership ("qualifying holding") as a direct or indirect ownership in an undertaking, where the holding represents ten percent or more of the equity capital or of the voting capital or where the holding makes it possible for the holder to exercise a significant influence over the management of the undertaking. The law also requires consent from FI prior to acquisition of shares in a credit institution which would result in a significant ownership or in an increase in significant ownership. FI has the legal powers to reject any proposal for a change in significant ownership or to reverse (change) a decision to approve an acquisition if the decision is found to have been based on false information. The criteria for giving consent to a change in significant ownership in an existing bank are the same as the criteria used to assess suitability of shareholders when licensing a bank. All banks in Sweden are required to on a yearly basis inform FI of their significant shareholders including the size of the holding and, where a person who holds a significant ownership failed to submit an application for consent to the acquisition of a significant holding, FI has the power to prohibit such a holder from representing the shares or participating interest that are subject to a consent requirement at a general meeting. Further, if a significant shareholder does not meet the fit and proper criteria, FI has the power to prohibit that shareholder from representing the shares at a general meeting. FI also has the power to order a bank's shareholder to divest a portion of its shares or the ownership rights to ensure that the shareholder in question ceases to have a controlling interest in the bank. There is, however, no specific requirement in Swedish law or regulation for credit institutions to notify FI as soon as they become aware of any material information that may negatively affect the suitability of a major shareholder.
Principle 7	**Major acquisitions**. The supervisor has the power to approve or reject (or recommend to the responsible authority the approval or rejection of), and impose prudential conditions on, major acquisitions or investments by a bank, against prescribed criteria, including the establishment of cross-border operations, and to determine that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.

Essential criteria	
EC1	Laws or regulations clearly define: (a) what types and amounts (absolute and/or in relation to a bank's capital) of acquisitions and investments need prior supervisory approval; and (b) cases for which notification after the acquisition or investment is sufficient. Such cases are primarily activities closely related to banking and where the investment is small relative to the bank's capital.
Description and findings re EC1	Chapter 7 (section 12) of the Banking and Financing Business Act requires credit institutions to obtain prior authorization from FI before they can acquire a property where the consideration to be paid is more than 25 percent of its own funds. Further, according to the FI regulation regarding notification of certain acquisitions (FFFS 2016:1) ,a credit institution is required to notify FI if it intends to acquire property for which the consideration is more than SEK 10 million or 10 percent of own funds and less than 25 percent of the own funds of the acquiring undertaking. The notification must be made before acquisition.
EC2	Laws or regulations provide criteria by which to judge individual proposals
Description and findings re EC2	Currently, the Swedish law or regulation does not provide specific criteria by which to judge individual proposals. However, more specific criteria by which to judge a major acquisition are to be found in the law's preparatory work and FI has also produced a number of work procedures and templates on what to be considered in the processing of the application. FI noted that the preparatory work, i.e., the texts that are created during the legislative process, are used when laws are applied and interpreted by courts and authorities. Like case law, preparatory works is subsidiary, but still a source of law. It was further started that according to the established legal tradition, explanations in the preparatory works are regarded as a reliable source of clarification of legal texts. The assessor noted that there is a gap due to lack of specific provisions in law or binding regulation on the criteria to be applied in the assessment of individual proposal. This could potentially limit FI's discretion in decision making and could also impact on consistency of the assessment.
EC3	Consistent with the licensing requirements, among the objective criteria that the supervisor uses is that any new acquisitions and investments do not expose the bank to undue risks or hinder effective supervision. The supervisor also determines, where appropriate, that these new acquisitions and investments will not hinder effective implementation of corrective measures in the future.[56] The supervisor can prohibit banks from making major acquisitions/investments (including the establishment of cross-border banking operations) in countries with laws or regulations prohibiting information flows deemed necessary for adequate consolidated supervision. The supervisor takes into

[56] In the case of major acquisitions, this determination may take into account whether the acquisition or investment creates obstacles to the orderly resolution of the bank.

	consideration the effectiveness of supervision in the host country and its own ability to exercise supervision on a consolidated basis.
Description and findings re EC3	The Swedish law or regulation does not provide specific criteria by which to judge individual proposals. FI has, however, produced work procedures on what to consider in the processing of the application. Based on the work procedures, authorization process includes an assessment of whether the acquisition may result in any violation of the Banking and Financing Business Act or any other statutes. The assessment, amongst others, focuses on the requirements on equity ratio and liquidity, risk control and transparency. The supervisory assessment is based on the criteria as outlined in the nonbinding FI's work processes and templates, which include: • Analysis of terms and conditions of the acquisition in order to evaluate the effects on the capital position, i.e., goodwill, minority interests, etc. • Assessment of the impact of acquisition on the acquiring company's consolidated position, financial strength, risk exposure, organization, governance and internal control. • Assessment of the capital and liquidity adequacy of the acquiring company, after the acquisition. • A business model analysis to assess the impact of the acquisition and to challenge the forecasts sent in by the acquirer. • If changes in ownership structure or significant shareholding, the supervisor in charge will conduct a fit and proper assessment of the owner. • Assessment if the acquisition may hinder effective supervision or if it will affect the need of supervision. Based on the analyzes conducted and the findings, the supervisor will together with the administrating legal counsel determine, according to the licensing criteria, if there are any reasons not to grant the authorization. The authorities shared with the assessors a procedural description for application for authorization to acquire property (major acquisition) and noted that the criteria applied in the assessment was broadly consistent with the documented procedure.
EC4	The supervisor determines that the bank has, from the outset, adequate financial, managerial and organizational resources to handle the acquisition/investment.
Description and findings re EC4	FI work process include an assessment of the acquiring company's capital and liquidity adequacy. Specifically, the procedural description that was share by FI with the assessors requires institution to, amongst others, submit information on: • the capital base of the company (consolidated situation) and the capital requirements before and after acquisition; • how the company intends to finance the acquisition;

	• Indication of the impact of the acquisition on the company's existing operations, business orientation and business model; • New risks arising from the acquisition and how these will be managed; and • Details of the company's liquidity before and after the acquisition. The above information is then used by an FI supervisor to assess the impact of the proposed acquisition on the acquirer's operation and whether the acquisition could lead to violation of the relevant laws or regulations. The acquirer is also required to submit an ownership review and/or notification of a management suitability where the acquisition is expected to result in a change in ownership structure or management positions. Please also see EC 3.
EC5	The supervisor is aware of the risks that nonbanking activities can pose to a banking group and has the means to take action to mitigate those risks. The supervisor considers the ability of the bank to manage these risks prior to permitting investment in nonbanking activities.
Description and findings re EC5	From a Swedish perspective, FI is an integrated financial sector supervisor responsibility for the supervision of all financial institutions in Sweden. It practices consolidated supervision where the risks within a banking group and at entity level are assessed as part of the SREP exercise. Chapter 6 Section 2 of the Banking and Financing Business Act (BFBA) on risk management provides FI with the means to take action to mitigate the risks that nonbank activities may pose to a banking group. Specifically, the Act requires credit institutions to identify, measure, control, internally report and verify the risks associated with its operations and Chapter 15 (section) provides that where an institution has violated its obligation and this Act (BFBA) then FI can intervene by, amongst others: issuing an order to limit or reduce the risks associated with the operations, take measures to rectify the situation within a specific time, issue an injunction or issue an adverse remark. It should also be noted that according to Chapter 7, Section 2 of the BFBA, a credit institution may only possess property that it needs for its own business operations. FI noted that a decision to grant an authorization may include terms or provisions that must be met by the acquiring company and the authorization to acquire may also be time-limited. Also see EC 3 above.
AC1	The supervisor reviews major acquisitions or investments by other entities in the banking group to determine that these do not expose the bank to any undue risks or hinder effective supervision. The supervisor also determines, where appropriate, that these new acquisitions and investments will not hinder effective implementation of corrective

	measures in the future.[57] Where necessary, the supervisor is able to effectively address the risks to the bank arising from such acquisitions or investments.
Description and findings re AC1	FI's prior authorization is only required where the consideration for an acquisition exceeds 25 percent of a credit institution's capital base as per Chapter 7, Section 12 of the Banking and Financing Business Act (BFBA). There are, however, no laws or regulations in Sweden that provide explicit detailed criteria by which to judge individual proposals that are presented by institution to FI for approval though FI has developed internal procedures which sets out the criteria for assessment of individual proposals. The implementation of SREP in Sweden, however, provides an avenue for dealing with the risk arising from nonfinancial activities, group structures and unconsolidated entities and any other risks that the credit institution is exposure to. FI noted that where it considers that due to nonfinancial activities a credit institution does not meet statutory requirements regarding risk management, transparency and soundness, then it may impose a higher capital requirement or an order to reduce the risks as provided for by Chapter 15 (section 1) of the Banking and Financing Business Act. The requirement set out in the regulation on notification of certain acquisition (FFFS 2016:1) to some extent helps ensure that FI has visibility over acquisition by firms, which can be an input into its risks assessment of the institution as part of the SREP or other investigation. Specifically, the regulation requires institutions to notify FI (prior to the acquisition) of acquisition of property where the purchase price corresponds to at least SEK 10 million and is the equivalent of at least 10 percent and at most 25 percent of own funds of the acquiring firm. Notification shall be given prior to the acquisition. <u>Relevant provisions of the BFBA</u> The BFBA in Chapter 7, section 12 provides that authorization to acquire property shall be granted unless it can be assumed that the acquisition will result in the violation of the Act or other statues. FI noted that this can be inferred that this is a reference, amongst others, Chapter 6 of BFBA "General provisions regarding the business of a credit institution." For example, Chapter 6, Section 1 of BFBA requires that a credit institution's operations shall be conducted in such a manner that the institution's ability to perform its obligations is not jeopardized. In such context, the institution shall ensure that it has in place effective internal controls as provided by Chapter 6, Section 2 which provides that a credit institution shall identify, measure, manage, internally report and have control over the risks associated with its operations. Chapter 7, section 2 of the BFBA provides that a credit institution may only possess property that it needs for its own business operations and there are statutory limits and prohibitions governing various types of acquisition or investment that appear designed to prevent exposure to undue risks. Specifically, Chapter 7, section 6-8 of the BFBA requires that any property acquired to secure a claim must be reported to FI and disposed of as

[57] Please refer to Footnote 33 under Principle 7, Essential Criterion 3

	soon as deemed appropriate in light of market conditions and, in any event, within three years, unless FI approves otherwise. A list of such properties is to be provided annually to FI. Please also see EC 2.
Assessment of Principle 7	Largely Compliant
Comments	The Banking and Financing Business Act and the regulation on notification of certain acquisition clearly define the acquisition and investment that banks need prior supervisory approval from FI. That is, where consideration is more than 25 percent of own funds of the acquirer) and those where FI needs to be notified in advance (where the consideration is more than SEK 10 million or 10 percent of own funds but less than 25 percent of the own funds of the acquiring undertaking. While there is no current Swedish law or regulation which sets out specific criteria by which to judge individual proposals related to acquisitions or investments that require prior approval from FI, more specific criteria are to be found in the preparatory work, which in the case of Sweden is a reliable source of law. To facilitate the assessment of the proposal submitted by credit institutions for approval, FI has developed a work procedures and templates (nonbinding) which sets out what needs to be considered in the processing of the application. Based on the procedures, authorization process include involves assessment of whether the acquisition may result in any violation of the Banking and Financing Business Act or any other statutes. The assessment focuses on, amongst others: (i) the requirements in relation to capital, liquidity, risk management and transparency, (ii) new risks arising from the acquisition and how they will be managed, (iii) impact of the acquisition on the company's operations and business model, and (iv) how the company intends to finance the acquisition The acquirer is also required to submit an ownership review and/or notification of a management suitability where the acquisition is expected to result in a change in ownership structure or management positions. The law provides FI with the means to take action to mitigate the risks that nonbank activities may pose to a banking group. Specifically, the Banking and Financing Business Act requires credit institutions to identify, measure, control, internally report and verify the risks associated with its operations and also provides that where an institution has violated its legal obligation then FI can intervene by, amongst others: issuing an order to limit or reduce the risks associated with the operations, take measures to rectify the situation within a specific time, issue an injunction or issue an adverse remark. The implementation of SREP in Sweden also provides FI with an avenue for dealing with the risk arising from nonfinancial activities, group structures and unconsolidated entities and any other risks that the credit institution is exposure to but not adequately captured under Pillar 1. Specifically, FI noted that where it assesses that a credit institution has not met its statutory requirements regarding risk management, transparency and soundness due to nonfinancial activities then it may impose a higher capital requirement or an order

	the institution to reduce the risks as provided for by the Banking and Financing Business Act (Chapter 15, section 1). The requirement set out in the regulation on notification of certain acquisition (FFFS 2016:1), which require institutions to notify FI of some acquisition or investments meeting the set threshold, to some extent also helps ensure that it has visibility over acquisition by supervised firms, which can be an input into its risks assessment of the institution as part of the SREP or supervisory investigations.
Principle 8	**Supervisory approach**. An effective system of banking supervision requires the supervisor to develop and maintain a forward-looking assessment of the risk profile of individual banks and banking groups, proportionate to their systemic importance; identify, assess and address risks emanating from banks and the banking system as a whole; have a framework in place for early intervention; and have plans in place, in partnership with other relevant authorities, to take action to resolve banks in an orderly manner if they become non-viable.
Essential criteria	
EC1	The supervisor uses a methodology for determining and assessing on an ongoing basis the nature, impact and scope of the risks: (a) which banks or banking groups are exposed to, including risks posed by entities in the wider group; and (b) which banks or banking groups present to the safety and soundness of the banking system The methodology addresses, among other things, the business focus, group structure, risk profile, internal control environment and the resolvability of banks, and permits relevant comparisons between banks. The frequency and intensity of supervision of banks and banking groups reflect the outcome of this analysis.
Description and findings re EC1	FI has a methodology for categorizing Swedish credit institutions and Swedish branches of foreign credit institutions based on their systemic importance to the financial system in Sweden. The credit institutions are bucketed into four categories (category 1 -4) which then becomes the basis for application of the principle of proportionally in the supervision of institutions. This categorization of banks into the four buckets (category 1-4) is done on a yearly basis though there is the possibility to make changes on an ongoing basis, which can be important when there are significant events such as mergers, divestments, acquisition or other strategic actions. The starting point for categorization of institution is the EBA methodology for identification of other systemically important institutions (O-SII). The output from this methodology is then complemented with a qualitative assessment, and this has in certain instances resulted in some institutions being moved to different categories (buckets) to appropriately capture their systemic importance to the Swedish financial system. This has particularly been the case for one entity where its balance sheet size was not deemed to be a good representation of its systemic importance due to the nature of its business model (FinTech).

	The banks' individual category is then used by FI to provide a basis for: (i) determining the frequency and scope of FI's supervisory review and evaluation process (SREP) of individual credit institutions and branches under supervision; (ii) how FI's other ongoing supervision should be designed; and (iii) usage of FI's supervisory methods and determining how they should be applied, i.e., some supervisory methods are only applied to the most systemically important institutions.[58] For example, full SREP is performed every year for institutions in category 1, every second years for institutions in category 2, and every three years for institutions in category 3 and less frequently and more risk-based for institutions in category 4. In 2021, a simplified SREP was introduced which allow for more frequent SREP for institutions in category 4 as well. Full SREP is also performed annually for significant plus and significant branches. The categorization is also used by FI to inform the allocation of supervisory resources with entities in category 1 receiving more staff in terms of number and level of experience as compared to institutions in category 3 and 4. FI uses SREP, which is based on EBA SREP Guidelines issued in 2014 and revised in 2017 and 2022,[59] as the basis of its risk-based supervision and in its assessments, it assigns institutions an overall SREP score of between 1 (low level of risk) and 4 (high level of risk). The overall SREP score is based on four different viability scores: (i) business model analysis (BMA); (ii) internal governance and institution-wide control; (iii) capital adequacy; and (iv) liquidity adequacy. For each area, the viability score reflects the supervisory assessment of the respective SREP elements and is an indication of the institution's viability stemming from that SREP element. The viability scores for capital adequacy and liquidity adequacy are supported by underlying risk scores, whilst there are no separate risk scores underlying the viability scores for BMA or internal governance and institution- wide control. The risk scores express the likelihood that a risk will have a significant impact on the institution after considering the underlying risk management and controls but before taking into consideration the institutions ability to mitigate the risk (residual) through the available capital and liquidity resources. Institutions are also assigned a risk score of between 1 (low level of risk) and 4 (high level of risk). Each risk score is based on an assessment of the inherent risk and the banks' risk management and controls with both elements being scored separately by the risk experts. This approach allows for identification of the underlying drivers of risks which help in informing the potential supervisory measures in cases were significant risk or weakness in risk management and controls are identified. The viability scores for capital and liquidity adequacy are based on assessment of individual risks and their related controls. The risks covered includes credit, operational, market, insurance, pension, liquidity and funding risks. The risk related to the use of Internal Rating Based (IRB) models for credit risk is captured in the of assessment of credit

[58] The result of SREP is used to inform the formulation of the supervisory program.

[59] A revised version of the EBA Guidelines on common procedures and methodologies for the SREP and supervisory stress testing was published on March 18, 2022.

	risk while IT related risks are captured in the assessment of operational risk. The individual risk scores are peer reviewed/benchmarked and then subsequently challenged in the risk seminars and the supervisory committees. The assessment of inherent risk is also typically informed by peer review and benchmarking. This is important in ensuring comparability of scores across institutions. The SREP also includes an assessment of bank's governance and risk management framework. Here, the assessment covers the institutions': (i) risk strategy and appetite for individual risks, (ii) the organizational framework, (iii) policies and procedures in place, and (iv) risk identification, measurement, management, monitoring and reporting. The SREP is undertaken at the entity and/or group level for all banks. SREPs for banks in categories 3 and 4 are generally not as detailed as for banks in categories 1 and 2. However, the director of Banking Supervision may decide to extend the scope of the SREP if considered needed. In addition, the director of the banking operational section can decide that a SREP should be performed according to the same routine as for institutions in categories 1 and 2. For banking groups with parent companies in Sweden and foreign subsidiaries and/or significant branches, the SREP is performed within the supervisory colleges. Taking into account the principle of proportionality, the analysis and examination is not usually detailed for institutions in category 3 and 4, and there is usually no scoring of individual areas for these institutions. Usually, only an overall rating of the company's survival ability is given. If the situation warrants, a more detailed SREP assessment can also be performed for smaller institutions. In discussion with FI and the industry, the need for more comprehensive onsite inspections to inform the SREP and other risk assessment exercise and consistency in the approach to assessment of risks was noted[60]. This would need to be supported by the use of risk experts especially in relation to assessment of IT risk and the risk related to the use of IRB models. Further, the assessors noted lack of clarity in relation to factors that should be taken into consideration in determining the scope and frequency of SREP exercise for the high-risk institutions in category 3 and 4. For example, high risk category 3 and 4 institutions should be subjected to more frequent SREP. The assessors are strongly of the view that in the absence of regular onsite inspection involving actual testing of effectiveness of banks risk management processes and reliability of the information that is provided for supervisory processes, it may be challenging for the supervisors to effectively exercise the supervisory judgement.
EC2	The supervisor has processes to understand the risk profile of banks and banking groups and employs a well-defined methodology to establish a forward-looking view of the profile. The nature of the supervisory work on each bank is based on the results of this analysis.
Description and findings re EC2	FI uses SREP as the main tool for the assessment of the risk profile of banks and banking groups. This includes the Business Model Analysis (BMA) and stress testing which have

[60] More detailed supervisory manuals can help ensure a more consistent approach to assessment of risks.

	some forward-looking elements. FI also takes into account the findings from SREP, which is forward looking, in the risk identification process and in discussions about supervisory investigations or other supervisory measures. Specifically, as part of business model analysis, FI supervisors assess whether an institution business model is sustainable on the basis of its ability to generate an acceptable return over the next 12 months, and whether the institution strategy is sustainable on the basis of its ability to generate acceptable long-term return (over three years) based on its strategic plans and financial projections. The assessment of inherent risk based on FI's (SREP) approach also includes a forward-looking element. For example, the assessment involves the review of bank's stress testing process and outcome, and consideration of macroeconomic and financial market developments. The assessment of inherent risks also captures the expected growth of the bank, and the effects of possible changes in the economic cycle on its risk profile is taken into account mainly through stress testing. The assessors noted that the supervisory engagement and frequency of the SREP cycle is predominantly driven by the categorization of institutions based on their systemic important and the risk rating (or ranking) of individual institution do not play a significant role. As regards the supervisory program for in-depth examinations and analyses, the risk of the individual institutions is considered to a larger extent than when deciding on the SREP cycle. FI has also come up with a list of institutions selected for intensified frequent risk assessment, and these institutions have been placed on the list as a consequence of their individual risk situation. This may not be an issue for category 1 and 2 institutions since they are subjected to SREP on a more frequent basis and more intensive continuous risk assessment. The limited consideration of risk profile in determining the supervisory cycle may, however, have an adverse impact on the timeliness of supervisory action for category 3 and 4 institutions and risk of significant issues being missed out due to the less frequent supervisory cycle. This is particularly the case given the fact that risk profile of institutions can change significantly between the rather long SREP cycle, and hence potential need for a risk ranking system based on the more frequent quarterly COREP and FINREP information to help in better targeting of the scarce supervisory resources. The lead supervisors for each institution is required to analyze the key risk indicators on a quarterly basis based on the quarterly supervisory reporting by institutions, and to flag any changes in the risk profile of individual institutions which may warrant intensified supervision. The authorities share the SREP report for a category 1 and category 2 institutions which evidenced the assessment of risks of banks by FI on a forward-looking basis. It was, however, not clear to the assessors how the SREP score was used to influence the supervisory cycle, as this was predominantly driven by the category of the institutions, which is based on its systemic importance to the domestic economy.
EC3	The supervisor assesses banks' and banking groups' compliance with prudential regulations and other legal requirements.

Description and findings re EC3	FI has a number of processes and activities for assessing banks' and banking groups' compliance with prudential regulations and other legal requirements. The processes include the continuous risk assessment, thematic reviews and deep dives analyzes, and investigations. As part of the continuous risk assessment, supervisors monitor banks' key risk indicators (KRIs), legal requirements for solvency (i.e., leverage ratio and CAR) on a quarterly basis, and the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) on monthly basis. FI also reviews banks solvency, liquidity and all material risks including the quality of risk management and controls as part of the SREP exercise, which is done on an annual basis for the large Swedish Banks (category 1), and at least every second year for banks in category 2. The frequency of SREP for the smaller banks in category 3 and 4, however, is less frequent and hence it may not be an effective tool for assessing compliance for the smaller institutions which are normally subject to SREP every three to five years. FI has also developed a number of dashboards based on the traffic light system, and trend analysis reports which are used by individual supervisors to monitor specific institutions and their peer groups. FI also uses thematic reviews to assess compliance with prudential regulations and other legal requirement, an example being the yearly review of mortgage lending, which is included in the supervisory plan. The assessors are of the view that given the current resource constraints at FI, well-structured thematic reviews can particularly be an effective tool for assessment of key risks and internal processes within the smaller institutions. For example, general compliance with the relevant regulatory and legal requirements compliance with supervisory reporting requirements, quality of processes in place for validation of information that is submitted to FI, asset classification and provisioning, outsourcing arrangements, etc. Further, deep-dive analysis may be used to assess credit institutions compliance with rules and regulations. The outcome of this may be to start an investigation, which is normally performed on a risk-based basis, according to a supervisory plan. FI has in place documented procedures for deep-dive analysis, and for periodic analysis of key indicators and summary review and evaluation. FI currently has no distinction between onsite and offsite supervision, and the degree of onsite work by FI is very limited with the time spend onsite noted as varying but rarely exceeding 3-4 days.[61] This time spend onsite is unlikely to be adequate to undertake detailed work. For example, testing including through samples: of the effectiveness of banks internal controls and compliance with prudential and legal requirements, reliability of the information provided by banks as part of the supervisory reporting, quality of deployment of the IRB models, asset classification etc. The review of performance of IRB models including compliance with the regulatory requirements is, as a consequence of the

[61] There is no dedicated onsite inspection team and inspections, which frequently include an offsite component, are usually targeted at specific issues or concerns identified in the risk assessment process.

	ongoing IRB repair, currently focused on high level monitoring on of model governance and no detailed testing is carried out. These gaps were mainly attributed to the limitation of resources and particularly the high turnover of credit model experts, which was also recognized in our discussions with the industry. FI usually holds quarterly risk review meetings with the CFO, CRO, Head of Compliance and Head of Internal Audit of the 3 largest banks in Sweden. For banks in category 2, risk meetings take place twice a year. The meetings are mainly to discuss quarterly financial results, risk development and outlook, key compliance issues and internal audit findings. The institutions are required to submit detailed information prior to these meetings, which include the CRO report, the compliance report, the CFO report and the internal audit report. Based on sample submissions from banks to FI that the assessor reviewed, the CRO report covered details of the bank's credit portfolio and asset quality, market and liquidity risk (including NSFR and LCR), nonfinancial and customer risk (IT risk, cyber risk, money laundering risk), operational risk and a deep dive of specific portfolios. The CFO report included information on liquidity management and funding, capital adequacy development, capital base, CARs, balance sheet development and liquidity adequacy ratios amongst others. The internal audit reports, on the other hand, included the audit issue log, quarterly development of audit issues, open audit issues and completed audits. The other documents that ware submitted by banks to FI as part of quarterly risk review meetings, and which are a key input to assessment of compliance with prudential requirements, include group recovery plan, ICAAP documents, credit information, top 25 (large exposures, watch list, nonperforming loans, forborne exposures). FI supervisors also monitor banks' Key Risk Indicators every quarter for all institutions in supervisory categories 2-4 (the assessors reviewed a sample of the KRI reports). These KRIs form an important early-warning system and provide input to the assessment of the level of risk for the smaller institutions which in turn help to set the priorities in the supervisory examination program. The KRIs are based on regular reporting by institutions to FI (FINREP, COREP). The analysis of KRIs is done by the lead supervisor. The reliability of the information provided as part of FINREP and COREP is therefore very important, and FI should potentially put more focus on assessing the quality of banks end-to-end supervisory reporting processes. This is to complement the desk-based reconciliation and other data quality checks. That is, the lead supervisor normally checks the quality of reported figures by comparison to the figures for the previous period, and through reconciliation to annual audited financial statements (Annual Reports) within the annual process for the light SREP. The supervisors should also be provided with even more analytical tools to help in processing the information that is provided by banks and in generating reports to inform their risk assessment of banks. For example, the report of top 25 exposures (largest, on watch list, nonperforming, forborne, credit loss for current quarter, and loan loss allowance) if analyzed across time and across peer institutions could provide very useful insights to the supervisor on credit risk management and asset classification practices.

EC4	The supervisor takes the macroeconomic environment into account in its risk assessment of banks and banking groups. The supervisor also takes into account cross-sectoral developments, for example in nonbank financial institutions, through frequent contact with their regulators.
Description and findings re EC4	FI has both a microprudential and macroprudential mandate and is responsible for the supervision of individual financial institutions and for ensuring that the financial system is stable and characterized by a high level of confidence. As part of this role, it is expected to, amongst others, monitor the financial system and where necessary develop measures to prevent financial imbalances with the aim of stabilizing the credit market. The analysis of cross sectoral developments is integrated into FIs own Risk Identification Process and twice a year FI publishes a report on the stability in the financial system, which summarizes FI's view on the risks connected to the economic situation. The recent FI Stability in the Financial System, which the assessor reviewed, include assessment of state of the economy, household sector, nonfinancial corporates, stability of the financial markets and stability in the banking sector. The report, which is used to inform the risk identification, noted the risks in the banks' lending portfolios given that the CRE firms have become riskier, and recommended that bank should continue to hold significant capital and liquidity buffers that can be drawn if the situation worsen. FI risk identification process takes into account developments in the whole financial sector and system, and this is facilitated through dialogue between the respective supervisory areas and the Office of Economic Analysis. The risk identification process also involves identification of new potential risks and examples of risks that FI has considered in the past include rapid conversion of interest rates, shorter maturities of covered bonds, overoptimistic interest assumptions etc. To identify new potential risks, FI uses information from companies under its supervision, other supervisory authorities and international work. The planning of supervision is to a high degree the result of the conclusions in the risk identification process and the macro-economic analysis made by FI. FI also considers macro-economic situation in the business model analysis performed in the SREP and the outcome of the business model analysis is included in the overall SREP score (viability score) of the institution. Specifically, as part of the Business Model Analysis, supervisors take into account current information and forecasts on the macroeconomic situations, including GDP and unemployment trends, interest rates and house price developments, and consumer confidence in relevant jurisdictions. The SREP assessment report that the assessors reviewed took into account macroeconomic environment and particularly the uncertainty due to the COVID pandemic in the assessment of the bank's business model.
EC5	The supervisor, in conjunction with other relevant authorities, identifies, monitors and assesses the build-up of risks, trends and concentrations within and across the banking system as a whole. This includes, among other things, banks' problem assets and sources of liquidity (such as domestic and foreign currency funding conditions, and costs). The supervisor incorporates this analysis into its assessment of banks and banking groups and

	addresses proactively any serious threat to the stability of the banking system. The supervisor communicates any significant trends or emerging risks identified to banks and to other relevant authorities with responsibilities for financial system stability.
Description and findings re EC5	FI prepares a financial stability report "Stability in the Financial System" on a semi-annual basis, which contains FI's assessment of the financial stability in Sweden, and summarizes its view on the risks connected to the economic situation. The "Bank barometer" report prepared with the same frequency, describes industry trends. Both these reports are made public and were reviewed by the assessor. The report on stability in the financial system, amongst others, include information on banks' vulnerability in relation to concentration and interconnectivity, solvency and profitability, asset quality and credit risk, and financing and liquidity. The bank barometer on the other hand contains, amongst others, information on distribution of bank lending, lending by banks to the public, bank financing, profitability of banks. The bank barometer provides a good basis for benchmarking of Swedish banks based on their business models (categories of firms), which include large banks, retail banks, savings banks, consumer credit companies and securities banks. The FI is also member of the Financial Stability Council (FSC). The other members include the government through the MoF, the Riksbank, and the SNDO. The FSC meets regularly to discuss build-up of risks in the economy, and measures to mitigate these risks. The FSC has no mandate to take any decision and thus it is up to each authority to take decision according to its mandate. Minutes from FSC´s meetings are made public. FI has recognized the fact that the Swedish banking sector is highly exposed to the residential real estate market and the fact that due to a long period of low loss rate, there is a risk that the models used by banks for Pillar 1 regulatory capital purpose may not provide sufficient capital to cushion against possible losses. It has thus imposed a risk weight floor of 25 percent for the Swedish mortgage in pillar 1 and, in pillar 2, a risk weight floor of 25 percent for commercial residential property and a risk weight floor of 35 percent for commercial property. The expectation is that this measure will enhance the resilience of banks and the banking system to severe downturn by ensuring that they have sufficient capital. The additional capital as a result of the floor is also expected to help minimize any risk of spillover effects. In its November 2021 financial stability report, FI noted the vulnerability due to the concentration of Swedish financial system to the CRE sector and the fact that a shock to the sector could impact banks and other lenders. Based on this, it noted that the primary focus of FI is to ensure that systemically important actors and markets are sufficiently resilient to be able to manage disruptions without too much of an impact.
EC6	Drawing on information provided by the bank and other national supervisors, the supervisor, in conjunction with the resolution authority, assesses the bank's resolvability where appropriate, having regard to the bank's risk profile and systemic importance. When bank-specific barriers to orderly resolution are identified, the supervisor requires, where necessary, banks to adopt appropriate measures, such as changes to business

	strategies, managerial, operational and ownership structures, and internal procedures. Any such measures take into account their effect on the soundness and stability of ongoing business.
Description and findings re EC6	The BRRD has been transposed into Swedish law through the Resolution Act and Resolution Ordinance and the Banking and Financing Business Act (Recovery plans), and SNDO is the designated resolution authority with responsibility for establishing resolution plans for banks in Sweden. FI is required to provide comments on the resolution plan. The Resolution Act and the Resolution Ordinance define the responsibilities of FI and SNDO, and how they should cooperate. FI is responsible for the assessment of banks' recovery plans but is required to consult with SNDO in the review process, where SNDO is expected to identify and assess any measures in the plan which could impact on resolvability of a bank. The assessment of resolvability of institutions by SNDO is supposed to be conducted annually in connection with resolution plans being drawn up and is supposed to focus on ensuring that institutions are financially, operationally, and legally resolvable. SNDO has, however, not yet formulated all details of what will be included in the assessment of resolvability. The outcome of the assessment of resolvability by SNDO may also need to be integrated into the SREP assessment as required by the EBA Guidelines (EBA/GL/2022/03). The EBA has recently published guidelines on resolvability (on January 13, 2022), which will enter into force on the January 1, 2024 and will impose a common EU minimum standard for resolvability across a number of areas with the primary targets being systemically important institutions. In discussions with the assessors, SDNO noted that these guidelines will constitute an important part of its assessment of resolvability of systemically important Swedish institutions. SNDO's ambition though is to establish a framework for assessing resolvability on the basis of EBA's guidelines. SNDO has already set minimum requirements for own funds and eligible liabilities (MREL) This is an important factor in resolvability as it ensures that institutions have adequate amounts of capital instruments and eligible liabilities to which the bail-in tool can be applied. SNDO is continuously monitoring the institutions compliance with MREL. FI supports the SNDO by undertaking ongoing supervision of MREL and intervening (after consultation with the SNDO) where an institution has failed to comply with MREL requirements. Where SNDO identifies impediments to resolvability it is expected to exercise its powers, in consultation with FI, to address the material impediments. If SNDO assesses specific measures needs to be adopted by the institution, the effect of those measures on the soundness and stability of ongoing business of the institution will be taken into account. FI and SNDO should continue to refine their processes for cooperation in relation to the assessment of the recovery and resolution plans. SNDO should also proceed with the development of details that will be included in the assessment of resolvability of financial institutions.

EC7	The supervisor has a clear framework or process for handling banks in times of stress, such that any decisions to require or undertake recovery or resolution actions are made in a timely manner.
Description and findings re EC7	FI is responsible for determining whether an institute or company is failing or likely to fail (FOLF) but is required to consult SNDO and the Riksbank prior to the determination as per Chapter 8, section 1 of the Resolution Act. Initiation of FOLF assessment is made either by FI or by SNDO. The dual initiation power aims to ensure that FOLF assessments are made in a timely manner. The FOLF is an outcome of the supervisory review and evaluation process (SREP) and where a FOLF decision is needed then SREP will be updated. Subsequent to a FOLF assessment, SNDO determines whether the institution should be placed into resolution. In addition to the bank being FOLF, two criteria need to be met as per Chapter 8, Article 5-10 of the Resolution Act; (i) absence of alternative measures to prevent a failure, and (ii) resolution being in the public interest. Once resolution has been decided, SNDO assumes control of the bank (Chapter 10, Article 1) and is required to as soon as possible publicly announce the resolution decision (Chapter 8, Article 13). Chapter 6a (section 1) of the Banking and Financing Business Act also requires banks to draw up recovery plans. Section 3 provides that a recovery plan and a group recovery plan should set out: (i) the measures which are identified as reasonably being expected to lead to the credit institution or group being able to preserve or restore its financial position and viability, and (ii) the plan and the measures which are identified as reasonably being expected to be carried out quickly and efficiently in the event of financial stress and without leading to a serious disruption in the financial system.
EC8	Where the supervisor becomes aware of bank-like activities being performed fully or partially outside the regulatory perimeter, the supervisor takes appropriate steps to draw the matter to the attention of the responsible authority. Where the supervisor becomes aware of banks restructuring their activities to avoid the regulatory perimeter, the supervisor takes appropriate steps to address this.
Description and findings re EC8	The use of the word 'bank' is restricted by the law and its use requires approval.FI is responsible for the supervision of the whole of the financial sector in Sweden and has legal powers to take action against companies performing services without authorization. Historically, FI has forced a few companies to close down its operations. Specifically, Chapter 15, section 18 of the Banking and Financing Business Act (BFBA) provide that where any person conducts such business as covered by this BFBA without a license to do so, FI shall order such person to cease the business. The assessor saw evidence of a case where FI respondent to address a case of regulatory arbitrage. Specifically, FI have in the past noted new provider of mortgage lending using a different business model than the traditional mortgage lender. They typically transfer loans to special funds, avoiding the capital charges that come with on-balance sheet lending. This required FI to carefully analyze the risks involved in this business model. In response to these business models, FI issued a memorandum where it sets out preconditions that needs to be met to ensure that new actors in the mortgage market do

	not increase the risks for consumers or the financial system and which will be taken into account when assessing application for authorization and in supervision of players in the mortgage market.
Assessment of Principle 8	Largely Compliant
Comments	FI has a methodology for categorizing Swedish credit institutions and Swedish branches of foreign credit institutions based on their systemic importance to the financial system in Sweden, which forms the basis for the application of the proportionality principle in the supervision of banks. The categorization is based on EBA methodology for identification of other systemically important institutions (O-SII) as a starting point which is then complemented by qualitative factors. This categorization forms the basis for: (i) determining the frequency and scope of FI's supervisory review and evaluation process (SREP) of individual credit institutions and branches under supervision; (ii) how FI's other ongoing supervision should be designed; and (iii) usage of FI's supervisory methods and determining how they should be applied. The SREP which is done on varying frequency based on a credit institutions systemic importance is the basis of forward-looking assessment of risk profile of banks and banking groups in Sweden and involves the assessment and rating of business model, internal governance and institution-wide control, capital adequacy and liquidity adequacy to obtain a risk score. The other outputs of SREP are the Pillar 2 capital requirement, the Pillar 2 liquidity buffer requirements, and the Pillar 2 capital guidance. FI also collaborates with other members of the Financial Stability Council in the assessment of and information sharing on build-up of risks within the economy and the financial system, and the FSC has become a good forum for the discussion of measures to mitigate risks to the financial system as evidence during the COVID pandemic. FI also has its own process for assessing the stability of the financial system and it publishes its report on a semi-annual basis. The report, amongst others, form the basis for the risk identification at the macro level and included analysis of vulnerabilities to the sectors that are supervised by FI including the banking sector. The report also tracks risks and vulnerabilities to each of the main sectors and, for the banking industry, the key vulnerabilities that were identified in the recent report included: concentration and connectivity, solvency and profitability, and asset quality. The outcome of the report included recommendations on how to enhance the resilience of banks and the financial system. To facilitate the assessment of banks and banking group' compliance with prudential regulations and other legal requirements, and to serve as an input to the risk-based prioritization of supervisory resources in the examination programs, FI has adopted a number of tools which include the use of: (i) KRIs covering a range of solvency, liquidity and balance sheet ratios, (ii) SREP process, (iii) thematic reviews, (iv) deep dives, (v) quarterly or semiannual risk review meetings with banks' senior management etc. The assessors were able to confirm the operation of these tools through the review of the supervisory reports, information obtained from the banks for inform the supervisory

	assessments, and minutes of the meetings (quarterly risk review meetings). FI also has a broad framework for ensuring that the developments in the macroeconomic environment are considered in the assessment of risks to banks, banking groups and the banking system. The process for assessing resolvability of institution is, however, still evolving though FI and the resolution authority have continued to refine their processes including collaborative work related to the review of the resolution and recovery plans. The framework for handling banks in times of stress has also developed since the last FSAP though this has not been fully tested as the banking system has been relatively stable. The assessors noted, however, that the minimum level and type of engagement with institutions in the regular SREP process is predominantly driven by the category of a firm which is based on its systemic important.[62] This may not be an issue for larger institution which are subjected to SREP on a more frequent basis and to more intensive continuous risk assessment. The limited consideration of risk profile in determining the supervisory SREP cycle is, however, likely to have an adverse impact on the timeliness of supervisory action for smaller institutions particularly given that risk profile of institutions can change significantly between the rather long SREP cycle. The issue of inconsistency in the approach to assessment of risks and formulation of supervisory outcome was also noted by the assessors in various discussions with supervisors and the industry.[63] This was attributed to lack of depth of risk experts to support the lead examiners particular in the review of new business models, cyber-security risks, risk assessment methodologies, stress testing, and governance. The lack of clarity in relation to factors to be considered in determining the scope and frequency of SREP exercise for the institutions in category 3 and 4 was also noted. FI currently has no distinction between onsite and offsite supervision, and the degree of onsite work by FI is very limited with the time spend onsite noted as varying but rarely exceeding 3-4 days. This time spend onsite is unlikely to be adequate to undertake detailed work to test the effectiveness of banks' internal controls, reliability of data provided to FI as part of the supervisory reporting, quality of deployment of the IRB models, consistency in classification of exposures etc. The review of performance of IRB models is also, as a consequence of the ongoing IRB repair, currently focused on high level monitoring of model performance and governance, and no detailed testing is carried out. These gaps in approach to supervision are largely attributable to the scarce resources and the relatively high turnover in some specialist areas, which was also recognized as a major concern in the discussion between the assessors and the industry. The approach to supervision also takes into account the general requirement on all state agencies in Sweden to make use of resources in an efficient manner. For example, given that the data

[62] For example, FI does not normally perform more frequent in-depth SREPs for smaller but high-risk institutions.

[63] The issue of consistency in risk assessment can potentially be addressed by ensuring that the supervisory manuals are adequately detailed and by references to the applicable EBA guidelines while consistency in formulation of action can be enhanced through more intrusive supervision to facilitate formulation of supervisory actions that address the root causes of the issues.

	that banks report are assessed to some level by both the internal and external auditors, it is FI assessment that it would not be a well-motivated use of resources that this data should always be frequently validated by the supervisors. However, in selected cases and areas where FI has reasons to believe that there may be data quality issues, more in-depth supervision may be considered in line with FI's risk-based approach.
Principle 9	**Supervisory techniques and tools**. The supervisor uses an appropriate range of techniques and tools to implement the supervisory approach and deploys supervisory resources on a proportionate basis, taking into account the risk profile and systemic importance of banks.
Essential criteria	
EC1	The supervisor employs an appropriate mix of onsite[64] and offsite[65] supervision to evaluate the condition of banks and banking groups, their risk profile, internal control environment and the corrective measures necessary to address supervisory concerns. The specific mix between onsite and offsite supervision may be determined by the particular conditions and circumstances of the country and the bank. The supervisor regularly assesses the quality, effectiveness and integration of its onsite and offsite functions, and amends its approach, as needed.
Description and findings re EC1	FI has adopted a risk-based approach to supervision, where focus is placed on large institutions (in category 1 and 2) and which are deemed to pose the greatest risk to financial stability in Sweden due to their size. The level of engagement with supervised financial institutions based on the adopted approach supervised financial institutions is primarily driven by the consequences of something going wrong (impact rating) and, to some extent, the probability of something going wrong (likelihood). These aspects are captured by FI in the risk assessment process and the risk classification system. FI approach to supervision does not distinguish between onsite and offsite supervision, and onsite and offsite inspections are conducted by the same experts. The intensity of the regular SREP supervision are focused on the three major banking groups and the two largest branches in Sweden. These firms are visited multiple times per year as part of the SREP process which include quarterly risk assessment updates. The onsite visits that are part of in-depth examinations, however, are not as intrusive as it was noted that they vary but rarely exceed 3-4 days. This relatively short time period for onsite is not generally sufficient to ensure a comprehensive assessment of banks processes and to determine the reliability of information provided particularly in the case of a large banking group. The main supervisory activities that result in onsite activity

[64] Onsite work is used as a tool to provide independent verification that adequate policies, procedures and controls exist at banks, determine that information reported by banks is reliable, obtain additional information on the bank and its related companies needed for the assessment of the condition of the bank, monitor the bank's follow-up on supervisory concerns, etc.

[65] Offsite work is used as a tool to regularly review and analyze the financial condition of banks, follow up on matters requiring further attention, identify and evaluate developing risks and help identify the priorities, scope of further offsite and onsite work, etc.

	include ongoing supervision, SREP, supervisory investigations, and supervisory analyzes (deep-dives and thematic surveys). Ongoing Supervision The onsite engagement with the three major banking groups and banks deemed to be higher risk, as part of ongoing supervision, involves: (i) quarterly meetings with the CFO, CRO, Head of Compliance and internal audit function; (ii) annual meetings with executive management and the Board; and (iii) annual meeting with the external auditor. The engagement with banks in category 2 is similar. However, risk meetings are held on a semiannual basis and there are no regular annual meetings with the executive management and the Board. The meetings are normally aimed at discussing financial performance, capital position, development in risks and emerging audit issues amongst others and provide the basis for the update of the institution risk profile. For firms not deemed to be a risk priority, the majority of the ongoing supervisory activity is done through off site analysis. Supervisory Review and Evaluation Process (SREP) For the three major banking groups, the annual SREP is conducted jointly with the members of the supervisory college. Most of the assessment is done offsite, however, the quarterly risk review meetings provide an input, and additional meetings with the firm are held as necessary. For institutions in category 2, SREP is conducted at least every second year. For the smaller credit institutions, the SREP should be performed every third year. SREP for smaller institutions are based on more limited information on reported figures, annual financial statement, ICAAP and information on pillar 2 requirements, and meetings with institutions and onsite visit. Supervisory Investigations (including onsite and offsite examinations) Outside the annual supervisory work plan, FI may also carry out ad-hoc supervisory investigations. This can range from a quick offsite investigation to a full investigation on- and off site. Time spent onsite will naturally vary but rarely exceed 3–4 days. Investigations are typically triggered by analysis of a combination of prudential or other market related findings and data. At the start of every year the examination program is decided by the Supervision Committee, based on risk-based priorities. The risk expert departments, in cooperation with the lead supervisors, propose examinations that should be performed taking into account FI's supervisory priorities, the riskiness of the and the size of the institutions. The riskiness of the institution is informed by KRIs, SREP and other information. Examinations can be done on an "ad hoc" basis based on new information. Any changes to the examination program must be approved by the Supervision Committee. Supervisory analyzes (deep-dives or thematic surveys) Supervisory analyzes typically aim to collect information from several firms simultaneously and is used by FI to monitor and examine risks identified through FI's risk identification

	process. It can be used as preparation for a supervisory investigation, but cannot in itself be a basis for intervention or sanction. It may include onsite visits but of the analyzes would largely be of offsite nature. Supervisory investigation focuses on a single firm and has strict requirements in terms of form and process. The supervisory analyzes program is decided upon according to the same process as the examination program. The assessor's view is that the current level of onsite inspections is inadequate particularly given the time spend onsite which varies between 3 to 4 days and the nature of work carried, which generally does not involve extensive application of inspection techniques to obtain reasonable assurance that banks are complying with minimum standards. Continued lack of more intrusive onsite inspection could result in significant risk being missed by supervisors and which could later on crystallize resulting in significant financial loss in the banking system and reputational damage to the supervisor and the Swedish financial system. In discussion with the banks, contrast was particularly made between the level of onsite inspection undertaken by a host supervisor to a Swedish bank and FI as the group supervisors.
EC2	The supervisor has a coherent process for planning and executing onsite and offsite activities. There are policies and processes to ensure that such activities are conducted on a thorough and consistent basis with clear responsibilities, objectives and outputs, and that there is effective coordination and information sharing between the onsite and offsite functions.
Description and findings re EC2	FI has documented its supervisory strategy and processes for risk identification, categorization of institutions to inform the application of the principle of proportionality, supervisory review and evaluation process, analysis of key risk indicators, review of recovery plans, supervisory analysis and supervision inspections to facilitate the planning and execution of supervisory activities, which include: thematic reviews, deep-dives, surveys, analysis of key risk indicators, inspections, and approval and monitoring internal rating based models (IRB). The documents include a number of standardized templates and checklists (for scoping, meeting agendas and communication with the firms) to ensure consistency. FI, however, does not distinction between onsite and offsite functions and the risk departments typically conduct supervisory investigations and supervisory analysis. Onsite inspections are generally used by FI to: (i) investigate areas of concern identified in the ongoing supervision or SREP; (ii) get a better understanding of the credit institutions' business and its governance; (iii) to follow up on supervisory actions and recommendations, and (iv) to focus on high-risk areas. Supervisory analyzes including deep-dives and thematic surveys, on the other hand, is used to: (i) facilitate better understanding of specific risks or subject area across a number of credit institutions; (ii) to assess the need for new regulations or supervisory guidance; (iii) assess whether a formal investigation should be initiated in relation to a specific firm or several firms; and/or (iv) provide a basis for internal or external reports, such as financial stability analyzes,

	supervisory reports. The outcome of a supervisory analysis, however, on its own cannot be used as a basis for supervisory intervention or sanction. A supervisory committee which is chaired by the Executive Director of the Operational Section Banking has been set up to ensure consistency of supervisory decisions. FI staff also hold risk seminars where the risks ratings and findings are challenged by risk experts and peers. FI shared with assessors' details of the planned supervisory activities of mid-sized and smaller firms for 2022 which included the priority rating of the activities, name of the institution and the type of the activity being planned. The activities that are planned include: SREP, continuous risk assessment, investigations, in-depth analysis, assessment of recovery plans, categorization of institutions, etc. The assessors noted that detailed supervisory manual have not been adopted particularly to facilitate the execution of onsite inspections. Detailed manual would help in ensuring consistency in approach to supervision which is key given the high turnover of staff. It will also help in the training of staff.
EC3	The supervisor uses a variety of information to regularly review and assess the safety and soundness of banks, the evaluation of material risks, and the identification of necessary corrective actions and supervisory actions. This includes information, such as prudential reports, statistical returns, information on a bank's related entities, and publicly available information. The supervisor determines that information provided by banks is reliable[66] and obtains, as necessary, additional information on the banks and their related entities.
Description and findings re EC3	FI has implemented the European regulatory framework (EU directives and regulations) for banking supervision, which includes a number of elements relevant for collection of supervisory information, including the regulatory reporting framework (COREP/FINREP). FI has also adopted guidelines issued by the European Banking Authority (EBA). Swedish banks are subject to national and EU/EBA reporting requirements. The frequency of submission of the reports varies, i.e., monthly, quarterly, annually or when changes occur. The reports which are part of national requirements includes: Money Laundering Report, holdings by qualifying owners and property acquired to protect a claim, standard reporting template, internal capital adequacy assessments and interest rate risk in non-trading activities. Swedish banks are also required to submit information based on the EU/EBA framework and these reports include: COREP (Own Funds requirement, Leverage Ratio, Liquidity Coverage Ratio, Net Stable Funding Ratio and Large Exposures), Financial information (FINREP), Funding Plans, etc. Banks also submit ICAAP/ILAAP information recovery plans and stress testing results to FI for assessment. The information collected by FI for purposes of SREP include those required to calculate Pillar 2 capital add-on for interest rate risk in the banking book (IRRBB), credit concentration risk and pension risk. A number of banks also participate in

[66] Please refer to Principle 10.

	the annual thematic analyzes, which include the annual surveys on mortgage lending and consumer credit lending. Also, as a result of COVID-19, FI introduced new reporting requirement aimed at tracking the impact of the pandemic particularly on banks' credit portfolios FI largely relies on firms' internal quality assurance controls and internal audit to ensure high-quality data and information. It also relies on the review and board approval for quality assurance of internal reports such as ICAAP, ILAAP and recovery plans which are submitted to FI. The assessors noted that degree of onsite work that is possible for FI to conduct is unlikely to be entirely sufficient to determine that all information provided by banks is reliable. The assessors found evidence of additional information being required from the financial institution to support the SREP process. These included: strategy and business plan, financial information and forecasts, information on internal controls and governance, granular credit risk information, performance indicators for credit risk models, credit related concentrations, ICAAP adverse scenarios, etc. Please also see CP 10.
EC4	The supervisor uses a variety of tools to regularly review and assess the safety and soundness of banks and the banking system, such as: (a) analysis of financial statements and accounts; (b) business model analysis; (c) horizontal peer reviews; (d) review of the outcome of stress tests undertaken by the bank; and (e) analysis of corporate governance, including risk management and internal control systems. The supervisor communicates its findings to the bank as appropriate and requires the bank to take action to mitigate any particular vulnerabilities that have the potential to affect its safety and soundness. The supervisor uses its analysis to determine follow-up work required, if any.
Description and findings re EC4	FI has implemented a number of tools and methodologies for analysis and assessment of banks': (i) risk exposures; (ii) capital and liquidity adequacy, (iii) viability and sustainability of business model; and (iii) quality of internal governance and controls system. FI also conducts supervisory stress tests and sensitivity tests. However, there are gaps in its approach to the review of banks own stress testing as part of the SREP exercise. The FI internal stress testing is used to inform Pillar 2 capital guidelines. The assessment of banks' end-to-end stress testing is, however, currently limited and does not involve comprehensive assessment of banks methodologies and assumptions especially for the larger banks. This mainly being due to resource constraints. The main tools used by FI includes analysis of key risk indicators, which is based on the supervised entities balance sheet and income statement data, and SREP. As part of the

	SREP, FI assess banks' business model, internal governance and institution wide controls, and capital and liquidity adequacy. FI also carried out thematic reviews and examples include: (i) annual survey of new consumer credit, which helps enhance FI's understanding of consumer credit and the risks for borrowers; (ii) a review and analysis of funding structure for three Swedish banks; and (iii) thematic review of the banks accounting of defined pension plans according to IAS 19. Focus on actuarial assumptions made by the banks. The supervisors also assess key risk indicators for categories 2-4 institutions, The SREP process includes the communication of findings and results to the firm and any requirements on mitigating actions where appropriate. The follow-up of these mitigating actions is monitored by FI through ongoing supervision of the banks. FI also conducts ad hoc analyzes on bank specific and system wide basis, and uses shifts in trends or key indicators to determine where follow-up supervisory activity will be needed. FI has introduced standardized templates and tables for communication of findings, to ensure a more structured and consistency approach to assessment and documentation of findings. However, based on discussions with the industry, there is need for more consistency in communication of findings and particularly the clarity and granularity of details provided to the institutions to ensure, amongst others, that the root cause of the identified issues is effectively addressed. Also as noted in EC 1 and 2 above, the onsite inspection does not involve detailed testing of effectiveness of banks' internal controls systems, and thus reliance is placed on institutions to ensure high quality data. Also see EC 1 and 2 above.
EC5	The supervisor, in conjunction with other relevant authorities, seeks to identify, assess and mitigate any emerging risks across banks and to the banking system as a whole, potentially including conducting supervisory stress tests (on individual banks or system-wide). The supervisor communicates its findings as appropriate to either banks or the industry and requires banks to take action to mitigate any particular vulnerabilities that have the potential to affect the stability of the banking system, where appropriate. The supervisor uses its analysis to determine follow-up work required, if any.
Description and findings re EC5	FI runs its own supervisory stress tests for various purposes including financial stability analyzes and for determining Pillar 2 guidance, which is based on a sensitivity stress test. Further, FI participate in EBA's EU-wide stress testing program, including with regard to the development and design of the stress test. The last stress test, in 2020, covered five Swedish banks while the large branches were covered indirectly in the stress test through the participation of their parent companies via the home jurisdiction. FI and the Riksbank also publishes their separate financial stability reports twice a year where they identify the key vulnerabilities to the banking sector. For example, the latest report published by FI noted the large risks in the banks' lending portfolios, where lending to CRE firms has become riskier and FI noted in its financial stability report the need for Swedish banks to continue holding significant capital and liquidity buffers that can be drawn if the situation was to worsens. FI performs a yearly bottom-up risk identification

	process that results in setting of the top supervisory priorities at the banking area and institutional (FI) level. FI's top supervisory priorities are published.
EC6	The supervisor evaluates the work of the bank's internal audit function, and determines whether, and to what extent, it may rely on the internal auditors' work to identify areas of potential risk.
Description and findings re EC6	FI meets the internal audit function (IAF) of the three largest banks on a quarterly or semi-annual basis as part of the ongoing supervision. FI noted that the purpose of the meetings with the IAF was to assess quality of the work, management and competence of internal audit through dialogue and by examining the reports, work program and risk analysis that internal audit submits to the credit institution. The findings and observations from the engagement with internal audit functions of banks are incorporated in the assessment of the governance and internal controls of the firm, in accordance with the EBA SREP Guidelines. FI has no regular meetings with the internal audit function in other banks. However, for banks in category 2, supervisors examine all reports from auditors and the audit plans as part of the ongoing supervision. The assessors were provided with evidence of engagement with banks' IAF which included minutes of meetings and presentations. The assessors also met with IAF functions of a category 1 and 2 bank to discuss the nature of their interaction with FI. The assessors noted that there was good level of engagement and the issues discussed included the audit plan, outstanding audit issues and key audit findings. The assessors also reviewed SREP report and found evidence of assessment of the internal audit function by the supervisors, which included consideration of the reporting lines of the internal auditor, the audit findings, resourcing of the internal audit function, audit backlogs and granularity of audit reports.
EC7	The supervisor maintains sufficiently frequent contacts as appropriate with the bank's Board, non-executive Board members and senior and middle management (including heads of individual business units and control functions) to develop an understanding of and assess matters such as strategy, group structure, corporate governance, performance, capital adequacy, liquidity, asset quality, risk management systems and internal controls. Where necessary, the supervisor challenges the bank's Board and senior management on the assumptions made in setting strategies and business models.
Description and findings re EC7	FIs contact with the Board and senior management is done primarily within the context of ongoing supervision of the three large banks and some of the smaller firms. The Director General of FI meets with the Board and the CEOs of the three large banks at least annually. The key agenda points for the meeting include main findings and observation from FI and key strategic issues for the banks from a supervisory perspective. The Executive Director of Banking Supervision and the Group Supervisor also meets with the CEO and entire executive management of the largest banks (CEO, CFO, CRO and Heads of Business) on an annual basis to discuss the viability of the business model. The Director of the Banking Supervision Department also meets with the CFO, CRO and Head of Treasury on a quarterly basis to the quarterly financial result, and risk development and

	outlook. The Group supervisors also meets with the Head of Compliance and Internal audit to discuss the key compliance and internal audit issues. The assessors were provided access to the presentations for the meetings between the supervisors and the banks' senior management including the CEO, CFO, CRO and head of internal audit. The assessors also met with the CROs and internal audit functions of a category 1 and category 1 banks to discuss the nature and level of engagement. During these meetings the need for increased engagement was raised by the banks. FI does not typically meet separately with independent board members and was noted by FI that in the Swedish system, most board members are independent. There is also limited contact with the board and senior management of the smaller banks. In these cases, the contacts are usually event-drive.
EC8	The supervisor communicates to the bank the findings of its on- and offsite supervisory analyzes in a timely manner by means of written reports or through discussions or meetings with the bank's management. The supervisor meets with the bank's senior management and the Board to discuss the results of supervisory examinations and the external audits, as appropriate. The supervisor also meets separately with the bank's independent Board members, as necessary.
Description and findings re EC8	FI procedural documents (Procedure description—investigations) specifies the communication between FI and credit institution as well as the public (all investigations by FI are publicly announced on FI's website). The document also specifies the roles and responsibilities, including for communication of findings with the firm and require that the outcome of inspections, including any mitigating actions for the firm, are also published on FI's website. The SREP results for all banks are communicated in a formal decision, in line with the EBA SREP Guidelines. FI also publishes the capital requirements and Pillar 2 guidance for the large credit institutions (category 1 and 2) on a quarterly basis. Additionally, where a firm has been subject to a specific supervisory investigation, FI meets with the management of the firm to discuss the outcome of investigation and any future areas for follow-up. As per the investigation procedure, the closing letter including FI's assessments and recommendations is sent to the CEO, and a copy is sent to the Chair of the board. The key findings and observation by FI are normally discussed in the annual meeting between FI's Director General and the board of the largest banks. This, however, is not the case for smaller banks where regular contact with the board and senior management is limited.
EC9	The supervisor undertakes appropriate and timely follow-up to check that banks have addressed supervisory concerns or implemented requirements communicated to them. This includes early escalation to the appropriate level of the supervisory authority and to the bank's Board if action points are not addressed in an adequate or timely manner.
Description and findings re EC9	FI supervisors monitor and follow-up on banks' mitigating actions through SREP process. The frequency of senior-level meetings, especially for large firms which are subject to SREP on an annual basis, ensures timely communication of any findings or outcome of

	supervisory assessment. The frequent meetings also allows for follow-up where supervisory actions have not been addressed in an adequate or timely. The supervisory engagement for smaller institutions (category 3 and 4) is less frequent in line with FI supervisory engagement model. However, FI noted that the supervisors can seek more frequent follow up meetings where needed. The assessors, however, noted instances where the expectations on the bank in terms of the specific action to be undertaken to address the identified issues, or the expected outcome was not very clear and where timelines for taking remedial actions, including the expected outcome were not explicitly defined. Generally, in the case of FI, there is a distinction between the formal assessment of non-compliance communicated within examinations and the assessment of weaknesses communicated within for example SREP. The latter are by their nature expressed less strictly.
EC10	The supervisor requires banks to notify it in advance of any substantive changes in their activities, structure and overall condition, or as soon as they become aware of any material adverse developments, including breach of legal or prudential requirements.
Description and findings re EC10	Swedish firms are subject to EU regulations that stipulate various notification requirements, including for substantive changes in activities, structure and overall condition. For example, firms need to inform FI promptly in case of breaches of minimum requirements, breaches of Pillar 2 guidance, or any breaches of triggers that are specified in their recovery plans. Firms are also subject to other notification and application requirements, e.g., when a firm considers changes in business activities that may require FI approval. Branches are also subject to notification requirements, which are typically communicated via the home supervisor using a template called "change in branch particulars. The regulation on notification of certain acquisition (FFFS 2016:1) requires Swedish credit institutions to notify FI of any planned acquisition or investment exceeding 10 percent of own funds or SEK 10 million prior to acquisition. In addition, FI's general guidelines on reporting of events of material significance (FFFS 2018:5) requires credit institutions to report immediately to FI when events that could lead to significant financial loss for a large number of customers, and events that could lead to a considerable loss of reputation for the undertaking.
EC11	The supervisor may make use of independent third parties, such as auditors, provided there is a clear and detailed mandate for the work. However, the supervisor cannot outsource its prudential responsibilities to third parties. When using third parties, the supervisor assesses whether the output can be relied upon to the degree intended and takes into consideration the biases that may influence third parties.
Description and findings re EC11	FI has the power to commission experts to undertake specific work. Specifically, the Swedish Banking and Financing Business Act (Chapter 13, article 9) enables FI to hire and appoint auditors to participate in the audit of a credit institution where needed. FI can also hire external experts for specific assignments, and it currently uses external auditors for the annual assessment of firms' compliance with covered bond regulations. For

	specific inspections, FI relies on external experts, although this is more an exception than a rule. For example, FI uses external auditors for the annual assessment of firms' compliance with covered bond regulations. All Swedish firms that issue covered bonds are subject to this inspection. The results are reviewed and discussed with the auditor and findings are incorporated in the ongoing supervision and SREP assessment of the firm.
EC12	The supervisor has an adequate information system which facilitates the processing, monitoring and analysis of prudential information. The system aids the identification of areas requiring follow-up action.
Description and findings re EC12	FI has developed reports and risk dashboards in-house for some of the risk types and recently implemented a new data platform (FIDA), which enables supervisors to find, extract and work with regulatory data. SREP and other supervisory findings are registered in the system (MS Access, FI-loggen) for monitoring and follow-up. FI also uses a number of other systems for collection and aggregation of data received form financial institutions. The assessors were provided with a walkthrough of the FI-loggen system and were broadly of the view that it has the functionality to facilitate the tracking of supervisory findings. FI uses Abacus regulator 3 as well as an in-house solution to process regulatory data from institutions. Regulatory data subsequently feeds into SAS for aggregation and calculation of risk indicators. Excel, SAS, and the new FIDA system, are used by risk experts and supervisors (end users). Liquidity risk has a fully automated performance measure developed in SAS. Other risk areas predominantly use SAS_VA to support their analysis. The system for capturing regulatory data from banks has no restrictions regarding previous reported version of data. However, FI have processes in SAS to identify changes between different returns. Supervisors at Banking supervision have a system for monitoring KRIs. The system contains a number of automatically calculated KRIs which includes: LCR, NSFR, cost-to-income ratio, return on equity and credit losses. Risk experts also have their own system that contains more detailed KRIs for their risks. Besides liquidity, these systems should ideally also be developed further to facilitate easier monitoring and benchmarking.
Additional criteria	
AC1	The supervisor has a framework for periodic independent review, for example by an internal audit function or third-party assessor, of the adequacy and effectiveness of the range of its available supervisory tools and their use, and makes changes as appropriate.
Description and findings re AC1	FI's independent internal audit function reviews and evaluates the effectivity of FI's processes, decisions and internal governance and controls. This includes the adequacy and effectiveness of the range of available supervisory tools and their use.

	The basis for the work of FI's audit function is the annual audit plan, which is determined in a risk-based manner focusing on areas that are most material to the effectiveness of FI. The board of FI signs off the audit plan.
Assessment of Principle 9	Materially Non-Compliant
Comments	FI has adopted a risk-based approach to supervision, where focus is placed on large banks, which are deemed to pose the greatest risk to financial stability in Sweden due to their size, and FI uses a number of tools to assess risks within credit institutions. These include continuous assessment, SREP, investigations, deep-dives and thematic surveys. The approach to supervision in Sweden, however, does not distinguish between onsite and offsite supervision, and the level of onsite inspections is generally inadequate given the time spend onsite at institutions, which was noted as being between 3 to 4 days and the nature of actual work carried out during onsite inspection, which normally does not involve extensive testing to obtain reasonable assurance that banks are complying with minimum standards and on the effectiveness of bank internal controls and risk management process. Gaps were also noted in the supervision of banks stress testing practices and Internal Rating Based (IRB) Models, where the review does not involve detailed challenge of banks processes and assumptions, and deep-dive assessment of the banks' methodologies including their implementation. This lack of an intrusive onsite inspection process poses the risk of significant issues being missed by supervisors and which could later on crystallize resulting in material financial loss to the banking system and reputational damage to the supervisor and the Swedish financial system. The assessors recognize that to address this gap, FI would have to increase its resources. It must also be able to increase its resources including by attracting and retaining senior level experts, which has proved particularly challenged in IRB model assessment/ validation. FI also largely relies on banks' internal quality assurance controls and internal audit to ensure high-quality data and information, and on the internal review for quality assurance of internal reports such as ICAAP, ILAAP and recovery plans which are submitted to FI for supervisory review. The authorities attributed this to the fact that the degree of onsite work that is possible for FI to conduct is insufficient to assess whether all information provided by banks is reliable. The assessors recognize the importance of sound risk management in banks which relies on the three lines of defense and the role that internal audit plays in providing assurance on the effectiveness of internal controls. However, it is also important for the supervisor to carry out their own targeted independent assessment using a risk-based approach rather than placing excessive reliance on the bank's internal controls.[67] The assessor's view, therefore, is that more focus should be given to assessment of data quality especially given that ongoing supervisory activity for smaller

[67] The extent of reliance on the work of the internal auditors should also take into account the supervisors' assessment of the effectiveness of a bank's internal audit function.

	institutions is mainly through off site analysis, where data quality is of paramount important. FI also does not have detailed supervisory manuals to form the basis of assessment of risks in banks and particularly through onsite inspections. A detailed supervisory manual is critical in ensuring consistency in approach taken by different supervisors, some of whom are new to the organization, and given the high staff turnover especially in highly specialized areas where institutional knowledge may need to be retained in form of granular procedural documentation and manuals. This indicate that to enhance its supervisory processes, FI may also need to consider a shift in its supervisory strategy besides increasing the available resources within the banking supervision function. The consistency of communication of supervisory findings and particularly the clarity and granularity of details provided to the institutions needs enhancement to ensure, amongst others, that the root causes of the identified issues are effectively addressed by institutions. This can, amongst others be facilitated by a more intrusive supervision involving risk experts in key areas including cybersecurity, risk measurement methodologies, stress testing. The engagement with smaller institution including with their board and senior management is limited given the adopted approach, where focus is mainly on large institutions and where limited consideration is given to high risk but smaller institutions. The limited engagement especially with high risk but smaller institutions could lead to building-up of risk over time. This is more so given the long supervisory SREP cycle of 3 years (but which sometime is not met because of the resource constraint) for such institutions, which may result in delay in identifying issues to facilitate the supervisor in taking timely supervisory actions. The supervisory approach could thus formalize an increased attention on high-risk institutions in categories 3 and 4, potentially through an increased use of well-targeted thematic reviews to help identify key issues in a timely manner and form the basis for communication with the individual institutions and the wider group of categories 3 and 4 institutions. FI has fully automated the performance measures for liquidity risk while this is not the case for some of the other risk types. Specifically, although there are standardized data analysis reports in other risk areas, they are not as advanced. The assessors' view is that the performance measures (indicators) for the other risks should also be further developed in order to facilitate a more effective supervisory monitoring and benchmarking of institutions by the supervisors. FI also collects extensive information on credit risk for its supervisory exercise and their analysis, if further developed, could facilitate trend analysis and benchmarking across the institutions and help inform targeted reviews. The information includes granular details on top 25: exposures, exposures on watch list, nonperforming exposures, forborne exposures, loan loss allowances, etc.

Principle 10	**Supervisory reporting**. The supervisor collects, reviews and analyzes prudential reports and statistical returns[68] from banks on both a solo and a consolidated basis, and independently verifies these reports through either onsite examinations or use of external experts.
Essential criteria	
EC1	The supervisor has the power[69] to require banks to submit information, on both a solo and a consolidated basis, on their financial condition, performance, and risks, on demand and at regular intervals. These reports provide information such as on- and off-balance sheet assets and liabilities, profit and loss, capital adequacy, liquidity, large exposures, risk concentrations (including by economic sector, geography and currency), asset quality, loan loss provisioning, related-party transactions, interest rate risk, and market risk.
Description and findings re EC1	Chapter 13 of the Banking and Financing Business Act give FI the power to request any information that is required to fulfil its supervisory work. FI also has a reporting framework based on both Swedish and EU-regulations. The current periodical supervisory reporting is submitted according to Swedish national regulations, EU regulation and EBA guidelines. The harmonized reporting includes information on: 1. Solvency/COREP (capital adequacy); 2. Financial information/FINREP (on- and off-balance sheet assets and liabilities, profit and loss, asset quality (NPLs, forbearance), loan loss provisioning, related-party transactions, geographical, sectoral concentration); 3. Large exposures (concentration per counterparty sector and region) • Losses from immovable property; 4. Leverage ratio; 5. Liquidity (LCR and NSFR (with detail of significant currencies) and additional monitoring metrics); 6. Asset encumbrance; 7. Supervisory benchmarking; 8. Funding plans; and 9. Remuneration policies. The new reports that have been introduced as a result of changes in EU and Swedish regulated reporting since the last FSAP include: 1. Reporting on additional liquidity monitoring metrics; 2. Reporting on liquidity requirements; 3. Guidelines on COVID-19 measures reporting and disclosure;

[68] In the context of this Principle, "prudential reports and statistical returns" are distinct from and in addition to required accounting reports. The former are addressed by this Principle, and the latter are addressed in Principle 27.

[69] Please refer to Principle 2.

	4. Guidelines on fraud reporting under PSD2; 5. Reporting for the purposes of identifying G-SIIs and assigning G-SII buffer rates; 6. Specific reporting requirements for market risk (FRTB); and 7. Money laundering.
EC2	The supervisor provides reporting instructions that clearly describe the accounting standards to be used in preparing supervisory reports. Such standards are based on accounting principles and rules that are widely accepted internationally.
Description and findings re EC2	Chapter 7, section 2 of FI's regulations and general guideline regarding annual accounts for credit institutions and securities companies (FFFS 2008:25 stipulates that all credit institutions and securities companies and financial holding companies regardless of size or if they are listed or not applies IFRS (approved by the EU) in their consolidated financial statements. Regulation (EC) No 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards (IAS-regulation), which is applicable in Sweden, requires all European listed entities to apply IFRS in their consolidated financial statements. Further, Chapter 2, section 1 of the FI's regulations and general guideline regarding annual accounts for credit institutions and securities companies (FFFS 2008:25) also stipulates that, institutions should apply international financial reporting standards approved by the EU in their annual financial statement if nothing else is required by law (e.g., the Annual Accounts Act for Credit Institutions and Securities Companies,1995:1559) or by FI's regulations according to FFFS 2008:25. The financial statements on an entity level are prepared based on Swedish local accounting standards. The current financial supervisory reports, which is submitted to FI, are expected to comply with annual accounts and the standards stipulated by the FI's regulations and general guideline regarding annual accounts for credit institutions and securities companies are the relevant EBA guidelines.
EC3	The supervisor requires banks to have sound governance structures and control processes for methodologies that produce valuations. The measurement of fair values maximizes the use of relevant and reliable inputs and is consistently applied for risk management and reporting purposes. The valuation framework and control procedures are subject to adequate independent validation and verification, either internally or by an external expert. The supervisor assesses whether the valuation used for regulatory purposes is reliable and prudent. Where the supervisor determines that valuations are not sufficiently prudent, the supervisor requires the bank to make adjustments to its reporting for capital adequacy or regulatory reporting purposes.
Description and findings re EC3	All Swedish credit institutions are required to use the IFRS in the preparation of their consolidated financial statements which means that fair valuation of financial assets and liabilities should be determined based on IFRS principles and particularly IFRS 13 (fair value measurement).

	EU prudential regulation (the CRR article 34 in combination with article 105, together with the delegated regulation[70] (EU) 2016/101) covers provisions on valuation, including valuation governance, for institutions' fair valued assets and liabilities. The EU regulatory framework in particular includes an implementation of prudent valuation that goes beyond the Basel standards on prudent valuation, and also specific proportional approaches to calculation of prudential valuation adjustments in terms of a simplified approach for smaller institutions, and an advanced (core) approach for larger institutions.[71] Article 105(2) of the CRR outlines detailed requirements for institutions to establish and maintain systems and controls sufficient to provide prudent and reliable valuation estimates in general. Articles 105(7) and 105(12) stipulates requirements for valuation practices. Articles 105(11) and 105(12) cover prudential requirements for less liquid positions. Article 105(13) addresses exotic and hard-to-value instruments. In addition, the delegated regulation (EU) 2016/101 outlines two methods for the calculation of category-level and aggregate AVA for valuation uncertainties associated with the institutions' fair valued exposures under certain assumptions and provisions on diversification, and in a forward-looking perspective. Article 105(8) of the CRR specifies standards for Independent Price Verification (IPV) and specifically requires institutions to perform IPV in addition to daily marking to market or marking to model. FI also uses the draft technical standard on IMA as a best practice guidance (benchmark) for various market risk assessment though it has not been published in the EU Official Journal and thus not legally binding. Banks are required by Regulation (EU) No 575/2013 (CRR) to consider valuation uncertainty related to all fair valued assets and liabilities in the determination of capital adequacy[72].Specifically, aggregated valuation adjustments (total AVA) as calculated in accordance with the delegated regulation (EU) 2016/101 is deducted from CET1 capital Where the supervisor determines that valuation adjustments do not imply sufficiently prudent valuations, the supervisor requires the bank to make additional adjustments to its reporting for capital adequacy or regulatory reporting purposes. In 2017-2018, FI conducted a thematic inspection exercise on prudent valuation. The inspection covered four large Swedish banks and one large nonbank credit institution. The

[70] Commission delegated regulation (EU) 2016/101, supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for prudent valuation under Article 105(14).

[71] According to article 4 of the Commission Delegated Regulation (EU) 2016/101, institutions may apply the simplified approach if the sum of the absolute value of fair-valued assets and liabilities, as stated in the institution's financial statements under the applicable accounting framework, is less than EUR 15 billion. In other cases, the advanced (core) approach shall be applied.

[72] The prudent value in the context of the CRR is the value at which institutions are 90 percent confident (Article 8(2) of the Delegated Regulation (EU) 2016/101) that they will exit a position based on the applicable market conditions at the time of the assessment. Prudent valuation is thus a forward-looking framework, and the AVA is the calculated difference between the fair and the prudent value.

	inspection focused on the implementation of the advanced approach to AVA calculations in accordance with the delegated regulation (EU) 2016/101. The exercise also addressed governance issues related to valuation. All identified shortcomings from the exercise were addressed through individual action plans. The common findings from the thematic review included: (i) deficiencies and shortcomings in the documentation of internal approaches to valuation and prudential valuation, (ii) deficiencies and shortcomings in informing FI on the use of expert based approaches, (iii) deficiencies in the internal reporting and internal awareness of vulnerabilities related to valuation uncertainty, in particularly subject to stressed market environments, and (iv) the use of overly simplified assumptions and omitted risk factors in the calculation of category AVAs for UCS. In particularly regarding the use of expert judgements, inappropriate use of parameters, omissions of the potential directional way risk for CVA.
EC4	The supervisor collects and analyzes information from banks at a frequency commensurate with the nature of the information requested, and the risk profile and systemic importance of the bank.
Description and findings re EC4	In accordance with FI's and EU regulations, most supervisory reports are submitted on a quarterly basis. However, FI can require credit institutions to provide supervisory reports on a more frequent basis This was evidenced during the early stages of the COVID-19 pandemic, where in response to the uncertainty on the impact of the pandemic on the banking sector, FI introduced additional reporting requirements. The additional reporting requirements were continuously amended as the pandemic evolved. Also, as per the Commission Implementing Regulation (EU) 2021/451 of 17 December 2020, which lays down Implementing Technical Standards (ITS) for the application of Regulation (EU) No 575/2013 ("ITS (EU) 2021/451") which applies to Sweden, institutions that are deemed small and non-complex (SNCI) have simplified reporting requirements, Criteria for designating an institution as SNCI are found in Article 4 of ITS (EU) 2021/451. The simplified reporting requirements is applicable to leverage ratio, Simplified NSFR, additional liquidity monitoring metrics and asset encumbrance. FI collect the information on liquidity on a monthly basis while most of the other information is collected on a quarterly, semiannual or annual basis. Some information are also collected only at the consolidated level while others are collected at both the entity and consolidated level. The information which is collected only at the consolidated level include information on: high earners and remuneration.
EC5	In order to make meaningful comparisons between banks and banking groups, the supervisor collects data from all banks and all relevant entities covered by consolidated supervision on a comparable basis and related to the same dates (stock data) and periods (flow data).
Description and findings re EC5	National and EU-regulated financial information is prepared by the same reference date and for the same period. The layout for national reporting is, however, different from that for EU-regulated financial report (FINREP-package) and hence not comparable. There is, however, a recent EU-initiative by the EBA to introduce the FINREP-package also for

	financial reporting on an entity level, which if implemented would make comparison between entity and consolidated reporting possible. According to FI's regulations governing the reporting of interim and annual report data (FFFS 2014:14) banks are required to submit financial information on an entity level (solo). This information is prepared according to FI's regulations and general guideline regarding annual accounts for credit institutions and securities companies (FFFS 2008:25) and has a different layout (form) as compared to the EU-regulated financial report (FINREP-package), which is applicable to consolidated financial information.
EC6	The supervisor has the power to request and receive any relevant information from banks, as well as any entities in the wider group, irrespective of their activities, where the supervisor believes that it is material to the condition of the bank or banking group, or to the assessment of the risks of the bank or banking group or is needed to support resolution planning. This includes internal management information.
Description and findings re EC6	Section 3 (first paragraph) of Chapter 13 of the Banking and Financing Business Act (2004:297) requires credit institution to provide FI with any and all information regarding their operations and related circumstances as the Supervisory Authority may requests. The Banking and Financing Business Act under Section 5 of Chapter 13 also provides FI with the power to collect information from individual entities which are part of a banking group. That is, all information regarding operations and related circumstances as the Supervisory Authority may require for its supervision of the institution. Further, Chapter 28 Section 1 of the Resolution Act (2015:1016) provides that an institution and an undertaking in the same group shall provide SNDO with the information it needs to undertake its activities as the Resolution Authority. Chapter 28 Section 2 of the Resolution Act also empowers SNDO to demand information that it requires to be able to prepare and make decision on resolution measures, and may request information or documents from the institution under resolution or some other person, which by inference include internal management information. The assessors found evidence of the supervisor requesting additional information and particularly through the additional information that is requested before the quarterly risk reviews, which include information on: capital, quarterly reporting of audit, credit risk/asset quality, CRO report, liquidity risk, interest rate risk in the banking book (IRBB). The assessors also found evidence of the supervisor requesting additional information on business model forecast, credit risk deficiencies identified by risk control and information on IRB models (accuracy ratios, probabilities od default, loss given default, credit conversion factors, ICAAP adverse scenarios), etc.
EC7	The supervisor has the power to access[73] all bank records for the furtherance of supervisory work. The supervisor also has similar access to the bank's Board, management and staff, when required.

[73] Please refer to Principle 1, Essential Criterion 5.

Description and findings re EC7	Section 3 (first paragraph) of Chapter 13 of the Banking and Financing Business Act (2004:297) require credit institution to provide FI with any and all information regarding their operations and related circumstances as FI may requests. FI may also request such information from persons who are employed by the institutions (Chapter 13 section 3 paragraph 2 of the Act). Section 4 of Chapter 13 of the Banking and Financing Business Act also provides for FI to, where it deems it necessary, carry out an investigation at the premises of a credit institution. FI may also convene a meeting of the board of directors of a credit institution and a representative of FI may be present at general meetings and board meetings which the FI has convened and also participate in the deliberations (Chapter 13 section 12 of the Banking and Financing business Act).
EC8	The supervisor has a means of enforcing compliance with the requirement that the information be submitted on a timely and accurate basis. The supervisor determines the appropriate level of the bank's senior management is responsible for the accuracy of supervisory returns, imposes sanctions for misreporting and persistent errors, and requires that inaccurate information be amended.
Description and findings re EC8	Chapter 15 of the Banking and Financing Business Act (2004:297) give FI the power to impose a fine for incomplete, inaccurate or late reporting by credit institutions. The size of the fine depends on severity of the inaccuracy, the frequency of late/wrong reporting and the size of the firm. In serious cases and together with other aggravating circumstances, the withdrawal of the credit institution's license is possible. However, as a first measure, FI would normally require the relevant institution to submit correct and amended reporting. Also, according to Chapter 15, section 1a of the Banking and Financing Business Act, members of the board, the managing director or a person replacing them, are held responsible for misreporting if the inaccuracy is serious and has been caused intentionally or through gross negligence. In deciding on the intervention and penalty, FI takes into account the severity and the duration of the inaccuracy or misreporting and may involve prohibiting the responsible person from being a board member or CEO for a credit institution for a certain time or a fine. The type and size of penalty are provided in the Banking and Financing Business Act (Chapter 15, section 1a-1d and section 8a-9). In the event of misreporting, the first step for FI is to contact the institutions. This may then be followed by a formal letter addressed to the CEO or the chairman and, in some cases, onsite inspection and then, where applicable, intervention process or sanction. There is a late charge of up to SEK 100,000 depending on the number of late reports and size of the institutions.

EC9	The supervisor utilizes policies and procedures to determine the validity and integrity of supervisory information. This includes a program for the periodic verification of supervisory returns by means either of the supervisor's own staff or of external experts.[74]
Description and findings re EC9	Currently, FI does not carry out regular onsite examination either directly or through the use of other experts to assess how data reported by banks as part of their supervisory returns are validated. Examination like this are only performed very selectively when the supervisors have received indications of severe issues. The supervisors, however, carry out assessment to confirm consistency between the information in the annual financial statement filed with The Swedish Companies Registration Office and the data submitted to the FI (on a sample basis). Where there are differences, banks are asked to explain and/or correct identified differences. The Reporting unit undertake a number of data quality checks on reported data, which for the EU-regulated reporting, are beyond the validation rules forming part of the EU-reporting framework. Further, checks are also carried out to confirm alignment between the banks' annual audited financial statements and the data that has been submitted to the FI (on a sample basis). FI noted that there has been a reduction in follow-ups due to misreporting. The number of misreporting has reduced from about 100 per quarter in 2011 to about 30 per quarter in 2021 out of about 1,700 reports that are received per quarter (follow up are of 1.76 percent).
EC10	The supervisor clearly defines and documents the roles and responsibilities of external experts,[75] including the scope of the work, when they are appointed to conduct supervisory tasks. The supervisor assesses the suitability of experts for the designated task(s) and the quality of the work and takes into consideration conflicts of interest that could influence the output/recommendations by external experts. External experts may be utilized for routine validation or to examine specific aspects of banks' operations.
Description and findings re EC10	Chapter 13, section 9 of the Banking and Financing Business Act (2004:297) give FI the power to appoint one or more auditors to participate in the audit of a credit institution when needed. In a situation when an auditor is appointed by FI, the auditor takes part in the audit alongside the auditors appointed by the company during the general meeting. An auditor appointed by FI may according to the general guidelines for auditors appointed by FI (FFFS 2004:10) be given specific instructions from FI on what to assess or investigate within the institution. FI can also hire external experts for specific assignments, for instance to contribute with expert skills in certain areas or to participate in an inspection.

[74] Maybe external auditors or other qualified external parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions.

[75] Maybe external auditors or other qualified external parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions. External experts may conduct reviews used by the supervisor, yet it is ultimately the supervisor that must be satisfied with the results of the reviews conducted by such external experts.

	Hiring of auditors and other external experts is done in accordance with the provisions of the Public Procurement Act (2016:1145), where the basic principles of objectivity and transparency applies. FI has a central procurement function that supports the supervisors in the tendering process. The tender documents outline what expertise is required and Terms and Conditions will be specified in the contract. For example, in the area of supervisor of covered bond issues, FI, in the appointment of independent inspectors, places strict requirements on the independent inspector's expertise and qualifications e.g., in financial auditing, IT and systems, law, property valuation and also the financial market. Furthermore, when applying for assignment as an independent inspector the following information is provided to FI by the applicant: • A description of the independent inspectors' skills and experience in relevant areas. • A list of all assignments that the internal inspector and the company the inspector represents has with the companies that are licensed to issue covered bonds, or with other companies within the same group. • References that can prove the independent inspector's competence in relevant areas. • A brief description of how independent inspector intend to carry out the assignment. FI then reviews the information provided by the applicant to assesses whether the applicant meet the requirements for the assignment as independent inspector. The applicant is expected to report any potential conflict of interest given the independence of the inspector is required under the Swedish law. Other than in the area of supervision of Covered Bonds issuers, the appointment and use of auditors or external experts by FI do not happen very often.
EC11	The supervisor requires that external experts bring to its attention promptly any material shortcomings identified during the course of any work undertaken by them for supervisory purposes.
Description and findings re EC11	Chapter 13, Section 10 of The Banking and Financing Business Act (SFS 2004:297) provides that an auditor or a special examiner shall immediately report to the FI in the event he or she, upon performance of his or her duty in a credit institution, learns of circumstances which may: (i) constitute a material violation of the statutes governing the institution's operations; (ii) negatively affect the institution's continued operations; or (iii) result in the auditor recommending that the balance sheet or profit and loss statement should not be adopted or in qualification. The use of external auditors and experts have been rarely used, except in the area of supervision of Covered Bonds issuers.
EC12	The supervisor has a process in place to periodically review the information collected to determine that it satisfies a supervisory need.
Description and findings re EC12	FI is empowered to collect any information that it may require for its supervisory purposes and hence can introduce new reporting requirements as it has done in the past. Specifically, in addition to the regular supervisory reports, FI has required credit

	institutions to provide additional information to feed into the quarterly risk review meeting and the ICAAP review process. Since the last FSAP FI has introduced seven (7) new report out of these six (6) were based on EU regulations and one (1) was based on Swedish regulation. The new reports are 1. Report on additional liquidity monitoring metrics; 2. Report on liquidity coverage requirements; 3. Guidelines on COVID-19 measures reporting and disclosure; 4. Guidelines on fraud reporting under PSD2; 5. Reporting for the purposes of identifying G-SIIs and assigning G-SII buffer rates; 6. Specific reporting requirements for market risk (FRTB); and 7. Money Laundering Report.
Assessment re Principle 10	Largely Compliant
Comments	FI has the legal powers through the Banking and Financing Business Act to request and received any information that it requires from banks on a solo and consolidated basis as well as from entities in the wider group irrespective of their activities. It also has the power to access information on bank operation and related circumstances, and to collect information from persons who are employed by the credit institution, which include the bank's board, management and staff. Based on the powers that it has been granted by the Swedish law and EU regulations, FI currently receives a wide range of information from banks to support its supervisory activities. It can also require institutions to submit new and additional information to meet its supervisory requirements as evidenced during the COVID-19 pandemic when it introduced new reporting requirements. In accordance with Swedish and EU regulations, most supervisory reports are submitted on a quarterly basis. FI can also require credit institutions to submit new reports or existing reports on a more frequent basis and this was evidenced during the early stages of COVID-19 pandemic when FI required credit institutions to submit some information on a more frequent basis and additional reporting, which were continuously amended as the pandemic evolved. All credit institutions in Sweden regardless of size are required to apply IFRS in their consolidated financial statements and Swedish local accounting (national reporting) standards at the entity level. The National and EU-regulated financial information is prepared based on the same reference date and period. The layout for national reporting is, however, different from that for EU-regulated financial report (FINREP-package) and hence the two are not comparable. The EU initiative by the EBA to also introduce FINREP-package for financial reporting on an entity level, if implemented will address this and comparison between entity and consolidated reporting by Swedish banks will be possible. The fact that all credit institutions in Sweden are required to use IFRS in the preparation of their consolidated financial statements means that fair valuation of financial assets and

	liabilities should be determined based on IFRS principles and particularly IFRS 13 on fair-value measurement. In the event of incomplete, inaccurate or late reporting, FI can impose a fine on credit institutions. The size of the fine depends on severity of the inaccuracy, the frequency of late submission or misreporting and the size of the credit institution. In serious cases and together with aggravating circumstances, FI can withdrawal the credit institution's license. However, as a first measure, FI would normally require the relevant institution to submit correct and amended reporting. The assessor found evidence of a fine being imposed on a bank for deficiencies in its reporting (of SEK 12 million). Currently, FI does not carry out regular onsite examination either directly or through the use of other experts to assess how data reported by banks as part of their supervisory returns are validated. The supervisors, however, carry out assessment on a sample basis to confirm consistency between the information in the annual financial statement filed with The Swedish Companies Registration Office and the data submitted to the FI. Where there are differences, banks are asked to explain and/or correct identified differences. FI also does not have an explicit requirement for credit institutions senior management to certify the accuracy of the supervisory returns.
Principle 11	**Corrective and sanctioning powers of supervisors**. The supervisor acts at an early stage to address unsafe and unsound practices or activities that could pose risks to banks or to the banking system. The supervisor has at its disposal an adequate range of supervisory tools to bring about timely corrective actions. This includes the ability to revoke the banking license or to recommend its revocation.
Essential criteria	
EC1	The supervisor raises supervisory concerns with the bank's management or, where appropriate, the bank's Board, at an early stage, and requires that these concerns be addressed in a timely manner. Where the supervisor requires the bank to take significant corrective actions, these are addressed in a written document to the bank's Board. The supervisor requires the bank to submit regular written progress reports and checks that corrective actions are completed satisfactorily. The supervisor follows through conclusively and in a timely manner on matters that are identified.
Description and findings re EC1	FI communicate its findings from SREP, inspections and deep dive and thematic reviews to the relevant bank, and the bank in question is required to respond with information on its plans to rectify the identified deficiencies. In relation to inspections, once a deviation from a regulation or law (violation) is identified they are written-up in a preliminary assessment letter, which is then shared with the institution for review and feedback through a letter to the CEO with a copy to the Chairman of the Board. The preliminary assessment letter informs the institution about FI's preliminary findings and the information underpinning those findings. The aim of this preliminary letter is to give the institution an opportunity to provide additional information and ensure that the finding(s) is based on complete and accurate information.

	The preliminary assessment letter includes areas of supervisory concern or where the supervisor sees potential vulnerabilities and, in many cases, the institution will seek to rectify the identified violations or vulnerabilities described in the preliminary assessment letter. For example, a bank may initiate a remediation program to address the identified violation or vulnerability. Where the measures are assessed as likely to effectively remediate the identified shortcomings within an acceptable period of time, FI can proceed and close the issue/investigation without the need for further intervention. FI will then monitor the institution's progress with the implementation of remediation measures through its ongoing supervision. However, if an institution does not remediate the violation, or where a violation is severe or has been repeated despite prior orders to rectify, the case may be escalated in accordance with the sanctions or intervention process. The banks potential vulnerabilities are also discussed with the bank's management in meetings that are part of the ongoing supervision. The potential vulnerabilities may also be identified as part of the SREP assessment and could give rise to a Pillar 2 capital add-on being imposed on the bank. FI has two internal procedural documents to guide intervention and sanctions. The intervention process is applied in handling of a case which may lead to a decision on an intervention or supervisory measure against a legal or natural person under the supervision of FI. Normally, the intervention decision is made by the Executive Director. The procedural document provides that if a matter is of a simpler or particularly urgent nature, the coordinator may consult the director of the legal department to make a departure from the process. The investigation must, however, be carried out in a satisfactory manner and the matter must be dealt with in accordance with the Administrative Act. It is the board of FI that decides on sanctions such as remarks, warnings, penalties and the withdrawal of authorizations. In such cases sanctions process rather than the intervention process should be applied in the handling of such cases. The decisions of FI on intervention and supervisory measures may be appealed to the Court. If a decision has been appealed, the contested case must be closed in the official register and a new case opened for the appeal. In that case a reference is made to the contested case. The case is placed on the legal department that has dealt with the contested case and a coordinator is appointed. The assessor reviewed a letter communicating supervisory findings to one of the banks which was addressed to the chairman of the board of directors of the bank. In discussions with the industry, it was noted that some of the FI's investigation takes relatively long impacting on timeliness of communication of supervisory findings to the institutions. The is also a gap in monitoring of corrective action and particularly related to the requirement of banks to provide regular progress reports and checks to ensure that corrective actions have been addressed in a satisfactory manner. In addition to requiring banks to submit

	regular progress reports, FI should also consider requiring the banks' internal audit to provide attestation that the required corrective action has been implemented. Where this relates to improvement in internal controls, then the internal audit could be required to, from time to time, test and report on the implementation of certain important recommendations in case of significant corrective actions, e.g., by ensuring that the remedial action have been undertaken including where applicable testing the effectiveness of the new controls that have been introduced or that the required changes to internal models have been introduced.
EC2	The supervisor has available[76] an appropriate range of supervisory tools for use when, in the supervisor's judgment, a bank is not complying with laws, regulations or supervisory actions, is engaged in unsafe or unsound practices or in activities that could pose risks to the bank or the banking system, or when the interests of depositors are otherwise threatened.
Description and findings re EC2	FI has a wide range of intervention tools (Chapter 15, section 1 of the Banking and Financing Business Act), which includes: • Order to limit or reduce risk of operations or to take appropriate measure to rectify the situation within a specific time; • Restriction on dividend payments; • Issuing of an injunction against executing resolutions; • Issuing an adverse remark or warning to a bank (combined with a fine); and • Withdrawal of the license (where infringement is serious). FI can also remove a member of the board of directors or managing director of a credit institution (Chapter 15, section 1a of the Banking and Financing Business Act). The authorities shared with the assessor details of 11 sanctions that were imposed on banks and bank management over the last 5 years, of which the most commonly used type of sanction was adverse remark or warning to a bank combined with a fine which ranged between SEK 1.6 million and SEK 4.0 billion. The ground on which the sanctions/fines were imposed included: deficiencies in credit risk management processes, deficiencies in the reporting of transactions, major deficiencies in its work to combat money laundering, non-compliance with the regulations on minimum requirements for the liquidity coverage ratio (LCR).
EC3	The supervisor has the power to act where a bank falls below established regulatory threshold requirements, including prescribed regulatory ratios or measurements. The supervisor also has the power to intervene at an early stage to require a bank to take action to prevent it from reaching its regulatory threshold requirements. The supervisor has a range of options to address such scenarios.

[76] Please refer to Principle 1.

Description and findings re EC3	According to Chapter 2, section 3 of the Credit Institutions and Securities Companies (Special Supervision) Act, FI can utilize the measures specified in the Banking and Financing Business Act in the event an institution fails to meet the supervisory set minimum capital and liquidity requirements. As per the provisions of Chapter 8 (section 1) Credit Institutions and Securities Companies (Special Supervision) Act, the same also applies where an institution does not meet the prudential requirements. Specifically, where a bank fails to meet the prudential requirements, FI is required to either order the bank to: limit its operations in any respect within a certain time, reduce the risks, or take any other measures necessary to rectify the situation. The Institutions that fail to meet the combined buffer requirement[77] or the requirement for a leverage ratio buffer are required under the Capital Buffers Act (Chapter 8, section 1) to, within five (5) working days from the date on which it was established that the buffer requirement has not been met, submit a capital conservation plan showing how it will achieve the requirement again within a reasonable time. Section 2 of the same Act (Capital Buffer Act) grants FI with the power to intervene where it is not satisfied that the measures set out by an institution in their capital conservation plan will restore the institution's: (i) Common Equity Tier 1 capital in the combined buffer requirement, and (ii) Tier 1 capital in respect of the leverage ratio buffer requirement. FI is in such cases required to compel the institution to enhance its capital base or to impose stricter restrictions. The Banking and Financing Business Act (Chapter 15 section 1) also empowers FI to issue an order to the institution to "take measures in order to rectify the situation" in the event that the institution has violated its legal or statutory obligations, or internal instructions based on statutory instruments governing the institution's operations. This grants FI with the discretion to decide on (tailor) measure that needs to be taken depending on the specific circumstances. Further, the Banking and Financing Business Act (Chapter 15 section 1 paragraph 4) grants FI with the power to intervene where it is likely that within 12 months, a credit institution will no longer be able to fulfil its legal or any statutory obligations which govern its operations. In order to utilize the available intervention measures, FI is required to be able to demonstrate that the institution has violated its obligations or that the institution is likely to violate its obligations within 12 months. The guiding principles for the choice of measure by FI is the materiality and risk.
EC4	The supervisor has available a broad range of possible measures to address, at an early stage, such scenarios as described in essential criterion 2 above. These measures include the ability to require a bank to take timely corrective action or to impose sanctions expeditiously. In practice, the range of measures is applied in accordance with the gravity of a situation. The supervisor provides clear prudential objectives or sets out the actions

[77] This includes: capital conservation buffers, the institution-specific countercyclical capital buffer, the system risk buffer, and any other applicable capital buffer.

	to be taken, which may include restricting the current activities of the bank, imposing more stringent prudential limits and requirements, withholding approval of new activities or acquisitions, restricting or suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from the banking sector, replacing or restricting the powers of managers, Board members or controlling owners, facilitating a takeover by or merger with a healthier institution, providing for the interim management of the bank, and revoking or recommending the revocation of the banking license.
Description and findings re EC4	FI has a wide range of powers to intervene against credit institutions and certain natural persons. Chapter 15 the Banking and Financing Business Act enables FI to intervene where a bank is in violation of the laws or regulations. For example, FI can intervene by requiring an institution to limit or reduce its risks, placing restrictions on payment of dividends or interest, restricting the transfer of assets, requiring a bank to take other measures in order to rectify the situation etc. Depending on the gravity of the infringement, FI may impose a sanction or in more severe case revoke the institution's license. FI can also, in certain circumstances, intervene against a member of a credit institution's board of directors or its managing director including where they fail to submit information or submits incomplete or inaccurate information. Here, FI can prohibit the person in question from serving as a member of the board of directors or CEO of a bank for a period of not less than 3 years and not more than 10 years. FI can also impose a punitive fine on members of the board or the CEO. FI also has the power as per Chapter 14 section 7 of the Banking and Financing Business Act to order a significant shareholder to divest a portion of its shares or ownership rights so as to reduce its holding.
EC5	The supervisor applies sanctions not only to the bank but, when and if necessary, also to management and/or the Board, or individuals therein.
Description and findings re EC5	FI has the necessary power to sanction individuals who are member of a credit institutions board of directors or its managing director. According to Chapter 15, section 1a of the Banking and Financing Business Act, FI could either impose a punitive fine or order the removal of a person who is a member of the board of directors or CEO in a bank for a specified time of not less than three years and not more than ten years. Because Swedish Company Law does not recognize the concept of "senior management, FI does not have explicit power to replace or restrict the powers of any manager other than the managing director of a credit institution. The assessors, however, did not find specific evidence of FI using this power. That is, cases where FI applied sanctions on a member of management or board of a bank.
EC6	The supervisor has the power to take corrective actions, including ring-fencing of the bank from the actions of parent companies, subsidiaries, parallel-owned banking structures and other related entities in matters that could impair the safety and soundness of the bank or the banking system.
Description and findings re EC6	According to Chapter 15 section 1, paragraph 4 of Banking and Financing Business Act (BFBA), FI shall intervene by issuing an order, where it has assessed that the bank is likely

	to be in violation of its obligations within 12 months. The intervention could include prohibiting the bank from making certain transactions or issue an injunction against executing resolutions if deemed appropriate to ensure the bank does not violate its obligations. Furthermore, according to Chapter 14, section 6 of BFBA, FI may order that a party with a significant (qualifying) holding of shares or participating interests in a credit institution may not represent more shares or participating interests at the general meeting than correspond to a non-qualified holding where for instance the holder impedes or can be anticipated to impede the operations of a credit institution being conducted in a manner which is compatible with the provisions of BFBA or other statutory instruments which govern the institution's operations. Also, in line with the provision of Chapter 14, section 7 of BFBA, FI may order a significant owner to divest such a portion of its shares or the ownership rights so that the holding thereafter will no longer constitutes a qualifying (significant) holding. Please also see EC3 above.
EC7	The supervisor cooperates and collaborates with relevant authorities in deciding when and how to effect the orderly resolution of a problem bank situation (which could include closure, or assisting in restructuring, or merger with a stronger institution).
Description and findings re EC7	FI and SNDO, which is the resolution authority in Sweden, cooperate and exchange information with each other in line with the provision of Chapter 28 section 4 of the Resolution Act (SFS 2015:1016), which requires FI to provide SNDO with the information that it requires for undertake its activities as set out under the Resolution Act. The Resolution Act also requires SNDO and FI to cooperate and exchange information with each other and with corresponding authorities within the EEA Chapter 28, section 5). The SNDO and FI cooperate in the review of recovery plans. Here, SNDO is expected to identify any measures in the plan which could have a negative impact on the orderly resolution of an institution and to provide recommendations to FI (Chapter 6a, Section 4 of the Banking and Financing Business Act). Some of the information that are shared between FI and SNDO include: intra-group financial support agreement that has been approved by FI (as per Chapter 6b, section 5 of the Banking and Financing Business Act), notification by institutions to FI where the institution is failing or is likely to fail (as per Chapter 13, section 4a of the BFBA). FI is expected to notify SNDO where it has a reason to intervene against a credit institution and the violations are of such a nature or scope that there is reason to believe that the credit institution may be subject to resolution. In such cases, FI is also required to submit to the SNDO the information that is needed to prepare for resolution measures (Chapter 15 section 2b of the Banking and Financing Business Act). SNDO is expected to consult FI: (i) when resolution plans are being established, (ii) before it (SNDO) decides on measures to remove or reduce impediments to implementation of a

	resolution plan, and (iii) regarding the use of bail-in, restructuring or use of government stabilization tools. FI, on its part, is required to: • Approve decisions connected to resolution planning affecting the maturity profile of Common Equity Tier 1, tier 1 and tier 2 instruments; • Use its intervention powers to force the institution to deliver information, where an institution does not provide SNDO with the requested information (Chapter 28, Section 1 Resolution Act (2015:2016); and • Determine credit institutions non-viability, i.e., failure or likely to fail (FOLF). Here, FI can start an assessment on its own initiative or on request by SNDO (the assessment is to be preceded by a consultation with SNDO and Riksbank). .Also, where the SNDO uses the bridge institution tool, FI may grant the bridge institution an operating license without the bridge institution meeting the requirements that apply to conducting such activities and in such cases FI is required to handle such a permit matter expeditiously (Chapter 18 Section 13-15 Resolution Act).
Additional criteria	
AC1	Laws or regulations guard against the supervisor unduly delaying appropriate corrective actions.
Description and findings re AC1	There are no formal times limit for taking appropriate corrective actions. However, FI has an internal sanctioning procedure, which is applicable in the preparation and processing of cases in which FI may find reason to intervene against a company that has neglected its obligations pursuant to legislation or other regulations application to its operation. The procedure covers cases which are subject to decision by the board, e.g., withdrawal of authorization, warnings, objections or remarks and administrative fines. FI has, in the past, been criticized by the Swedish Ombudsman for not complying with their internal guidelines with shortcomings in relation to documentation of decisions to initiate and close (investigated) cases and of decisions to continue processing. It was noted that these shortcomings, together with the deviation in the formulation of the internal guidelines, had led to ambiguities as to when the authority considers that a case has been closed. A follow up review by FI internal audit noted that the criticism by the Ombudsman has mainly been addressed and that improvements have been made in various ways with training efforts in, among other things, the registration process and an updated investigation process.
AC2	When taking formal corrective action in relation to a bank, the supervisor informs the supervisor of nonbank related financial entities of its actions and, where appropriate, coordinates its actions with them.
Description and findings re AC2	FI is the single integrated financial sector supervisor responsible for the supervision of all financial markets and financial institution, including nonbank financial institutions, e.g., securities and insurance companies. Therefore, there are no other domestic agencies that FI have to coordinate with in the supervision of the financial sector.

	However, when the decision is taken FI informs relevant parties, and as is the practice at FI the decision is also published on FI's website.
Assessment of principle 11	Largely Compliant
Comments	FI has a process in place for communicating supervisory findings to banks which is normally done through a letter to the CEO with a copy to the Chairman of the Board. It also has a system in place for tracking the implementation of corrective measures by banks. To guide intervention and sanction processes, it has also established two internal procedural documents. The intervention process is applied in handling of cases which may lead to a decision on supervisory measure or intervention against a legal or natural person under supervision of FI while the sanction procedures is applied in cases which may lead to sanctions such as a remark, warnings, penalties or withdrawal of authorizations. The intervention decisions are made by the Executive Director while sanctions are decided by FI's board of directors. FI has also been granted a wide range of intervention powers which include order to limit or reduce risk or to take corrective measures, restriction of dividend payments, issuing an injunction against executing resolutions, issuing an adverse remark and withdrawal of the license, where the infringement by the credit institution is serious. It can also remove a member of the board or CEO of a credit institution and to prohibit a person in question from serving as a member of the board of directors or CEO of a bank for a period of not less than 3 years and not more than 10 years and/or impose punitive fine on them. When FI orders an institution to reduce risk or take appropriate measures to rectify the situation, FI states in the decision when the correction should be made at the latest. The authorities shared with the assessors A schedule of sanctions that have been imposed on banks over the last five years and the assessors reviewed a number of them in details. The sanctions that have been imposed include: (i) warning or remark combined with administrative fine; (ii) withdrawal of authorization; and (iii) injunction to take remedial action. The ground for the sanctions included: deficiencies in the bank's credit risk management and processes, deficiencies in the reporting of bank's transactions, major deficiencies in the bank's credit risk management, major deficiencies in work to combat money laundering, etc. The assessors reviewed in detail two cases where FI assessed a bank's governance and control with regards to AML. In both cases, FI identified significant findings and issued a warning combined with a fine of SEK 4 billion against one of the banks and a remark combined with a SEK 1 billion against the other. In the event an institution fails to meet the minimum capital, liquidity or other requirements, FI can also use its range of intervention tools. It can also intervene where it is likely that within 12 months, a credit institution will not be able to meet its legal or other statutory obligation. Further, FI can order a significant shareholder to divest a portion of its shares so as to reduce its holding in a credit institution. FI and SNDO, which is the designated resolution authority in Sweden share a range of information and collaborate on a number of issues. For example, they collaborate in the

	review of recovery and resolution plans and share information on, amongst others, institutions that could be subject to resolution, and those needed to prepare for resolution measures. FI is also expected to help facilitate the use of various resolution tools by SNDO by, amongst others: issuing the necessary licenses if required, approving decision that would affect the maturity profile of capital instruments, using its intervention powers to facilitate access to information by SNDO and determining the non-viability of a credit institutions, i.e., FOLF. FI's decisions regarding a sanction or other forms of intervention (e.g., an order to rectify) may be appealed to the Administrative Court. Further appeal can be made at the Administrative Court of Appeal and the Supreme Administrative Court. If appealed, FI's decision is subjected to a comprehensive review by the court, and the court could disagree both in matters of fact and in matters of law. However, a decision on leave to appeal is required for a review by the Administrative Court of Appeal and the Supreme Administrative Court. Swedish law provides for resolution of banks in accordance with the provisions of the BRRD. Decisions on whether or not to subject a bank to such resolution are made by SNDO in its capacity as resolution authority. Such a decision follows after FI has determined that a financial institution is failing or is likely to fail (FOLF). The assessors noted that there was no explicit requirement for banks to submit periodical progress report on their implementation of remedial actions, which could be useful in facilitating the monitoring of progress by FI. Further, in view of the resource limitation and the challenges in getting the supervisors to undertake detailed work to confirm the implementation of the remedial including the effectiveness of new controls, there may be value requiring the banks internal audit to attest or verify from time to time the implementation of certain important recommendations in case of significant corrective actions. This may include ensuring that remedial actions haven been taken or that required changes to internal models have been introduced.
Principle 12	**Consolidated supervision**. An essential element of banking supervision is that the supervisor supervises the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential standards to all aspects of the business conducted by the banking group worldwide.[78]
Essential criteria	
EC1	The supervisor understands the overall structure of the banking group and is familiar with all the material activities (including nonbanking activities) conducted by entities in the wider group, both domestic and cross-border. The supervisor understands and assesses how group-wide risks are managed and takes action when risks arising from the banking group and other entities in the wider group, in particular contagion and reputation risks, may jeopardize the safety and soundness of the bank and the banking system.

[78] Please refer to footnote 19 under Principle 1.

Description and findings re EC1	FI supervises firms on consolidated basis in accordance with the applicable EU laws and EBA guidelines. It prepares and updates on an annual basis the mapping of each banking group's entities and business areas, in cooperation with the members of the supervisory college. The mapping provides an overview of all legal entities, subsidiaries and branches within a banking group, with an indication of their size and importance to the group and the jurisdiction where the entity is licensed. The mapping also provides information on any capital or liquidity waivers that may have been granted to the entity. FI has not applied any of the capital waivers in CRR article 7 or 10 to banking subsidiaries in Sweden hence subsidiaries of domestic banks are also required to meet the minimum prudential requirements at the solo level. FI prepares individual SREP assessments for subsidiaries of large banks in a proportional and risk-based manner and their capital and liquidity decisions form part of the SREP joint decision of the banking group. As part of SREP, FI also reviews the structure of banking groups and how group-wide risks are managed. The scope of the SREP is such that it allows coverage of material subsidiaries, including those which are not subject to consolidation, and material risk, which normally includes reputation risk.
EC2	The supervisor imposes prudential standards and collects and analyzes financial and other information on a consolidated basis for the banking group, covering areas such as capital adequacy, liquidity, large exposures, and exposures to related parties, lending limits and group structure.
Description and findings re EC2	FI imposes prudential standards on banking groups in accordance with applicable EU laws and regulations and collects and analyzes financial and other information on a consolidated basis. This expectation is set out in Chapter 2 of FI's regulations on prudential requirements and capital buffers (FFFS 2014:12). In addition, FI has the power to require credit institutions to provide any relevant information that it needs for its supervisory purposes including the assessment of capital and liquidity adequacy, and material risks, and it has not experienced any difficulties in obtaining information pertaining to subsidiaries or branches of Swedish banks even where it has required information beyond what is normally included in the group consolidated information. FI cooperates with host authorities in supervisory colleges for the large banking groups in respect to prudential requirements, and decides jointly on capital and liquidity requirements based on the provisions of CRD/CRR and EBA guidelines for supervisory colleges. Swedish banks are also subject to large exposure requirements and reporting standards in accordance with the applicable EU regulation and EBA Guidelines. Exposures to related parties are disclosed on a semi-annual basis in the FINREP. The assessors found evidence that FI collects and analyzes information on a consolidated level including on capital, liquidity, large exposures, and financial information (FINREP). They also found evidence of capital requirements being set at the consolidated and entity level including through joint decision by the college (capital and liquidity). The assessors also noted the extensive information that is collected by FI as part of the SREP process,

	which include information on: business forecast, credit risk models, pension risk etc. Further, the assessors saw a joint decision letter on capital for a category 1 bank and on liquidity (also of category 1 bank).
EC3	The supervisor reviews whether the oversight of a bank's foreign operations by management (of the parent bank or head office and, where relevant, the holding company) is adequate having regard to their risk profile and systemic importance and there is no hindrance in host countries for the parent bank to have access to all the material information from their foreign branches and subsidiaries. The supervisor also determines that banks' policies and processes require the local management of any cross-border operations to have the necessary expertise to manage those operations in a safe and sound manner, and in compliance with supervisory and regulatory requirements. The home supervisor takes into account the effectiveness of supervision conducted in the host countries in which its banks have material operations.
Description and findings re EC3	The assessment of adequacy of oversight of a credit institution's foreign activities and operations is undertaken by FI as part of the quarterly risk meeting. The quality of governance and internal controls for the group is also assessed as part of the SREP, which is done every year for category 1 banks. In advance of the quarterly risk meetings, banks are required by FI to submit a range of information to facilitate the assessment of, amongst others, suitability of management and quality of control functions. For banking groups where there are supervisory colleges, the quality of local management and compliance with group policies is frequently discussed with host supervisors. FI also regularly reviews group policies, procedures, and business plans for foreign operations. Offsite supervision of foreign subsidiaries of Swedish banks is carried out by collecting information through the Swedish parent bank or by contacting the host supervisor while onsite supervision of such entities can only be carried out jointly with the host supervisors. FI always informs the host supervisor before the visit to a foreign branch for the purpose of undertaking an onsite supervision. FI has had no experience of host countries impeding the parent bank's ability to access information. Also, FI does not and would not hinder a parent credit institution or home supervisor from accessing information from branches or subsidiaries based in Sweden. No Swedish bank currently has material operations outside of Europe. For larger cross-border groups, the cooperation and coordination with other supervisors is managed in supervisory colleges and the sharing of information between authorities are governed by written coordination and cooperation arrangements (WCCA), as per the applicable EU regulations and EBA Guidelines. WCCAs include a specification of confidentially arrangements, which supports sharing of prudential information between authorities. FI also has substantial experience of supervising foreign activities of Swedish banks and has in the past performed a number of joint inspections together with Nordic and Baltic supervisors. FI, however, does not formally evaluate the effectiveness of supervision conducted in the host countries in which Swedish banks have material operations since such assessment

	are done by the EBA on an annual basis. The authorities also noted that the EU regulations regarding capital and liquidity joint decision results in the efficiency of host supervisor being assessed in the annual SREP and Joint Decision process. FI is also made aware of areas where foreign supervisors may deviate from EU standards, e.g., through information sources such as the comply-or-explain procedure that is part of the implementation of EBA Guidelines. The assessor saw evidence of investigation carried out to assess one of the large banks' compliance with rules for governance and controls with regards to AML measures in its subsidiaries in Estonia, Latvia, and Lithuania. The investigation found deficiencies and FI issued a remark and imposed an administrative fine of SEK 1 billion on the institution.
EC4	The home supervisor visits the foreign offices periodically, the location and frequency being determined by the risk profile and systemic importance of the foreign operation. The supervisor meets the host supervisors during these visits. The supervisor has a policy for assessing whether it needs to conduct onsite examinations of a bank's foreign operations, or require additional reporting, and has the power and resources to take those steps as and when appropriate.
Description and findings re EC4	FI's primary channel for supervision of foreign offices is through the supervisory colleges that have been established for banking groups with cross border activities. FI has the power to conduct onsite examinations of a foreign operations and to require additional reporting. FI does not have a separate policy for evaluating whether it needs to conduct onsite examinations of a bank's foreign operations or require additional reporting. Instead, the same processes are used for evaluating the need for supervisory activities as for domestic entities. A key tool for coordinating inspections of foreign offices is through the college supervisory examination program, which is governed by the written coordination and cooperation arrangements (WCCA) and updated and agreed on annual basis in accordance with Article 16 of the Commission Delegated Regulation (EU) No 2016/98 and Article 11 of the Commission Implementing Regulation (EU) No. 2016/99. The examination program lists the supervisory activities by FI and host supervisors which generally flow from the risk identification process, which is conducted by each authority independently, and the outcome of the Group risk assessment. The operation of supervisory colleges is governed by WCCAs, as well as the Nordic MoU on the supervision of significant branches, which among other things regulate principles for the sharing of information including specific confidentiality arrangements. The WCCAs are based on common templates created by EBA. Prior to COVID, FI regularly visited foreign operations of the Swedish credit institutions, e.g., in early 2020, FI visited material foreign operations of one of the three largest banks. During such visits, the host supervisors are informed of and usually invited to attend the meetings, as per the arrangements specified in the WCCA. In the case of subsidiaries, FI can only visit foreign subsidiaries together with the host competent authority.

	The onsite examination of foreign operations was evidenced by joint inspections of two large banks on AML which identified deficiencies in relation to combatting money laundering in Baltic operations of the Swedish banks. The assessor, however, noted that onsite examination of Swedish bank's foreign operations was limited (e.g., full participation in joint inspections with ECB is not a common feature). This was attributed to resource constraints.
EC5	The supervisor reviews the main activities of parent companies, and of companies affiliated with the parent companies, that have a material impact on the safety and soundness of the bank and the banking group, and takes appropriate supervisory action.
Description and findings re EC5	FI's supervisory remit as a supervisor of all the financial institution in Sweden allows it to identify all activities and affiliated companies of parent company, that could have a material impact on the safety and soundness of the bank and the banking group. This includes, where applicable, activities of other credit institutions, insurance undertakings and securities entities. FI is able to obtain information from entities that are part of the same groups as the banks to enable it to review their activities and related risks. Chapter 13, section 5, of the Banking and Financing Business Act (SFS 2004:297) provides that where a credit institution is part of a group, the other undertakings in the group shall provide FI with any and all information regarding operations and related circumstances as FI may require for its supervision of the institution. Further, according to Chapter 6 section 8 of Special Supervision Act (SSA), FI may, when it deems it is necessary for supervision, order investigations of: 1. companies which are obligated to provide information and of financial holding companies, mixed activity holding companies, and mixed financial holding companies in order to check the consolidated accounts or aggregated information which the companies are required to submit; 2. companies which have been engaged by an institution or a holding company as to perform specific work or specific function; and 3. companies which are included in the group over which the FI carries out supervision. FI is also able to take corrective measures (intervene) against a parent company (financial holding companies and mixed financial holding companies as per the provision of Chapter 8 sections 2-2c of SSA by amongst other: (i) restricting the company from representing the share in subsidiaries which are institutions, (ii) ordering the company to: limit the risks within a certain time, divest or reduce its holding in institutions or other subsidiaries, transfer ownership in subsidiaries which are institutions, limit or restrain from paying dividends, or submit a remediation plan. Please see EC1 above.

EC6	The supervisor limits the range of activities the consolidated group may conduct and the locations in which activities can be conducted (including the closing of foreign offices) if it determines that: (a) the safety and soundness of the bank and banking group is compromised because the activities expose the bank or banking group to excessive risk and/or are not properly managed; (b) the supervision by other supervisors is not adequate relative to the risks the activities present; and/or (c) the exercise of effective supervision on a consolidated basis is hindered.
Description and findings re EC6	FI has the power to limit or suspend activities by the banking group if these would compromise the safety and soundness of the bank or banking group. In practice, FI adopts a progressive remedial escalation ladder to address unsafe and unsound practices. Through SREP and the ongoing supervision of the large firms, FI is able to identify unsafe or unsound practices at an early stage, including in foreign entities of the banking group, through the close cooperation in supervisory colleges. Any breaches or deficiencies that are identified by FI are first addressed through SREP and monitored through ongoing supervision. Where a bank does not remediate or rectify the issue to the satisfaction of the FI or the supervisory college, a formal investigation can be initiated. In case of foreign entities, this would be coordinated with the host competent authority. Depending on the outcome of the investigation, this can lead to an intervention process, including sanctions and legally binding orders. With regard to third-country authorities (outside the EU), the EU Commission normally conducts assessments of whether the third-country's regulatory/supervisory regime for a particular area is equivalent to that provided within the EU law. Chapter 3, section 2 of the Banking and Financing Business Act provides that, where an undertaking has or may be expected to have close links with another party, a license may be granted only where the links do not impede effective supervision of the undertaking. FI is not aware of any elements that could hinder the exercise of effective supervision on a consolidated level in Sweden.
EC7	In addition to supervising on a consolidated basis, the responsible supervisor supervises individual banks in the group. The responsible supervisor supervises each bank on a stand-alone basis and understands its relationship with other members of the group.[79]
Description and findings re EC7	FI supervises banks on a consolidated basis as well as on the individual bank level in line with the applicable EU laws and EBA Guidelines. In particular, FI conduct SREP assessment of the respective entities based on a risk-based approach that is proportional to the size and the relevance of the entity to the risk profile of the group. The outcome of this assessment is used to set capital and liquidity requirements for individual banks within the banking group and at the consolidated level.

[79] Please refer to Principle 16, Additional Criterion 2.

	For the three large Swedish banks, FI together with the members of the supervisory college uses the outcome of SREP to set capital and liquidity requirements at the group level and for relevant entities within the group. This practice was evidenced by the assessors.
Additional criteria	
AC1	For countries which allow corporate ownership of banks, the supervisor has the power to establish and enforce fit and proper standards for owners and senior management of parent companies.
Description and findings re AC1	Sweden permits corporate ownership of credit institutions. For holdings exceeding 10, 20, 30, or 50 percent of share capital or votes in a credit institution, the owner needs FI's approval before acquisition of the shares. Where FI assesses that a financial conglomerate exists, it has the power to review the activities of the parent company. It also has the power to enforce fit and proper standards for future owners at the time of ownership change (either part or full acquisition). However, on an ongoing basis, FI can only enforce these standards (fit and proper) if the owner is a financial holding company or mixed financial holding company, and the management is not fit and proper. If the owner is not a financial or mixed financial holding company, FI can enforce the standards only if the owner, at the time of acquisition, is assessed to impede the sound management of the credit institution, has committed serious crimes or increases the likelihood for money laundering or terrorist financing (Chapter 14, section 2 of Banking and Financing Business Act). As noted in the other CPs, the Swedish Company Law does not recognize the concept of senior management. Therefore, there is no legal basis for the assessment of the fitness and propriety of senior management of parent company by FI on an ongoing basis.
Assessment of Principle 12	Largely Compliant
Comments	FI supervises firms on consolidated basis as well as on an individual bank level in accordance with applicable EU laws and EBA guidelines. To facilitate this, it prepares and updates on an annual basis the mapping of each banking group's entities and business areas in cooperation with the members of the supervisory college. This is to provide an overview of all legal entities, subsidiaries and branches within a banking group including their size and importance to the group. As part of the SREP, the assessors also evidenced that FI also reviews the structure of banking groups and the management of material risks to the group. FI imposes prudential standards on banking groups in accordance with applicable EU laws and regulations and collects and analyzes a wide range of financial and other information on a consolidated basis. Specifically, FI has the power to require credit institutions to provide any information that it requires for its supervisory purposes, and it noted (FI) that it has not experienced any difficulties in obtaining information related to subsidiaries or branches of Swedish banks including as a result of impediment by the host country.

	The assessment of adequacy of oversight of a credit institution's foreign activities and operations is undertaken by FI as part of the quarterly risk meeting. For banking groups where there are supervisory colleges, the quality of local management and compliance with group policies is also discussed with host supervisors. FI also reviews group policies, procedures and business plans for foreign operations as part of it SREP process. As noted in CP 8 and 9, there is, however, limited actual testing of the effectiveness of banks procedures and internal controls. FI's primary channel for supervision of foreign offices is through the supervisory colleges which have been established for banking groups with cross border activities. FI can also conduct onsite examination on foreign operation of Swedish banks though this is not done routinely and can also require additional reporting from the supervised entities. However, it does not have a separate policy for evaluating whether it needs to conduct onsite examinations of a bank's foreign operations or to require additional reporting. Instead, it is handled the same way as for domestic operations. There is limited participation by FI in joint onsite inspections with other supervisory authorities and particularly the ECB, which was attributed to resource constraints. FI also does not formally evaluate the effectiveness of supervision conducted in the host countries in which Swedish banks have material operations since such assessments are done by the EBA on an annual basis. It should be noted that the EU regulations regarding capital and liquidity joint decisions results in the efficiency of host supervisors being assessed in the annual SREP and Joint Decision process, FI is also made aware of areas where foreign supervisors may deviate from EU standards, e.g., through information sources such as the comply-or-explain procedure that is part of the implementation of EBA Guidelines. The law empowers FI to take corrective action against a parent company, where necessary, and has been provided with a range of measures that it can take when there is a violation of law or regulation, or a safety and soundness concern. FI also has power to establish and enforce suitability standards for owners of credit institutions. Prior approval is also required for any acquisition that will take an acquirer holding to over 10, 20, 30 or 50 percent of share capital. However, on an ongoing basis, FI can only enforce these suitability standards if the owner is a holding company (financial or mixed).
Principle 13	**Home-host relationships**. Home and host supervisors of cross-border banking groups share information and cooperate for effective supervision of the group and group entities, and effective handling of crisis situations. Supervisors require the local operations of foreign banks to be conducted to the same standards as those required of domestic banks.
Essential criteria	
EC1	The home supervisor establishes bank-specific supervisory colleges for banking groups with material cross-border operations to enhance its effective oversight, taking into account the risk profile and systemic importance of the banking group and the corresponding needs of its supervisors. In its broadest sense, the host supervisor who has a relevant subsidiary or a significant branch in its jurisdiction and who, therefore, has a shared interest in the effective supervisory oversight of the banking group, is included in

	the college. The structure of the college reflects the nature of the banking group and the needs of its supervisors.
Description and findings re EC1	FI has various colleges in place for internationally active institutions. For example, FI is involved in 18 supervisory colleges, chairing eight of them (excluding AML colleges). This includes supervisory colleges for the three D-SIBs that FI chairs. Further, FI participates as a member in the supervisory colleges of a number of banks, which operate in Sweden. In accordance with Article 3 of Commission Delegated Regulation (EU) No 2016/98, supervisory colleges consist of members and observers. The consolidating supervisor is required to invite the competent authorities responsible for the supervision of subsidiaries of an EU parent institution, EU parent financial holding company or of an EU parent mixed financial holding company and host supervisors of significant branches. The consolidating supervisor may also invite host supervisors of nonsignificant branches and supervisory authorities of third countries where institutions are authorized to participant as observers. All colleges are governed by written coordination and cooperation agreements (WCCAs) which are drafted in accordance with the applicable EU standards and in particular Commission Delegated Regulation (EU) No 2016/98, Article 5. The WCCA is expected to include, amongst others: (a) identification of the members and observers of the college, (b) arrangements for exchanging information including their scope, frequency and channels of communication, and (c) framework for the planning and coordination of supervisory activities. Though the EU framework allows supervisors to structure colleges in a core college and a general college, with separate sub-colleges for individual risk areas where appropriate, FI has opted not to apply such structure to the colleges of the three Swedish D-SIBs. There are also no formalized sub-colleges in place. FI is a member of more than 50 AML colleges and is the lead supervisor in three of the colleges (Please see CP 29 for details of AML colleges that are chaired by FI). The assessors were provided with sample of WCCA, minutes of supervisory college meetings and information shared between FI and member of supervisory colleges. The sample of WCCA of the supervisory college established for one the big banks, that the assessors reviewed sets out framework for exchanging information. This included details of the information that is to be exchanged in a timely basis. The WCCA also includes details of treatment of confidential information, and governance arrangements on entrustment of tasks and delegation of responsibilities (where relevant).
EC2	Home and host supervisors share appropriate information on a timely basis in line with their respective roles and responsibilities, both bilaterally and through colleges. This includes information both on the material risks and risk management practices of the banking group[80] and on the supervisors' assessments of the safety and soundness of the

[80] See Illustrative example of information exchange in colleges of the October 2010 BCBS Good practice principles on supervisory colleges for further information on the extent of information sharing expected.

	relevant entity under their jurisdiction. Informal or formal arrangements (such as memoranda of understanding) are in place to enable the exchange of confidential information.
Description and findings re EC2	The primary channel for exchanging information are the supervisory colleges, which are governed by WCCA in accordance with EU standards. These WCCAs include specific arrangements for information exchange. For example, description of roles and responsibilities, processes and the types of information to be exchanged. The information shared through the supervisory college include those on the material risks and risk management practices and on the supervisors' assessments of the safety and soundness of the relevant entity under their jurisdiction. Examples of information shared include: (i) key risk indicators, (ii) supervisory risk assessments and findings from relevant risk reports, (iii) risk reports covering credit, market and liquidity risks, (iv) results of stress tests, (v) capital and liquidity position and plan, (vi) statement of financial position and prospects. Information on organizational structure, ICAAP and ILAAP, group recovery plan and strategic plans are also shared. For significant-plus branches, FI also has information sharing arrangements with home and host supervisors. Bilateral exchange of information is governed by MoUs, which FI has entered into. This includes the Nordic MoU on the supervision of significant branches and MoUs with supervisory authorities from the UK, US, and China. The assessors were provided with details of the information that is exchanged during college meetings and bilaterally and included information on: assessment of group recovery plans, group assessment documents, ICAAP documents, supervisory examination plans, risk reports from the bank, review of internal models, issues of non-compliance and sanctions, findings from completed investigations and onsite inspections, and financial and prudential indicators. The assessors were also provided with details of MOUs that FI has entered into with supervisory authorities from other jurisdictions.
EC3	Home and host supervisors coordinate and plan supervisory activities or undertake collaborative work if common areas of interest are identified in order to improve the effectiveness and efficiency of supervision of cross-border banking groups.
Description and findings re EC3	FI uses the supervisory college examination program, which is governed by WCCA as a key tool for coordinating inspections of foreign offices. The supervisory college examination program is governed by the WCCA and updated and agreed on annual basis in accordance with Article 16 of the Commission Delegated Regulation (EU) No 2016/98 and Article 11 of the Commission Implementing Regulation (EU) No 2016/99]. The examination program is generally based on the outcome of the Group risk assessment, the assessment of the Group recovery plan, and the capital and liquidity joint decisions. The WCCA specifies in detail the required contents of the examination program, as well as the process for determining the program. In addition, FI has included a sub-process in the WCCAs to ensure the supervisory plan is up to date and accurately reflect the focus as well as status of the various supervisory activities. The sub process provides additional guidance regarding the information to be exchanged between college

	members for purposes of designing the examination program, as well as the detailed process steps that need to be undertaken. Deviations from these processes may be allowed provided there is agreement between the members of the college. The assessors were provided with examples of collaborative work by supervisory colleges which includes assessment of material risks and setting of capital and liquidity requirements, assessment of recovery plans, AML inspections, and internal model approval, review of internal governance and controls.
EC4	The home supervisor develops an agreed communication strategy with the relevant host supervisors. The scope and nature of the strategy reflects the risk profile and systemic importance of the cross-border operations of the bank or banking group. Home and host supervisors also agree on the communication of views and outcomes of joint activities and college meetings to banks, where appropriate, to ensure consistency of messages on group-wide issues.
Description and findings re EC4	The communication policy within the supervisory colleges follows EU standards and is specified in the WCCA of each supervisory college in accordance with Article 5 of Commission Delegated Regulation (EU) No 2016/98. The WCCA includes a communication policy governing the communication between competent authorities and with the supervised firm. FI in its role as the consolidating supervisor communicates to the firm the establishment of the college and the identity of its members and observers, as well as any changes in the list of members and observers in the college. The policy also specifies the role of the consolidating supervisor and the members of the college in relation to communicating to and requesting of information from the institutions and branches under their supervisory remit. Specifically, where it is the consolidating supervisory, FI is responsible for communicating to and requesting information from the parent company while the other members of the college are responsible for communicating to and requesting information from the institutions and branches under their supervisory remit. The policy, as described in the WCCA, also specifies that where under exceptional situation, a member of the college wants to communicate to or request information from the parent company, it shall inform FI in advance. Similarly, where FI intends to communicate or request information from an institution or a branch outside its supervisory remit, it shall inform the member of the college responsible for supervising this institution or branch in advance. The assessors reviewed a sample of the WCCA and noted that the communicated policy including roles and responsibilities is well specified.
EC5	Where appropriate, due to the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities, develops a framework for cross-border crisis cooperation and coordination among the relevant home and host authorities. The relevant authorities share information on crisis preparations from an early stage in a way that does not materially compromise the prospect of a successful resolution and subject to the application of rules on confidentiality.

Description and findings re EC5	The Swedish cross-border crisis cooperation and coordination framework is based on the BRRD and the relevant EBA guidelines, which include requirements on recovery planning, resolution planning and resolution colleges for cross-border banking groups. The resolution colleges allow for the joint decision process between the home and host resolution authorities in relation to the annual resolution plan, resolvability assessment and MREL applicable to the group and its subsidiaries. FI on its part jointly assesses the recovery plans of credit institutions in supervisory colleges, and participates in the assessment of the group resolution plans which are prepared by the respective resolution authorities and resolution colleges. The WCCA for supervisory colleges specify the interaction between the supervisory college and the resolution college. FI, in its role as consolidating supervisor, is the authority responsible for communication with the group-level resolution authority, which is considered the representative of the resolution college. Similarly, other members of the supervisory college are responsible for the communication with the entities and the competent authorities in their respective jurisdiction. The WCCA also specifies the treatment and arrangements for the exchange of confidential information. The assessors reviewed sample assessments of group recovery plans for a large Swedish Bank. Please see EC2 above for more information.
EC6	Where appropriate, due to the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities and relevant host authorities, develops a group resolution plan. The relevant authorities share any information necessary for the development and maintenance of a credible resolution plan. Supervisors also alert and consult relevant authorities and supervisors (both home and host) promptly when taking any recovery and resolution measures.
Description and findings re EC6	Under the Swedish implementation of the EU framework for recovery and resolution (BRRD), the SNDO is responsible for developing group resolution plans for Swedish banks and chairs the resolution colleges that have been established for each of the Swedish D-SIBs. FI participates in these resolution colleges as non-signing member and is therefore able to contributes to the development and maintenance of resolution plans. In terms of information sharing, FI shares the detailed prudential capital requirements that are necessary for the calculation of MREL requirements with SNDO. It also provides relevant prudential data collected through regulatory reporting, to support the assessment of critical functions of firms by the resolution college. Supervisory colleges are also governed by a WCCA, which includes a framework for coordinating the interaction with the resolution college. In particular, supervisory college are required to interact with the resolution college on matters of joint interest in accordance with the relevant provisions of BRRD and the Commission delegated regulation (EU) 2016/1075. FI as consolidating supervisor is responsible for communication with the group-level resolution authority whereas other members of the supervisory college are responsible for

	the communication with the entities and the competent authorities in their respective jurisdiction.
EC7	The host supervisor's national laws or regulations require that the cross-border operations of foreign banks are subject to prudential, inspection and regulatory reporting requirements similar to those for domestic banks.
Description and findings re EC7	The transposition of applicable EU directives into Swedish law, and the application of EU regulations and EBA guidelines ensure that the cross-border operations of foreign banks are subject to similar prudential, inspection and regulatory reporting requirements to those for domestic banks. There reciprocation of local macro-prudential requirements is also laid down in the Nordic MoU which has an impact on the supervision of significant branches in the Nordics. The reciprocation of national macro prudential requirements by the consolidating supervisor in those jurisdictions where the banking group has its offices supports the effectiveness of local macro-prudential policies and ensures a level playing field between domestic banks and foreign banks in those countries. The assessors did not find evidence of differences in treatment of the cross-border operations of foreign banks as compared to domestic banks in relation to prudential, inspection and regulatory reporting requirements. Please also see EC 3 of CP 12.
EC8	The home supervisor is given onsite access to local offices and subsidiaries of a banking group in order to facilitate their assessment of the group's safety and soundness and compliance with customer due diligence requirements. The home supervisor informs host supervisors of intended visits to local offices and subsidiaries of banking groups.
Description and findings re EC8	In accordance with the WCCAs for the supervisory colleges of Swedish banks, when FI wants to request information from a firm or branch outside its supervisory remit, e.g., foreign subsidiaries, it is required to inform in advance the member of the college responsible for supervising that firm or branch. According to Article 52 of the CRD, the home supervisor has the right to carry out local onsite inspections of foreign branches. The Nordic MoU on the prudential supervision of significant branches also provides that home supervisors in such event should invite host supervisors to participate in the onsite inspection. Home supervisors are also required to invite host supervisors for onsite inspections at group level in respect of activities relevant to significant branches. All inspections should be agreed within the supervisory college as part of the examination program for the group.
EC9	The host supervisor supervises booking offices in a manner consistent with internationally agreed standards. The supervisor does not permit shell banks or the continued operation of shell banks.
Description and findings re EC9	Shell banks are not permitted under Swedish law. Further, in accordance with EU legislation aimed at the prevention of money laundering and terrorist financing, Swedish

	banks are prohibited from entering into, or continuing, a correspondent relationship with a shell bank (Article 24 of EU Directive 2015/849). In addition, Swedish banks are required to respond appropriately to ensure that they do not engage in or continue correspondent relationships with a credit institution or financial institution that is known to allow its accounts to be used by a shell bank. Article 15, Section 3 of the Banking and Financing Business Act also grants FI with the power to revoke a credit institution's license where the institution: fails to commence business within a period of one year from the date that it was granted the banking license, or does not conduct business for a consecutive period of six months.
EC10	A supervisor that takes consequential action on the basis of information received from another supervisor consults with that supervisor, to the extent possible, before taking such action.
Description and findings re EC10	FI closely cooperates with foreign supervisors through supervisory colleges, which are governed by written coordination and cooperation arrangements (WCCA) that detail the information exchange and processes for coordinated supervision. In this context, the Nordic MoU on the prudential supervision of significant branches states that the participants to the MoU agree to inform each other of any significant supervisory actions without delay. Further, the MoU specifies that inspection reports by home supervisors of foreign branches should be shared with the host competent authority of that branch prior to forwarding the results to the credit institution concerned. The spirit of the agreement is that home and host supervisors inform each other before such actions are taken.
Assessment of Principle 13	Compliant
Comments	FI is involved in 18 supervisory colleges, chairing eight of them (excluding AML colleges). This includes supervisory colleges for the three D-SIBs that FI chairs. Further, FI participates as a member in the supervisory colleges of a number of banks, which operate branches in Sweden. FI is also a member of more than 50 AML colleges and is a lead supervisor in three of the colleges. These supervisory colleges are the primary channel for exchanging information and governed by WCCA in accordance with EU standards. The WCCA includes: (i) arrangements for exchanging information including their scope, frequency and channels of communication; (ii) identification of members and observers of the college; and (iii) framework for the planning and coordination of supervisory activities. FI has also entered into a number of MOUs to facilitate exchange of information. They include the Nordic MoU on supervision of significant branches and MoUs with supervisory authorities from the UK, US, and China. The assessors were able to evidence the operation of the supervisory through amongst other minutes of college meetings, exchange of communication and output of collaborative work. FI shares extensive information through the supervisory college, which include those on the material risks and risk management practices, and on the supervisors' assessment of the safety and soundness of the relevant entity under their jurisdiction. It also coordinated

	and plan supervisory activities and collaborative work with other members of the supervisory college, and FI uses the supervisory college examination program as a key tool for coordinating inspection of foreign offices. When FI wants information from a firm or branch outside its supervisory remit, e.g., foreign subsidiaries, it is required to inform the member of the college responsible for supervising that firm or branch in advance. The Swedish cross-border crisis cooperation and coordination framework is based on the BRRD and the relevant EBA guidelines, which include requirements on recovery planning, resolution planning and resolution colleges for cross-border banking groups. The WCCA for the supervisory colleges specify the interaction between the college and the resolution college. The WCCA also specifies the communication policy including the roles and responsibilities of the members of the supervisory colleges. Shell banks are no permitted under Swedish law. Swedish banks are also prohibited from entering into, or continuing a correspondent relationship with a shell bank.
B. Prudential Regulations and Requirements	
Principle 14	**Corporate governance**. The supervisor determines that banks and banking groups have robust corporate governance policies and processes covering, for example, strategic direction, group and organizational structure, control environment, responsibilities of the banks' Boards and senior management,[81] and compensation. These policies and processes are commensurate with the risk profile and systemic importance of the bank.
Essential criteria	
EC1	Laws, regulations or the supervisor establish the responsibilities of a bank's Board and senior management with respect to corporate governance to ensure there is effective control over the bank's entire business. The supervisor provides guidance to banks and banking groups on expectations for sound corporate governance.
Description and findings re EC1	FI's Regulation regarding governance, risk management and control at credit institutions (FFFS 2014:1) establishes high level requirements for the Board and the managing director in Chapter 3, complemented by Chapters 2, 4, 5 and 7. It states that the Board or managing director shall decide on the undertaking's risk appetite and risk strategy and regularly evaluate and update it if so required. They should also decide on the internal rules for: governance, compliance, risk management, conflict of interest, control, accounting, risk reporting, managing outsourcing agreements and recovery plan. The Board or managing director should have sound knowledge and understanding of the undertaking's organizational structure, processes, operations and the nature and scope of its risks. Chapter 6 states that the Board or managing director should, as soon as possible, take appropriate measures ensuing from the control function's report. FI's guidelines regarding governance and control (FFFS 2014:1) promotes a sound culture of governance and control of financial companies. In the guidelines, FI develops the view of how sound governance and control can be attained, how risks should be managed and

[81] Please refer to footnote 27 under Principle 5.

	controlled, how good compliance is guaranteed and how an independent audit function or internal audit function should be organized. The Swedish Company Law does not recognize the concept of "senior management." Responsibilities related to management activities are held by the board of directors or the managing director according to FI's regulation. FI's regulation on remuneration (FFFS 2011:1) defines senior management as "the managing director, the deputy managing director and other members of the management group or a similar body that report directly to the board of directors or the managing director." This is referenced in FI's regulation and guidelines on governance, risk management and control (FFFS 2014:1). In this regulation, the board of directors' oversight function and managing director's executive function are described. Regulation on remuneration taken together with the regulation on governance (see Section 4 of Chapter 3) could be read to mean that overall responsibility for controlling and managing risks could lie with the managing director. Along the same lines, Section 4 of Chapter 8 of the Companies Act (SFS 2005:551) states that the board of directors is responsible for the organization of the company and the management of the company's affairs. However, the definition of senior management in FI regulation does not entail management function responsibilities for others than the board of directors and the managing director. This is not the intent of the BCBS Guidance Corporate Governance Principles for Banks (2015). FI has argued in the past that duties of the Board as specified in Chapter 8 Section 4 of the Companies Act making the directors responsible for the organization of the company and the management of the company's affairs establish an adequate standard. As mentioned in the previous FSAP, the high-level requirements stablished in the regulation on governance and in the Companies Act do not clearly establish the overall responsibility of the role of senior management in managing the bank´s activities as contemplated in CP 14, and elaborated upon in the BCBS Guidance (in Principle 4). In fact, no law, regulation or the supervisor establish responsibilities for the senior management related to day-to-day management of the bank, implementation of business strategies, risk management systems and reports, risk culture, processes and controls for managing the risks to which the bank is exposed. Neither it determines the senior management to be overseed by the Board. Supervisors provide guidance on expectations for sound corporate governance in regular one-to-one meetings with banks. General guidance is provided through the explanatory memos which always accompany new regulation from FI. FI may also decide to convey the results from broad surveys or thematic reviews conducted in several supervised entities through the publishing of a report.
EC2	The supervisor regularly assesses a bank's corporate governance policies and practices, and their implementation, and determines that the bank has robust corporate governance policies and processes commensurate with its risk profile and systemic importance. The supervisor requires banks and banking groups to correct deficiencies in a timely manner.

Description and findings re EC2	Annually, in the SREP, banks´ governance policies and practices are assessed in accordance with the EBA SREP guidelines. The SREP is described in detail in CP 8. A rating from 1 (best) to 4 (worst) is assigned for banks in category 1 and 2. As mentioned in EC1, FI also performs broad surveys or thematic reviews in the governance remit. These surveys and thematic reviews can both form the basis for the publication of a report communicating FI´s views and for starting targeted, smaller investigations in individual credit institutions. With respect to the governance supervisory process, the EBA has published additional guidelines addressed to competent authorities or financial market participants which are equivalent to Swedish general guidelines. FI's method for assessing internal governance and control is based on the EBA's guidelines on internal governance (EBA/GL/2017/11). This guideline has been recently repealed by the revised guideline EBA/GL/2021/05 which, *inter alia*, add additional elements that aim to foster a sound risk culture implemented by the management body, to strengthen the management body's oversight of the institution's activities and to strengthen the risk management frameworks of institutions, e.g., by including the aspect of AML/TF risk factors. The purpose of FI's method is to assess whether the credit institution's internal governance and control is sufficient in relation to the institute's risk profile, business model, size and complexity, including whether the credit institution complies with applicable legal requirements for internal governance and control. In the assessment, FI must evaluate the extent of the risk of actual and potential deficiencies in internal governance and control that can affect the stability of the credit institution and survivability. The following main sub-areas are included (and graded) in the assessment of bank's internal governance and control: 1. Overall system for internal control; 2. The Board, the Board's committees and the CEO; 3. Corporate and risk culture; 4. Remuneration policy; 5. Framework for risk management; 6. Framework for internal control, including independent control functions; 7. Information systems and continuity management; and 8. Recovery plan. The final grade for internal management and control must be reconciled with one survival rating that describes the risk of the identified deficiencies in internal governance and control to the institution's stability and viability. If the total rating for internal management and control is 3 or 4, a dialogue should be initiated between risk expert, responsible manager and supervisor. The purpose is to produce a proposal for suitable supervisory measure and / or a pillar 2 surcharge that is proportional to the materiality of the deficiency. The proposal should be submitted to the Banking Area's Supervisory Committee. Actions include warnings, administrative fees, other requirements, such as deficiencies correction, or recommendations and capital add-ons. During the period 2016-

	2021, four banks in category 1 and 2 received capital add-ons for governance related issues as a result of the SREP. The method is primarily used for credit institutions that have been categorized by FI as categories 1 and 2. For credit institutions in categories 3 and 4, the responsible department head decides whether the method must be used. In those cases, the method should be adapted to the credit institution in question size and complexity. Supervisory documents provided to the assessors demonstrate appropriate attention is given to these matters. However, the observations regarding the lack of intrusiveness of supervision because of resource constraints also applies to the corporate governance assessment. In particular, in detriment to governance specific investigations, governance related aspects have been included in targeted risk-specific investigations. Governance experts have been recently reallocated to AML/CFT areas. As a consequence, it will be difficult for FI to continue fulfilling its mandate to adequately supervise banks and to perform thematic governance reviews, such as the investigations on the independence of the CRO and the risk control function and on remuneration regulation, that have proven useful in the past.
EC3	The supervisor determines that governance structures and processes for nominating and appointing Board members are appropriate for the bank and across the banking group. Board membership includes experienced non-executive members, where appropriate. Commensurate with the risk profile and systemic importance, Board structures include audit, risk oversight and remuneration committees with experienced non-executive members.
Description and findings re EC3	BFBA (SFS 2004:297, Chapter 10, Section 8) states that prior to the election of members of the board, the chairman shall provide information to the general meeting regarding the positions in other undertakings held by those persons to be elected, which are subject to restrictions depending on the size of the company. FI can partially reduce the restrictions but cannot determine that governance structures and processes for nominating and appointing Board members are appropriate. FI makes an assessment in according to the BFBA (SFS 2004:297, Chapters 3, Section 2) with regards to the Board members´ experience, skills and knowledge. Potential conflicts of interests are also identified, and reputation and honesty assessed. The assessment, of the suitability of the Board members, is an early step to verify a suitable governance structure of the bank. As part of SREP (see EC 2), FI assesses the chosen board structure, including audit, risk oversight and remuneration committees, as applicable. FI's regulation regarding governance, risk management and control at credit institutions (FFFS 2014:1) establishes that a bank that is significant with respect to size, internal organization and the nature, scope and complexity of the operations shall ensure that the board of directors has a risk committee. The members of the risk committee shall have appropriate knowledge and skills for understanding and monitoring the risk strategy and risk appetite of the undertaking. (Chapter 5, Section 13).

	In addition, FI's regulation regarding remuneration structures (FFFS 2011:1, Chapter 3, Section 3) establishes that a significant firm shall have a remuneration committee which shall conduct an independent assessment of the firm's remuneration policy and remuneration structure. A financial group may establish a common remuneration committee for all firms within the group. The members of the remuneration committee shall have sufficient knowledge and experience in issues relating to risk management and remuneration. According to the Companies Act (SFS 2005:551), the board of directors shall decide to have an audit committee or perform himself the audit committee's responsibilities as stated in Section 49b of the act. The members of the committee may not be employees of the company and at least one of the members must be independent and have accounting or auditing proficiency.
EC4	Board members are suitably qualified, effective and exercise their "duty of care" and "duty of loyalty."[82]
Description and findings re EC 4	FI makes an assessment in accordance with the applicable regulation in the BFBA (2004:297) as mentioned in EC3. The suitability assessment performed follows the assessment criteria stated in FI's Regulations regarding ownership and management assessment (FFFS 2009:3). Appendix 2 states the information required as a background check when a new chairman of the board, board member, alternate board member, managing director or deputy managing director is appointed in a financial institution with respect to qualifying ownership, close relations holding shares, conflicts of interest and reputation. In addition, FI has stipulated in regulations how to handle conflict of interests when it comes to duty of care and loyalty. For example, FI's regulation regarding management of credit risks (FFFS 2018:16) describes how to handle credit decisions concerning Board members.
EC5	The supervisor determines that the bank's Board approves and oversees implementation of the bank's strategic direction, risk appetite[83] and strategy, and related policies, establishes and communicates corporate culture and values (e.g., through a code of conduct), and establishes conflicts of interest policies and a strong control environment.
Description and findings re EC5	FI's Regulation regarding governance, risk management and control at credit institutions (FFFS 2014:1) establishes high level requirements for the Board that covers the approval,

[82] The OECD (OECD glossary of corporate governance-related terms in "Experiences from the Regional Corporate Governance Roundtables", 2003, www.oecd.org/dataoecd/19/26/23742340.pdf.) defines "duty of care" as "The duty of a board member to act on an informed and prudent basis in decisions with respect to the company. Often interpreted as requiring the board member to approach the affairs of the company in the same way that a 'prudent man' would approach their own affairs. Liability under the duty of care is frequently mitigated by the business judgment rule." The OECD defines "duty of loyalty" as "The duty of the board member to act in the interest of the company and shareholders. The duty of loyalty should prevent individual board members from acting in their own interest, or the interest of another individual or group, at the expense of the company and all shareholders."

[83] "Risk appetite" reflects the level of aggregate risk that the bank's Board is willing to assume and manage in the pursuit of the bank's business objectives. Risk appetite may include both quantitative and qualitative elements, as appropriate, and encompass a range of measures. For the purposes of this document, the terms "risk appetite" and "risk tolerance" are treated synonymously.

	control and oversight of the implementation of the bank's strategic direction, risk appetite and strategy, risk and ethical culture and conflicts of interest rules. As explained in EC 2, in the SREP, FI assesses the governance of the bank (including that the Board approves and oversees implementation of the bank´s strategic direction, risk appetite and strategy). During the year, in regular one-to-one meetings with banks these issues are discussed. In investigations, FI assesses the practical application in the relevant bank(s).
EC6	The supervisor determines that the bank's Board, except where required otherwise by laws or regulations, has established fit and proper standards in selecting senior management, maintains plans for succession, and actively and critically oversees senior management's execution of Board strategies, including monitoring senior management's performance against standards established for them.
Description and findings re EC6	As explained in EC 1, there is no definition of senior management in Swedish Company Law and, therefore, the board or one or more directors within the board (in particular, the Managing Director) are the ones bearing senior management typical responsibilities. There are provisions and supervisory processes applicable to the board with respect to fit and proper standards for selection (as explained in EC 4) and overseeing of execution of strategies (FFFS 2014:1, Chapter 2, Sections 3 and 4, Chapter 3, Section 4 and Chapter 5, Section 14), but no provisions with respect to senior management. The joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders stipulates (in article 115) that the policy should include principles of selection, monitoring and succession planning. They have the same legal status as FI's guidelines. Sweden has informed that it does not intend to comply with the following paragraphs in the guideline: • Paragraph 172. Swedish law does not provide for suitability assessment of key function holders. Consequently, the parts of the Guidelines which concern the competent authorities' obligations in relation to the suitability assessment of key function holder will not be implemented in Sweden. For the same reason, paragraph 165 (on removal of key function holder) will not be implemented. • Sections 15 (paragraphs 123-127). According to Swedish law the management body does not have competence in the process of selection and appointment of any of its members. As stated in the paragraph 127 the selection on nomination committee and its task is thus not applicable in Sweden. The assessors found no evidence that FI performs an assessment of selection of members' process or succession plans.
EC7	The supervisor determines that the bank's Board actively oversees the design and operation of the bank's and banking group's compensation system, and that it has appropriate incentives, which are aligned with prudent risk taking. The compensation system, and related performance standards, are consistent with long-term objectives and financial soundness of the bank and is rectified if there are deficiencies.

Description and findings re EC7	In FI's regulation regarding remuneration structures (FFFS 2011:1), the FSB Principles for Sound Compensation Practices were taken into consideration. In particular, Chapter 4 Section 2 states that variable remuneration components shall primarily be based on risk-adjusted profit measures that take into account both current and future risks. The regulation was amended by FFFS 2020:30, which clarifies that remuneration policies shall be gender neutral and also specifies categories of employees that can influence an institution´s risk profile and by FFFS 2014:22 which contains clear criteria for establishing fixed and variable remuneration and introduces a prolongation for the disbursement of variable. As mentioned in EC 2, remuneration policies are assessed as part of the governance assessment in the SREP. In 2021, FI performed a broad survey regarding how 18 credit institutions had interpreted the remuneration regulation (FFFS 2011:11). The results were published in a report in December 2021.[84] FI identified areas for improvement, mainly regarding categorization and definition of fixed and variable remuneration. Overall, remuneration policies could also benefit from improvement. It is important to mention that according to the law, Sweden cannot comply to the following paragraphs in EBA guidelines on sound remuneration policies (EBA/GL/2015/22, revised in EBA/GL/2021/04): • 83 – rules on branches. The rules that are applicable to branches in Sweden of credit institutions authorized in a third country are set forth in the Swedish law and are not possible for the Swedish FSA to decide on; • Part 15.7 – claw-back provisions; and • 128 – mention prescriptive ways of intervention, while the Swedish gives wider discretion to the supervisory authority intervention measure.
EC8	The supervisor determines that the bank's Board and senior management know and understand the bank's and banking group's operational structure and its risks, including those arising from the use of structures that impede transparency (e.g., special-purpose or related structures). The supervisor determines that risks are effectively managed and mitigated, where appropriate.
Description and findings re EC8	FI's Regulation regarding governance, risk management and control at credit institutions (FFFS 2014:1, Chapter 3, Section 2) establishes that board members shall have sound knowledge and understanding of the undertaking's organizational structure and processes in order to ensure that they are consistent with the decided strategies of the undertaking. Chapter 2, Section 1 of the same regulation establish that an undertaking shall ensure that it has an appropriate, transparent organizational structure with a clear allocation of functions and areas of responsibility that ensure sound and efficient governance of the

[84] https://www.fi.se/sv/publicerat/rapporter/tillsynsrapporter/2021/fi-tillsyn-25-flera-banker-och-kreditmarknadsbolag-bor-se-over-sina-ersattningssystem/

	undertaking and enable FI to conduct efficient supervision. The EBA's Guidelines on Internal Governance, Chapter 6.3, generally provides that institutions should avoid setting up complex and potentially non-transparent structures that have no clear economic rationale or legal purpose or raise concerns that the structures might be used for a purpose connected with financial crime. It also states that when setting them up, the management body should understand such structures and their purpose, and the particular risks associated with them and ensure that internal controls are in place. In the SREP, FI assesses the governance of the bank (including that the Board and senior management know and understand the bank's and banking group's operational structure and its risks) in line with EBA's guidelines on Internal Governance. During the year, in regular one-to-one meetings with banks, these issues are discussed. As part of the SREP the banks Board´s meeting minutes are read to understand and verify how, and that governance and risk topics are discussed. In investigations, FI assesses the practical application in the relevant bank(s).
EC9	The supervisor has the power to require changes in the composition of the bank's Board if it believes that any individuals are not fulfilling their duties related to the satisfaction of these criteria.
Description and findings re EC9	The BFBA (2004:297), Chapter 13, section 2 stipulates FI shall ensure that the owners and management of the credit institution fulfil the suitability requirements in the Act. Chapter 15, section 2 of the same Act stipulates that if a member of the board fails to fulfil the requirements set forth in Chapter 3, section 2, subsection 4, FI shall revoke the institution's license. However, the aforesaid may only take place where the Supervisory Authority has first decided to issue an adverse remark in respect of the person or persons, and where such person or persons, following the expiry of a period of time, not to exceed three months, determined by the Supervisory Authority remains on the board. In lieu of revoking the license, FI may order that a board member or managing director may no longer serve in such capacity. FI may thereupon appoint a replacement until the institution appoints a new board member or managing director. Intervention may only take place where the institution's infringement is serious and the person in question caused the infringement intentionally or through gross negligence. The need to prove an intentional or gross negligence action for the removal of a board member based on criteria set in Section 1 of BFBA or to issue an adverse remark first for the removal of a board member based on Section 2 of BFBA provisions (connected to fit and proper and suitability assessments) could hinder the removal of a board member. In fact, FI has only removed a board member once, but in the context of performing an initial suitability assessment after his recent appointment, and the case has been questioned in court (which was ruled in favor of FI). However, FI has showed the assessors evidence that when it has directed criticism to the Board, the supervised entities undertook changes to their Boards as a result. FI has also

	questioned board members' suitability on grounds of conflicts of interest in a few cases. FI's views in these cases have been taken on board by the institutions which have addressed the conflicts of interest and/or withdrawn the nomination.
Additional criteria	
AC1	Laws, regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material and bona fide information that may negatively affect the fitness and propriety of a bank's Board member or a member of the senior management.
Description and findings re AC1	Articles 162 and 170 of the joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders determine that the institutions should in the event that the management body concludes that the management body is not suitable individually, or collectively, immediately inform the competent authority without delay. In addition, FI's general guidelines regarding reporting of significant events (FFFS 2021:2) determine that the institution should immediately report events to competent authority, such as events that may lead to significant reputational risk.
Assessment of Principle 14	Largely Compliant
Comments	As pointed out in the 2016 FSAP, Swedish Company Law does not recognize the concept of "senior management," as responsibilities related to management activities are held by the board of directors or the managing director. FI's regulation on remuneration (FFFS 2011:1) defines senior management as "the managing director, the deputy managing director and other members of the management group or a similar body that report directly to the board of directors or the managing director." The definition does not entail any management function responsibilities but is relevant for and has impact on e.g., remuneration practices and composition of the risk committee. The definition referenced in FI's regulation and guidelines on governance, risk management and control (FFFS 2014:1) further clarifies the board of directors' oversight function and the managing director's executive functions. In this sense, responsibilities for the senior management related to day-to-day management of the bank have not been clearly implemented for others than the board of directors and the managing director. The lack of legislation which references the roles and responsibilities to be assigned to senior management affects a number of supervisory processes and assessments including corporate governance, licensing, risk management practices, specific-risks provisions, among others, deviating from the provisions in the BCBS Guidance Corporate Governance Principles for Banks (2015). According to Swedish law the management body does not have a role to play in the process of selection and appointment of any of its members. The assessors found no evidence that FI performs an assessment of selection of members' process or succession plans. Moreover, even though FI has showed the assessors that so far it has been able to achieve the objective of changing the composition of the board, the need to prove an intentional

	or gross negligence action for the removal or to issue an adverse remark first (depending on the root causes for the removal) could hinder the removal of a board member. The observations regarding the lack of intrusiveness of supervision because of resource constraints also applies to the corporate governance assessment. In particular, governance specific investigations have been incorporated into targeted risk-specific investigations. Governance experts have been recently reallocated to AML/CFT areas. As a consequence, it will be difficult for FI to continue fulfilling its mandate to adequately supervise banks and to perform thematic governance reviews, such as the investigations on the independence of the CRO and the risk control function and on remuneration regulation, that have proven useful in the past. Finally, FI's governance supervisory method should be reviewed in order to align to the new internal governance EBA guidelines which incorporates provisions related to gender diversity, money laundering, financing terrorist risk and the management of conflicts of interest, including in the context of loans and other transactions with members of the management body and their related parties, that have mostly been introduced to the Swedish regulation.
Principle 15	**Risk management process**. The supervisor determines that banks[85] have a comprehensive risk management process (including effective Board and senior management oversight) to identify, measure, evaluate, monitor, report and control or mitigate[86] all material risks on a timely basis and to assess the adequacy of their capital and liquidity in relation to their risk profile and market and macroeconomic conditions. This extends to development and review of contingency arrangements (including robust and credible recovery plans where warranted) that take into account the specific circumstances of the bank. The risk management process is commensurate with the risk profile and systemic importance of the bank.[87]
Essential criteria	
EC1	The supervisor determines that banks have appropriate risk management strategies that have been approved by the banks' Boards and that the Boards set a suitable risk appetite to define the level of risk the banks are willing to assume or tolerate. The supervisor also determines that the Board ensures that: (a) a sound risk management culture is established throughout the bank;

[85] For the purposes of assessing risk management by banks in the context of Principles 15 to 25, a bank's risk management framework should take an integrated "bank-wide" perspective of the bank's risk exposure, encompassing the bank's individual business lines and business units. Where a bank is a member of a group of companies, the risk management framework should in addition cover the risk exposure across and within the "banking group" (see footnote 19 under Principle 1) and should also take account of risks posed to the bank or members of the banking group through other entities in the wider group.

[86] To some extent the precise requirements may vary from risk type to risk type (Principles 15 to 25) as reflected by the underlying reference documents.

[87] It should be noted that while, in this and other Principles, the supervisor is required to determine that banks' risk management policies and processes are being adhered to, the responsibility for ensuring adherence remains with a bank's Board and senior management.

	(b) policies and processes are developed for risk-taking, that are consistent with the risk management strategy and the established risk appetite; (c) uncertainties attached to risk measurement are recognized; (d) appropriate limits are established that are consistent with the bank's risk appetite, risk profile and capital strength, and that are understood by, and regularly communicated to, relevant staff; and (e) senior management takes the steps necessary to monitor and control all material risks consistent with the approved strategies and risk appetite.
Description and findings re EC1	The BFBA (SFS 2004:297, Chapter 6, Section 2) establishes that a credit institution shall identify, measure, control, internally report and verify the risks associated with its operations. A credit institution shall specifically ensure that its credit risks, market risks, operational risks, and other risks do not, on aggregate, jeopardize the institution's ability to fulfil its obligations. To fulfil this requirement, it shall, at a minimum, have methods which enable it to regularly value and maintain capital which, in terms of amount, class, and breakdown, is sufficient to cover the type and level of the risks to which it is, or may become, exposed. The institution shall evaluate these methods to ensure that they provide full coverage. FI's regulation regarding governance, risk management and control (FFFS 2014:1) requires undertakings to have a comprehensive risk management framework. According to Chapter 5, an undertaking shall have a risk management framework containing the strategies, processes, procedures, internal rules, limits, controls and reporting procedures required to ensure that the undertaking may, on an ongoing basis, identify, measure, govern, internally report and exercise control of the risks to which it is or could perceivably become exposed. The risk management framework shall be well integrated into the decision-making structure, and pertain to all material risks. The business units are responsible for performing daily risk management. An undertaking shall have internal rules for its risk management, which shall be decided by the board. It shall also have procedures to perform monitoring and control to ensure compliance with the limits and mandates decided. An undertaking shall have a common, sound view of risk-taking based on the decided risk appetite and on an understanding of all risks to which the undertaking may be exposed, and how these are addressed. It shall also, on an ongoing basis, inform and train affected staff so that they have relevant knowledge about the risk management framework. The assessment of risk management strategies, policies, processes and limits is performed, as part of the SREP process, through targeted investigations and ongoing supervision. FI has quarterly risk review meetings with the three major banks and semi-annually risk review meetings with the eight medium sized credit institutions with a predetermined agenda. FI performs the assessments in the SREP according to the risk assessment methods that have been decided for each risk area which builds on information that is

	received via the firm's reporting, internal risk, capital, liquidity, auditing, and compliance reports, meetings with the firm, closed investigations, and other relevant information. The risk assessment methods are developed based on the EBA's guidelines for common procedures and methodologies for the SREP. However, the risk assessment methods (also referred as "handbook") are too high level, do not clarify how supervisors should assess particular items and do not make direct reference to EBA guidelines' provisions to help supervisors understand what they are supposed to take into account. In fact, the assessment methods do not even mention as a general reference EBA guidelines other than the SREP that are particularly useful for some specific risks, such as credit. This might lead to a lack of consistency between different supervisors, less intrusiveness and more time-consuming assessments because of lack of further guidance. In fact, the assessors have found evidence that there is a lack of consistency of supervisory practices that might be a reflection of high-level manuals or lack of expertise of supervisors. During the SREP process and ongoing supervision, the banks provide FI with a list of all policies and instructions decided by the board including dates of latest update and approval. FI reads the banks' boards' meeting minutes to verify if the risk-aspects are incorporated in the overall strategies and plans established by the management and also understood by the board. The risk framework is assessed both in specific assessments for each risk and for the internal control, under the SREP. In order to assess if the risk framework is consistent with the overall strategies and plans for the banks, FI assesses if the thresholds in ICAAP, recovery plans etc. are consistent with the risk appetite and limits in the risk framework and policies decided by the board. The assessors found evidence in SREP assessments and quarterly reports that FI adequately performs such assessments. Please see CP 14 EC 2 for details on the assessment of aspects related do risk management ("Method for internal governance and institutions wide controls assessment"). The assessors were able to verify that the assessment methods broadly follow the provisions in the EBA GL SREP. The assessors have found evidence that FI has been able to identify most material issues, but is not able to go deep into the details and sometimes the findings are not so timely. When performing deep-dive investigations, FI is able to better understand the root causes of the issues appointed, however, due to lack of resources, these are not that frequent. The lack of onsite interaction with bank's staff other than the senior managers also hinders FI's ability to assess risk culture in a bank.

EC2	The supervisor requires banks to have comprehensive risk management policies and processes to identify, measure, evaluate, monitor, report and control or mitigate all material risks. The supervisor determines that these processes are adequate: (a) to provide a comprehensive "bank-wide" view of risk across all material risk types; (b) for the risk profile and systemic importance of the bank; and (c) to assess risks arising from the macroeconomic environment affecting the markets in which the bank operates and to incorporate such assessments into the bank's risk management process.
Description and findings re EC2	See EC 1. The BFBA (SFS 2004:297), Chapter 6 Sections 2 and 5 requires banks to have comprehensive risk management policies and processes to identify, measure, evaluate, monitor, report and control or mitigate all material risks. The assessors were shown conclusions to a couple of examples where deficiencies in risk management practices were appointed by FI, often connected to governance and credit risk management practices and measures were taken.
EC3	The supervisor determines that risk management strategies, policies, processes and limits are: (a) properly documented; (b) regularly reviewed and appropriately adjusted to reflect changing risk appetites, risk profiles and market and macroeconomic conditions; and (c) communicated within the bank. The supervisor determines that exceptions to established policies, processes and limits receive the prompt attention of, and authorization by, the appropriate level of management and the bank's Board where necessary.
Description and findings re EC3	The BFBA (SFS 2004:297, Chapter 6, Section 5) states that the board shall ensure that there are written internal guidelines and instructions to fulfil the requirements related to risk management, and to manage the business. Such guidelines and instructions shall be regularly evaluated and reviewed. FI's regulation regarding governance, risk management and control (FFFS 2014:1, Chapter 5) present several provisions on risk management strategies, policies, processes and limits. Under Section 5 an undertaking shall have a procedure for regularly reporting the risks that exist or which could perceivably arise in the operations to the board and others, so that they receive reliable, current and complete reports in a timely manner. Section 6 states that an undertaking shall have a common, sound view of risk-taking based on the risk appetite and on an understanding of all risks to which the undertaking may be exposed, by performing forward-looking and backward-looking analyzes, and how these are addressed by the undertaking. The undertaking shall, on an ongoing basis, inform and train affected staff so that they have relevant knowledge about the risk management framework of the undertaking. Sections 8 and 9 establish that an undertaking shall have procedures to perform monitoring and control to ensure

	compliance with the limits and internal rules on how to manages breaches. Even though, the regulation states that the risk control function shall evaluate the breach and inform the affected functions of the outcome. There is no clear requirement that breaches should be taken to the appropriate level of senior management and the bank's board where necessary. In the SREP, FI assesses if the control functions in the bank monitors the compliance to the limits. FI pays attention to the recurrence of limit breaches or the existence of significant events. The assessors saw that FI relies on the second line of defense to monitor banks' internal trading limits, which in the absence of close monitoring could lead to material breaches other than prudential VaR breaches not being reported as fast as they should. FI also review risk management policies and process documentation to assess if they are properly documented and reports to assess communication within banks. Onsite assessment of communication throughout different levels within the institutions is very limited. The assessors were shown conclusions to a couple of examples were deficiencies in risk management practices related to limits were appointed by FI, often connected to governance and internal control, and that measures were taken.
EC4	The supervisor determines that the bank's Board and senior management obtain sufficient information on, and understand the nature and level of risk being taken by the bank and how this risk relates to adequate levels of capital and liquidity. The supervisor also determines that the Board and senior management regularly review and understand the implications and limitations (including the risk measurement uncertainties) of the risk management information that they receive.
Description and findings re EC4	FI's regulation regarding governance, risk management and control (FFFS 2014:1) Chapter 3, Section 2 states that board members shall be thoroughly familiar with and knowledgeable about the undertaking's operations and the nature and scope of its risks. Also, Chapter 5, Section 5 requires banks to report actual and possible risks to the board. The board should decide on the frequency and format of the information. In addition, according to Chapter 6, Section 7 the control functions should report on risks regularly to the board. The consequences of the risks and the control functions' recommendations to the management should be included. The reports should also include follow up on earlier reported risks and the board should take appropriate actions with regard to the reported risks. As part of the SREP, FI usually reviews the Board material and meeting minutes in order to assess if the board members obtain sufficient information and regularly review and take actions regarding nature of its risk and risk management related issues. Also, the control functions reports and reporting lines to the Board are assessed in order to verify the information given to the Board. Furthermore, in the SREP, the involvement of the Board is considered.
EC5	The supervisor determines that banks have an appropriate internal process for assessing their overall capital and liquidity adequacy in relation to their risk appetite and risk profile.

	The supervisor reviews and evaluates banks' internal capital and liquidity adequacy assessments and strategies.
Description and findings re EC5	FI's regulation regarding prudential requirements and capital buffers (FFFS 2014:12, Chapter 10, Section 1) establishes that an undertaking shall, at least annually, in a specific document, describe its assessment of its total need of capital and liquidity and which processes and methods the undertaking uses for that assessment and list the required contents for that document (the ICAAP/ILAAP). EBA guidelines on ICAAP and ILAAP information collected for SREP purposes (EBA/GL/2016/30) specifies what information regarding ICAAP and ILAAP should be collected from institutions. FI has adopted the guidelines and recommended the supervised entities to report in accordance therewith. The guidelines state that information on the following is common to ICAAP and ILAAP: business model and strategy; risk governance and management framework; Risk Appetite Framework; stress testing framework and program; risk data aggregation and IT-systems. The following ICAAP-specific information should be included: the overall ICAAP framework; risk measurement, assessment and aggregation; internal capital and capital allocation; capital planning; stress testing in ICAAP. The following ILAAP-specific information should be included: liquidity and funding risk management framework; funding strategy; strategy regarding liquidity buffers and collateral management; cost-benefit allocation mechanism; intraday liquidity risk management; liquidity stress testing and liquidity contingency plan. In the SREP, FI assesses the ICAAP/ILAAP and whether it has an appropriate internal process for assessing its overall capital and liquidity adequacy in relation to its risk appetite and risk profile. FI reviews and evaluates the supervised entity´s internal capital and liquidity adequacy assessments and strategies.
EC6	Where banks use models to measure components of risk, the supervisor determines that: (a) banks comply with supervisory standards on their use; (b) the banks' Boards and senior management understand the limitations and uncertainties relating to the output of the models and the risk inherent in their use; and (c) banks perform regular and independent validation and testing of the models. The supervisor assesses whether the model outputs appear reasonable as a reflection of the risks assumed.
Description and findings re EC6	In the SREP process, FI collects documentation of models and validations. The banks models are being assessed as part of the evaluation of each risk type. For example, the IRRBB risk models are evaluated by the risk experts in the market risk area and the IFRS 9 models are considered in the credit risk assessment. The assessors found evidence that FI has performed inspections that addressed provisions in this EC, even though the remarks in EC 5 of CP 16 are applicable.

EC7	The supervisor determines that banks have information systems that are adequate (both under normal circumstances and in periods of stress) for measuring, assessing and reporting on the size, composition and quality of exposures on a bank-wide basis across all risk types, products and counterparties. The supervisor also determines that these reports reflect the bank's risk profile and capital and liquidity needs and are provided on a timely basis to the bank's Board and senior management in a form suitable for their use.
Description and findings re EC7	FI's regulation regarding governance, risk management and control (FFFS 2014:1, Chapter 2) states that an undertaking shall ensure that it has current and appropriate IT systems and reporting procedures that ensure that information regarding its operations and risk exposure are current and relevant, and that external reporting is reliable, current, complete and timely. An undertaking shall also have the capability to gather and automatically compile data on significant and measurable risks as soon as possible. The IT systems supporting such compilation shall be flexible and able to meet various analysis needs. Risk data shall be compilable by area of operation, legal entity, asset class, type of counterparty, region and other relevant grouping and at least in the event of crisis situations, stress tests and at the request of FI. FI determines that banks have appropriate risk management systems, but not requiring any specific information systems for the purpose nor performing detailed assessments on the systems, unless a need to perform a specific inspection is identified. The assessors were able to verify that during the SREP, FI assesses banks compliance to the principles for effective risk data aggregation and risk reporting (BCBS 239). FI has also provided evidence in the recent Covid pandemic crisis, that banks were able to quickly react and provide the requested information without significant delay.
EC8	The supervisor determines that banks have adequate policies and processes to ensure that the banks' Boards and senior management understand the risks inherent in new products,[88] material modifications to existing products, and major management initiatives (such as changes in systems, processes, business model and major acquisitions). The supervisor determines that the Boards and senior management are able to monitor and manage these risks on an ongoing basis. The supervisor also determines that the bank's policies and processes require the undertaking of any major activities of this nature to be approved by their Board or a specific committee of the Board.
Description and findings re EC8	FI's regulation regarding governance, risk management and control (FFFS 2014:1) states that an undertaking shall, when it introduces new or materially altered products, services, markets, processes and IT systems, and in the event of major changes in the undertaking's operations and organization, efficiently and appropriately manage the risks that may arise in connection therewith. Prior to the introduction, the risk control function shall evaluate the risks therein and evaluate how they could perceivably affect the overall risk of the undertaking. According to FI's regulation regarding the management of operational risks (FFFS 2014:4, Chapter 5, Section 10-14) a bank should have a process for the approval of new products.

[88] New products include those developed by the bank or by a third party and purchased or distributed by the bank.

	In the process the banks should consider for example: compliance with rules and regulations, the risks connected with the product, the impact of the bank´s capital, necessary resources and competence, appropriate processes and procedures to monitor the risks. The approval process should be described in internal rules, which are approved by the board. The assessors were show evidence that the approval process for new products is assessed under the SREP.
EC9	The supervisor determines that banks have risk management functions covering all material risks with sufficient resources, independence, authority and access to the banks' Boards to perform their duties effectively. The supervisor determines that their duties are clearly segregated from risk-taking functions in the bank and that they report on risk exposures directly to the Board and senior management. The supervisor also determines that the risk management function is subject to regular review by the internal audit function.
Description and findings re EC9	FI's Regulations and General Guidelines regarding governance, risk management and control at credit institutions (FFFS 2014:1) Chapter 6, Sections 1 and 3 stipulate that an undertaking shall have a risk control function. The control function shall have the resources required, staff with the required knowledge and powers and access to the information needed to discharge its tasks. Section 6 of the same chapter is dedicated to the independency of the control functions and establishes criteria for a control function to be deemed independent: 1. staff of the control function shall not perform any tasks that are included in the operations they are to monitor and control, 2. it shall, in organizational terms, be separate from the functions and areas it is to monitor and control, 3. the person responsible for the control function shall regularly report directly to the board of directors and attend board meetings at which the area of responsibility or reports of the function in question are addressed, and 4. the method for establishing remuneration for the staff of the control function shall not be devised such that it jeopardizes or could perceivably jeopardize the objectivity of the staff. Chapter 9, section 5, items 4 and 5 of the same regulation stipulate that internal audit review and regularly evaluate whether the undertaking's internal controls are appropriate and efficient, as well as review and regularly evaluate the undertaking's risk management based on its decided risk strategy and risk appetite. In the ongoing supervision, FI holds regular meetings with banks´ risk control functions (quarterly for category 1 banks and semi-annually for category 2). Prior to these meetings, reports from the risk control function are evaluated. The assessors were able to verify that,

	in the SREP, the adequacy of the bank´s risk control function is evaluated with regard to the abovementioned criteria. In investigations (and some surveys, depending on the scope of the survey) the quality of the supervised entity´s risk control function is evaluated. In onsite inspections, interviews are held with risk control staff. FI also meets with internal audit twice a year and have access to its reports in order to access if they are properly evaluating the first two lines of defense. Internal audit and supervision findings generally concur, but the supervisory ones are presented in a higher level and might not be able to address all the specific issues and root causes.
EC10	The supervisor requires larger and more complex banks to have a dedicated risk management unit overseen by a Chief Risk Officer (CRO) or equivalent function. If the CRO of a bank is removed from his/her position for any reason, this should be done with the prior approval of the Board and generally should be disclosed publicly. The bank should also discuss the reasons for such removal with its supervisor.
Description and findings re EC10	FI's Regulations and General Guidelines regarding governance, risk management and control at credit institutions (FFFS 2014:1) Chapter 7, Sections 4-6 stipulate those undertakings of a certain nature, scope and complexity shall appoint a chief risk officer (CRO) who shall be in charge of the risk control function and assess whether the risk management framework of the undertaking is efficient and appropriate. The CRO shall be directly subordinate to the managing director and report directly thereto and to the Board and, when appropriate, to the risk committee of the Board of directors. An undertaking shall have internal rules for appointing and replacing a CRO. The board shall approve and decide on the appointment and replacement of the CRO. The undertaking shall inform FI when it appoints or replaces the CRO. In addition, Chapter 5, Sections 13-16, of the same regulation disciplines the risk committee that should be created for undertakings that are significant with respect to size, internal organization and the nature, scope and complexity of the operations. With respect to the removal of a CRO, for the category 1 banks, FI has a dialogue at senior management level of the bank immediately when receiving the information, with the purpose of assessing the impact of the change on FI's risk assessment of the banking group. For categories 2 – 4 and as a follow-up for category 1 banks, FI raises questions regarding the replacement of a CRO in the ensuing quarterly/semi-annual meeting with the supervised entity. If no such meeting is scheduled (e.g., for category 3 and 4 institutions), a written communication takes place, if appropriate.
EC11	The supervisor issues standards related to, in particular, credit risk, market risk, liquidity risk, interest rate risk in the banking book and operational risk.
Description and findings re EC11	Below please find a list of risk-specific binding regulations issued by FI: o FFFS 2010:7 FI's Regulations regarding management of liquidity risks in credit institutions and investment firms.

	○ FFFS 2014:4 FI's Regulations and General Guidelines regarding the management of operational risks. ○ FFFS 2014:5 FI's Regulations and General Guidelines regarding information security, IT operations and deposit systems. ○ FFFS 2018:16 FI's Regulations and General Guidelines regarding management of credit risks in credit institutions and securities companies. ○ FFFS 2007:4 FI's regulations on reporting interest rate risk in the banking book (IRRBB). FI has issued guidance regarding the calculation of IRRBB (included in the Pillar 2 requirements). This guidance also comprises, amongst other things, credit concentration risk and pension risk. FI also declared its intention to comply with EBA guidelines on IRRBB. Apart from this, there is no national regulation specifically related to market risk nor to IRRBB yet as Sweden is following the EU plan for regulation in this area. The FI's general guidelines on the management of market and liquidity risks in credit institutions and investment firms (FFFS 2000:10) was repealed on January 1, 2021, based on the fact that, according to FI, there are corresponding rules in other regulations. The regulatory code (FFFS 2000:10) is replaced by the introduction of regulatory frameworks that are (1) legally binding, (2) based on Basel 2.5 standards, and (3) in general better adapted to contemporary trading books compared to FFFS 2000:10. This includes but are not limited to other regulations. • General trading book provisions and hence management of market risk; • Market risk capital requirement (SA); • Market risk capital requirement (IMA); and • Prudential CVA, both internal and standard approach. In addition, other regulations are also applicable to market risk. For example, the regulatory code FFFS 2014:1,[89] comprehensive CRR standards for prudent valuation, SFS (2014:968) on special supervision of credit institutions and investment firms and EBA GL on the treatment of structural FX positions.[90] Finally, it should be mentioned that the introduction of the CRD6/CRR3 in EU that incorporate the market risk standard in Basel, known as the FRTB, will increase compliance with the Basel standard further.
EC12	The supervisor requires banks to have appropriate contingency arrangements, as an integral part of their risk management process, to address risks that may materialize and actions to be taken in stress conditions (including those that will pose a serious risk to their viability). If warranted by its risk profile and systemic importance, the contingency arrangements include robust and credible recovery plans that take into account the specific circumstances of the bank. The supervisor, working with resolution authorities as

[89] FI's Regulations and General Guidelines regarding governance, risk management and control at credit institutions;

[90] EBA GL on SFX (EBA/GL/2020/09) applicable as of January 1, 2022.

	appropriate, assesses the adequacy of banks' contingency arrangements in the light of their risk profile and systemic importance (including reviewing any recovery plans) and their likely feasibility during periods of stress. The supervisor seeks improvements if deficiencies are identified.
Description and findings re EC12	FI's regulation regarding the management of operational risks (FFFS 2014:4, Chapter 5, Section 15) require institutions to have internal rules, methods and procedures for contingency, continuity and recovery plans. In the process to review recovery plans, FI assess if the recovery plan is an integrated part of their risk management framework. The contingency arrangements are considered in the SREP process. The BFBA (SFS 2004:297, Chapter 6a) establishes several requirements and criteria regarding drawing up a recovery plan. In addition, it also establishes procedures with respect to supervision of recovery plans, finding material deficiencies in, or impediments to, and deviation from a plan. According to the act, FI shall review the recovery plan and the SNDO shall be given the opportunity to review the plan for the purpose of identifying any measures in the plan which could have a negative impact on the credit institution's possibility for resolution and to provide recommendations to FI. The review shall be carried out following consultation with competent authorities in the EEA member states in which a significant branch is located. The procedure for the review of a group recovery plan for a cross-border group is set forth in sections 8–11 of the act. If FI finds material deficiencies in a recovery plan or material impediments to implementing the measures in the recovery plan, the institution shall be notified to comment. Where the credit institution's comments do not lead to the authority changing its assessment, the authority shall order the institution to submit a revised plan, within two months, which rectifies the deficiencies or impediments identified by the authority. Where a credit institution fails to comply with the authority's order or if the changes made by the credit institution do not eliminate the material deficiencies or impediments, the FI shall: 1. Order the credit institution to make concrete changes to the recovery plan in order to eliminate the material deficiencies or impediments; or 2. If such changes cannot adequately rectify the deficiencies or impediments, order the institution to identify the changes in its business activities which the institution can make in order to eliminate the material deficiencies or impediments. If material deficiencies remain, FI may order the institution to: • reduce the risk profile of the institution, including the liquidity risk; • enable timely recapitalization measure; • review the institution's strategy and structure;

	• make changes to the financing strategy so as to improve the resilience of the core business lines and the critical functions; or • make changes to the governance structure of the institution. The assessors have been able to verify that FI assesses adequacy of banks' contingency arrangements and requires changes to recovery plans both at regular SREPs an deep-dive investigations. In 2020, FI has published a report on the continuity management at banks.[91]
EC13	The supervisor requires banks to have forward-looking stress testing programs, commensurate with their risk profile and systemic importance, as an integral part of their risk management process. The supervisor regularly assesses a bank's stress testing program and determines that it captures material sources of risk and adopts plausible adverse scenarios. The supervisor also determines that the bank integrates the results into its decision-making, risk management processes (including contingency arrangements) and the assessment of its capital and liquidity levels. Where appropriate, the scope of the supervisor's assessment includes the extent to which the stress testing program: (a) promotes risk identification and control, on a bank-wide basis; (b) adopts suitably severe assumptions and seeks to address feedback effects and system-wide interaction between risks; (c) benefits from the active involvement of the Board and senior management; and (d) is appropriately documented and regularly maintained and updated. The supervisor requires corrective action if material deficiencies are identified in a bank's stress testing program or if the results of stress tests are not adequately taken into consideration in the bank's decision-making process
Description and findings re EC13	Article 177 of the CRR sets the requirements for stress tests used by IRB banks in the assessment of capital adequacy. Article 221 of the CRR requires banks using the Internal Models Approach for master netting agreements to frequently conduct a rigorous program of stress testing, and the results of these tests are reviewed by senior management and reflected in the policies and limits it sets. Article 290 of the CRR sets stress testing requirements for banks using the internal model method for counterparty credit risk. Article 302 requires banks to assess, through appropriate scenario analysis and stress testing, whether the level of own funds held against exposures to a CCP adequately relates to the inherent risks of those exposures. Article 368 sets stress-testing requirements for banks using internal models for market risk, while Article 407 sets stress-testing requirements for banks investing in securitization positions.

[91] https://www.fi.se/contentassets/e2f9ed5f9f3b421ea725460a922c1794/fi-tillsyn-18-bankernas-kontinuitetshantering_eng.pdf

	The EBA guidelines on institutions´ stress testing (EBA/GL/2018/04) stipulates that the stress testing program should be an integral part of an institution's risk management framework (including in the context of the internal capacity adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP)). It also states institutions should ensure that all elements of the stress testing program, including its assessment, are appropriately documented and regularly updated, where relevant, in the internal policies and procedures. Institutions should also ensure that stress testing is based on severe but plausible scenarios and the degree of severity should reflect the purpose of the stress test. The assessors saw evidence that stress testing is evaluated and graded under the SREP assessment of ICAAP and market risk. However, the assessment methodology is not as detailed as in many other chapters. The stress testing assessment methodology is also described in other chapters from a high-level perspective. In addition, not only the number of staff dedicated to assessing stress testing is very limited (2-3 FTE), but also, they are responsible for performing the P2G calculation. In this sense, since FI uses its internal stress testing to require capital add-ons from institutions (P2G), it might be putting a greater focus on the P2G calculation. As a consequence, the assessors found evidence that banks' internal stress testing are assessed from a high-level perspective, in some aspects, and do not fully cover the recommendations in the BCBS stress testing principles (2018). Finally, the assessors found evidence that so far FI has not required any changes to banks' internal stress testing nor have performed any deep-dive investigations on stress testing. So far, FI has had no onsite engagement with banks on stress testing.
EC14	The supervisor assesses whether banks appropriately account for risks (including liquidity impacts) in their internal pricing, performance measurement and new product approval process for all significant business activities.
Description and findings re EC14	FI's regulation regarding management of liquidity risk in credit institution and investment firms (FFFS 2010:7, Chapter 3, Section 2) requires institutions to calculate its costs for liquidity and take these costs into account in its internal pricing and performance measures. Costs for liquidity shall reflect the firm's current cost of refinancing upcoming maturities and the cost the firm incurs to maintain a liquidity reserve. According to FI's regulation regarding the management of operational risks (FFFS 2014:4, Chapter 5, Section 10-14) a bank should have a process for the approval of new products. In the process the banks should consider for example: compliance with rules and regulations, the risks connected with the product, the impact of the bank´s capital, necessary resources and competence, appropriate processes and procedures to monitor the risks. The approval process should be described in internal rules, which are approved by the board. In the SREP for categories 1 and 2, FI assesses if there is a method for internal pricing, and if it is reflected in the cost of financing and liquidity reserve. This assessment is mainly

	performed by the market risk expert team. Approval process for new products is also assessed in the SREP with contribution from the operational risk expert team.
Additional criteria	
AC1	The supervisor requires banks to have appropriate policies and processes for assessing other material risks not directly addressed in the subsequent Principles, such as reputational and strategic risks.
Description and findings re AC1	According to the credit institutions and securities companies Act (SFS 2014:968, Chapter 2, Section 1), FI shall order that a credit institution, in addition to the own funds required pursuant to the Prudential Requirements Regulation, shall satisfy: 1. a specific own funds requirement for risks associated with excessive leverage; and 2. a specific own funds requirement for other risks. Item 2 provides the legal basis for FI to require any additional capital under a Pillar 2 requirement. In fact, FI has established different methods for requiring additional Pillar 2 requirements for the following risks: • Flow back risk associated with securitization; • Pension risk; • Interest rate risk and additional market risk; • Risks related to CRE lending; • Credit-related concentration risk; and • Risk weights for exposures to corporates. The assessors were able to identify additional pillar 2 requirements related to those risks for different institutions. Strategic risk is assessed by FI under the business model's risk. FI does not assess reputational risk in its supervisory process.
Assessment of Principle 15	Materially Non-Compliant
Comments	As mentioned in the last FSAP, overall, while most of the elements of this CP are somehow addressed in FI's processes, the supervision puts too great a focus on procedures and documentation rather than meaningful corroboration of quality of implementation. The reason behind might be because this kind of assessment would be too time consuming and FI faces severe resources constraints. But ensuring that policies are adhered to in practice, for example through a rigorous process of spot checks and file reviews is fundamental, at least for the systemic firms. The supervisory process is based on the risk assessment methods (also referred as "handbook"). The assessors believe that the assessment methods are too high level, do not clarify how supervisors should assess particular items and do not make direct reference to EBA guidelines' provisions to help supervisors understand what they are supposed to take into account. For example, the assessment methods do not even mention as a general reference EBA guidelines other than the SREP one that are particularly useful for some specific risks, such as credit. This might lead to a lack of

	consistency between different supervisors, less intrusiveness and more time-consuming assessments because of lack of further guidance. In fact, the assessors have found evidence that there is a lack of consistency in supervisory practices. For instance, assessors became aware of examples where a change in the supervisory team has led to a change in the regulatory approach and intrusiveness. This might be a reflection of FI's risk-based approach justifying a change in scope or the high-level internal guidelines or lack of expertise of supervisors. The assessors found evidence that FI has been able to identify material issues but is not able to go deep into the details and sometimes it is not timely. In addition, for instance, the assessors saw that FI relies on the second line of defense to monitor trading limits, which in the absence of close monitoring could lead to material breaches other than prudential VaR breaches not being reported as fast as it should. As in all specific risks, the method for FI to assess the SREP is high-level and FI lacks the resources to perform more intrusive supervision as pointed out in CPs 2 and 9. When performing deep-dive investigations, FI is better able to understand the root causes of the issues appointed, however, due to lack of resources, these are not frequent. The lack of onsite inspections and the small amount of time spent in loco is insufficient to properly assess the provisions in this CP. For a country with such a relevant financial system both in terms of its GDP, but also in terms of the role in plays in the region, it is not sufficient. The assessors saw evidence that stress testing is evaluated under the SREP when assessing banks' ICAAP and market risk. However, the assessment is not as detailed as in many other chapters. Not only the number of staff dedicated to assessing stress testing is very limited, but also, they are responsible for performing the P2G calculation. In this sense, since FI uses its internal stress testing to require capital add-ons from institutions (P2G), it might be putting a greater focus on the P2G calculation. As a consequence, the assessors found evidence that banks' internal stress testing are assessed from a high-level perspective and do not fully cover the recommendations in the BCBS stress testing principles (2018). Finally, the assessors found evidence that FI has not required any changes to banks' internal stress testing nor have performed any deep-dive investigations on stress testing. So far, FI has had no onsite engagement with banks on stress testing. Therefore, the de-prioritization of supervision of such an important topic for banks' risk management, materially affects the evaluation of this CP. FI has issued standards related to credit risk, liquidity risk and operational risk. There is no national regulation specifically related to market risk nor to IRRBB. FI uses EU standards, EBA Guidelines, and the general Swedish regulatory code (FFFS 2014:1) to regulate market risk, ahead of the introduction of the FRTB in the EU. The assessors were able to identify additional pillar 2 requirements related to additional risks for different institutions. Supervisor does not require nor assess if banks take into account reputational risks.

Principle 16	**Capital adequacy.**[92] The supervisor sets prudent and appropriate capital adequacy requirements for banks that reflect the risks undertaken by, and presented by, a bank in the context of the markets and macroeconomic conditions in which it operates. The supervisor defines the components of capital, bearing in mind their ability to absorb losses. At least for internationally active banks, capital requirements are not less than the applicable Basel standards.
Essential criteria	
EC 1	Laws, regulations or the supervisor require banks to calculate and consistently observe prescribed capital requirements, including thresholds by reference to which a bank might be subject to supervisory action. Laws, regulations or the supervisor define the qualifying components of capital, ensuring that emphasis is given to those elements of capital permanently available to absorb losses on a going concern basis.
Description and findings re EC1	The BFBA (SFS 2004:297, Chapter 9) stipulates that requirements for own funds, capital requirements and large exposure requirements are prescribed in the EU's Capital Requirement Regulation No 575/2013 (CRR). The CRR establishes the requirements for calculating prescribed capital requirements (Part Three, Articles 92–386), including thresholds by reference to which a bank might be subject to supervisory action and which banks are required to satisfy at all times (Article 92(1)). The CRR establishes the following minimum capital requirements thresholds: Common Equity Tier 1 (CET1) capital 4.5 percent, Tier 1 capital (including additional Tier 1) 6 percent, and total capital (including Tier 2 capital) 8 percent. Part Two of the CRR defines the components of capital following the Basel-based capital tier structure, which reflects varying degrees of loss-absorption capacity, and the deduction requirements. EU's Capital Requirement Directive 2013/36/EU (CRD) contains the regulation for Pillar 2 capital requirements (P2R), capital buffers and the Pillar 2 guidance (P2G). In other words, the requirements including the buffers follow the Basel framework and in addition EU has implemented possibilities to set additional buffers. Sweden has implemented the CRD mainly in the Swedish Credit Institutions and Securities Companies Special Supervision Act (SFS 2014:968) and Capital Buffers Act (SFS 2014:966). Based on the Special Supervision Act (SFS 2014: 968), FI may require institutions to hold additional capital in relation to both the risk-weighted capital requirement and the leverage ratio requirement (Pillar 2 requirements). The Special Supervisions Act provides a standard capital composition for P2R but FI has the mandate to, in some situation, require the institution to meet the P2R with a higher portion of CET1 capital or Tier 1 capital. FI makes formal decision regarding P2R, according to disclosed methodologies, for the following risks: 1) Flow back risk associated with securitization;

[92] The Core Principles do not require a jurisdiction to comply with the capital adequacy regimes of Basel I, Basel II and/or Basel III. The Committee does not consider implementation of the Basel-based framework a prerequisite for compliance with the Core Principles, and compliance with one of the regimes is only required of those jurisdictions that have declared that they have voluntarily implemented it.

	2) Pension risk; 3) Interest rate risk and additional market risk; 4) Risks related to CRE lending; 5) Credit-related concentration risk; and 6) Risk weights for exposures to corporates. FI also has the power to decide on a P2R for other risks that a bank is or may be exposed to, which has been the case for several banks. In addition to the minimum capital requirements, the Capital Buffers Act (SFS 2014:966) includes all components within the combined buffer requirement that FI may decide on. FI has the power to impose and decide on the level for systemic risk buffers (SRB), a buffer for other systemically important institutions (O-SII buffer) and a countercyclical capital buffer (CCyB). The Capital Buffers Act also prescribes a capital conservation buffer of 2.5 percent of RWA where the level is given directly by the law. According to the act, all the capital buffers within the combined buffer requirement should be met by CET1 capital. The CCyB is currently zero percent on exposures in Sweden. FI has decided to increase the buffer value to one percent, which applies from September 29, 2022. In addition, according to FI, to ensure the possibility of freeing up capital for Swedish banks during a crisis, FI will apply a positive neutral rate of 2 percent going forward. FI has set an O-SII buffer of 1 percent of the RWA for the major banks.FI has also decided that one of Nordea's Swedish subsidiaries that is classified as an O-SII will receive an O-SII buffer amounting to 1 percent of the RWA. The SRB is a buffer additional to the ones established in the Basel framework and aims at counteracting a systemic risk that may have serious consequences for the stability of the financial system and the real economy in Sweden. In order to avoid double counting, the SRB must not be used to cover macroprudential or systemic risks covered by the O-SII buffer or CCyB. The FI has set an SRB of 3 percent of the RWA for the major banks. Finally, the Special Supervision Act (SFS 2006:531) also allow FI to communicate a P2G. Through this guidance FI can inform an institution which capital level FI expects the bank to hold over and above the minimum requirement, P2R and buffers to cover risks and manage future financial stresses. P2G can be communicated for both the risk-weighted and the leverage ratio requirement. The methodology for determining the P2G is a two-step approach. First, FI will conduct a sensitivity-based stress test that estimates the potential fall in capital levels at the bank given a number of assumptions and methodology choices. The outcome of the stress test will be rounded off into intervals. Then, second, FI will consider other quantitative and qualitative grounds of assessment. The final P2G will be determined from an overall assessment of both steps. FI has the discretion to decide on the capital composition and have decided that the P2G shall be met with CET1 capital.

	Falling below certain parts of the capital requirements results in certain restrictions that are specified by the regulatory framework.[93] A bank receives automatic restrictions on certain value transfers if it does not have sufficient capital to comply with the combined buffer requirement. There may be limitations placed on dividends and on coupon payments on Tier 1 capital instruments. In addition, the bank must submit a capital conservation plan to FI that describes how the capital is to be reinstated. FI also has the opportunity to take action if the bank is failing to hold sufficient own funds to comply with the P2G. For example, FI can conduct an intensified follow-up of the bank as part of its supervision or decide on a P2R. Described in simple terms, FI is therefore able to entirely, or partly, replace the P2G with a P2R. In turn, this can lead to failure to comply with the combined buffer requirement, at which point the bank receives automatic restrictions. In this way, breaches of the guidance have no automatic consequences, at the same time as FI has the possibility to intervene and require action on the part of the bank when this is justified on the basis of the current situation. If a bank breaches the minimum requirement or P2R, the regulatory framework requires action on the part of FI. However, the authority has to conduct an assessment of the cause of the regulatory infringement and of the feasibility of the bank's recovery. If the bank is able to recover, FI can give it time to implement appropriate measures to make it compliant with the requirement once again.
EC2	At least for internationally active banks,[94] the definitions of capital, risk coverage, method of calculation and thresholds for the prescribed requirements are not lower than those established in the applicable Basel standards.
Description and findings re EC2	The provisions regarding capital adequacy in the CRR and complementary national laws and regulations are based on the currently applicable Basel standards, including the definition of own funds, the risk coverage, the method of calculation and thresholds for the prescribed requirements. The CRR and accompanying FI Regulations apply to all institutions captured by Article 4(1)(3) of the CRR, which includes the internationally active banks within Sweden but is not restricted to them. The CRR is applicable on both consolidated basis and on solo (entity) level for all institutions. The CRR provides for the possibility to derogate from the prudential requirements on entity level by the use of capital waivers set out in article 7 of the CRR. FI has not made use of those waivers, i.e., the minimum capital requirements under the CRR applies to all institutions.

[93] New Capital Requirements for Swedish Banks

[94] The Basel Capital Accord was designed to apply to internationally active banks, which must calculate and apply capital adequacy ratios on a consolidated basis, including subsidiaries undertaking banking and financial business. Jurisdictions adopting the Basel II and Basel III capital adequacy frameworks would apply such ratios on a fully consolidated basis to all internationally active banks and their holding companies; in addition, supervisors must test that banks are adequately capitalized on a stand-alone basis.

	In December 2014, the BCBS issued its RCAP assessment of Basel III regulations for the EU.[95] The RCAP concluded that the prudential regulatory framework in the EU and the nine Member States was "materially non-compliant" with the minimum standards prescribed under the Basel framework. National discretions with regard to capital definition and regulatory requirements can be found in the transitional provisions of Article 481 pp. of the CRR. In general, the Swedish application of the CRR is conservative and does not make use of all of the discretions of the CRR and, therefore, it is more in line with Basel III. Apart from the following aspects that Sweden has implemented in a more conservative way that EU, the remaining criticism raised in the EU RCAP still hold, but it is not considered material. No entities have been excluded from prudential consolidation according to 19(2)(c) the CRR. The CRR (Article 49) allows an option for consolidation (non-deduction) of insurance subsidiaries under a conglomerates policy. This option does not include the BCBS Basel III FAQ condition that the capital required under consolidation must be at least as high as under deduction nor does it include the disclosure requirements. FI has not exercised the waiver and has explained that it does not intend to do so. The risk weight floor for Swedish retail mortgages was introduced at 15% in 2013 and raised to 25% percent in 2014. As of December 2018, the risk weight floor for Swedish mortgages, which previously was managed under Pillar 2, was replaced by an equivalent requirement in Pillar 1 in line with article 458 in the CRR. FI decided on December 16, 2021 to prolong the credit institution-specific minimum level of 25% for the average risk weight on Swedish housing loans, applicable to credit institutions that have adopted the Internal Ratings-based Approach, with effect from December 31, 2021, for a period of two years, under Article 458 of the CRR. In addition, the CRR permits a more generous transitional phase-in period for certain deductions than under Basel III upon the supervisory authority's discretion. Transitional arrangements in the CRR consist of amounts of deferred tax assets that rely on future profitability under the CRR Article 478(2), and amount of equity holdings in insurance undertakings, etc. under the CRR Article 47. Currently, FI uses none of those transitional arrangements.
EC3	The supervisor has the power to impose a specific capital charge and/or limits on all material risk exposures, if warranted, including in respect of risks that the supervisor considers not to have been adequately transferred or mitigated through transactions (e.g., securitization transactions)[96] entered into by the bank. Both on-balance sheet and off-balance sheet risks are included in the calculation of prescribed capital requirements.
Description and findings re EC3	The minimum capital requirements prescribed by the CRR consider on-balance sheet and off-balance sheet risks and whether risks have been adequately transferred or mitigated

[95] https://www.bis.org/bcbs/publ/d300.pdf

[96] Reference documents: Enhancements to the Basel II framework, July 2009 and: International convergence of capital measurement and capital standards: a revised framework, comprehensive version, June 2006.

	through transactions and impose specific capital charges on all risk exposures to the extent covered by the Basel standards for Pillar 1 capital requirements. As described in EC1, FI has the legal mandate to impose additional capital requirements in P2R. This accounts for both on-balance sheet and off-balance sheet risks. FI makes formal decision regarding P2R for each bank. P2R shall be covered with at least 75 percent Tier 1 capital, of which at least 75 percent shall be CET1 capital, but FI can also decide on a higher proportion of Tier 1 capital or CET1 capital. P2R is determined by a FI's formal decision for each institution. FI has published the methodology documentation concerning individual risks and types or risk that have been considered in P2R. These relate primarily to risks that may be present at several institutions, and reflects risks that FI considers not to be captured by the Pillar 1 capital requirements, such as: flow back risk associated with securitization, pension risk, interest rate risk and additional market risk, risks related to CRE lending, credit-related concentration risk and risk weights for exposures to corporates. In addition, FI may also decide on P2R for other risks that banks are or may be exposed to. The assessors saw several examples of introduction of P2R in practice. The tool has been used effectively and in a comprehensive way. The quarterly Memorandum on Capital requirements of the Swedish banks[97] discloses banks' capital requirements and capital ratios as of the end of each quarter. In addition, FI currently applies add-ons under P2R for corporate exposures (in general) and CRE exposures (in particular). The requirement for CRE exposure under P2R is set as a risk-weight floor of 35 percent of the average risk weight for corporates exposures secured by CRE and of 25 percent of the average risk weight for corporates exposures secured by commercial residential property. These measures are applied to all applicable institutions and are motivated not by deficiencies at the level of the individual institute, but rather by a perception that there is a general underestimation of the actual risk for some types of exposures. As mentioned in EC 1, the Special Supervision Act (SFS 2014:968) also allows FI to communicate a P2G. Through this guidance, based on sensitivity-based stress test analysis, FI can inform an institution which capital level FI expects the bank to hold over and above the minimum requirement, P2R and buffers to cover risks and manage future financial stresses. Besides imposing specific capital charges, according to the Special Supervision Act (SFS 2014:968, Chapter 8) FI has the power to limit its operations in any respect within a certain time, to reduce the risks therein, or take any other measures necessary to rectify the situation where a company fails to fulfil the requirements of the Prudential Requirements

[97] https://www.fi.se/contentassets/641f6e94721e41f9873fa4c3ecae208a/svenska-bankernas-kapitalkrav-kvartal-4-2021-eng.pdf

	Regulation, the Investment Firms Regulation, the Special Supervision act, or regulations derived from it. The assessors note, however, that examples of measures other than requiring additional capital (either through P2R or P2G) are scarcer. In this sense, it is important to mention that additional capital is not always the appropriate countermeasure. For instance, issues related to risk management should ideally be addressed through improvements in risk management practices, and not necessarily by requiring additional capital. FI noted that that it would be appropriate to require additional capital where for instance deficiencies in risk management practices have led to an underestimation of the capital need, which is consistent with the views of the assessors. This may particularly be the case where deficiencies in the risk management of IRB banks creates a risk of under-estimation of the required capital.
EC4	The prescribed capital requirements reflect the risk profile and systemic importance of banks[98] in the context of the markets and macroeconomic conditions in which they operate and constrain the build-up of leverage in banks and the banking sector. Laws and regulations in a particular jurisdiction may set higher overall capital adequacy standards than the applicable Basel requirements.
Description and findings re EC4	FI takes into account the risk profile and systemic importance of an institution when deciding the institutions capital requirements. As mentioned in EC 1, according to the Capital Buffers Act (SFS 2014:966), Chapter 5, Section 3 and 4, FI has imposed an O-SII buffer of 1 percent of the RWA on consolidated level for the three Swedish O-SIIs. The method for classification of the O-SIIs is in line with the EBA guideline and is based on the Basel Framework G-SIB identification methodology.
EC5	The use of banks' internal assessments of risk as inputs to the calculation of regulatory capital is approved by the supervisor. If the supervisor approves such use: (a) such assessments adhere to rigorous qualifying standards; (b) any cessation of such use, or any material modification of the bank's processes and models for producing such internal assessments, are subject to the approval of the supervisor; (c) the supervisor has the capacity to evaluate a bank's internal assessment process in order to determine that the relevant qualifying standards are met and that the bank's internal assessments can be relied upon as a reasonable reflection of the risks undertaken;

[98] In assessing the adequacy of a bank's capital levels in light of its risk profile, the supervisor critically focuses, among other things, on (a) the potential loss absorbency of the instruments included in the bank's capital base, (b) the appropriateness of risk weights as a proxy for the risk profile of its exposures, (c) the adequacy of provisions and reserves to cover loss expected on its exposures and (d) the quality of its risk management and controls. Consequently, capital requirements may vary from bank to bank to ensure that each bank is operating with the appropriate level of capital to support the risks it is running and the risks it poses.

	(d) the supervisor has the power to impose conditions on its approvals if the supervisor considers it prudent to do so; and (e) if a bank does not continue to meet the qualifying standards or the conditions imposed by the supervisor on an ongoing basis, the supervisor has the power to revoke its approval.
Description and findings re EC5	(a) The assessment and qualifying standards for which an institution may receive permission by FI to apply internal model to assess risk and calculate components for the regulatory capital requirement are given by the CRR, Part 3 (Title 2; IRB approach for credit risk, Title 3; Operational risk, Title 4; Market risk). In addition, EBA guidelines are applicable in Sweden and have the same legal status as guidelines from FI. For the use of IRB approach for credit risk, FI, for example, applies EBA's Guidelines on PD, LGD estimation and treatment of defaulted assets and Guidelines on definition of default in its assessment. Special Supervision Act (SFS 2014:968, Chapter 5, Section 1) prescribes that FI shall monitor the use of bank's internal assessment on a continuous basis, i.e., every third year at latest, and that these models are compliant with the relevant rules that the CRR prescribes. FI has one process for the assessment of applications/permissions to use IRB approach, including material changes and another for the ongoing monitoring of the performance of IRB models. The ongoing monitoring includes SREP, risk review meeting and EBA exercises. For the ongoing IRB repair, FI has developed assessment templates based on the relevant sections in the CRR, relevant technical standards and guidelines. The templates are used in the assessment of application for material changes to a rating system that institutions have received permission to use (IRB approach for credit risk). Due to the constraints mentioned in (c), FI is behind schedule in the majority of applications associated with the ongoing IRB repair but have finalized on the completeness check for all the applications that have been received. (b) Any material change to an approved internal model needs prior permission by the competent authority, according to Article 143(3) of the CRR for IRB approaches, Article 312 of the CRR for AMA approaches, and Article 363(3) of the CRR for Internal Models-based Approaches (IMA) for market risk. The assessment for material changes follows a similar process as the assessment of permission to apply internal models.[99] Similarly, cessation of the use of an internal model and thereby reversion to a standardized (less sophisticated) approach requires permission by the competent authority according to Article 149 of the CRR for IRB approaches, Article 283(5) of the CRR

[99] Criteria for the assessment of materiality follows from Delegated Regulation (EU) No 2015/942 for market risk models (IMA), and from Delegated Regulation (EU) No 529/2014 for credit risk models (IRB) and operational risk models (AMA).

	for Internal Model Method (IMM) approaches, and Article 313 of the CRR for AMA approaches. For IMA, a reversion to a standardized approach is considered a material change. Permission to use an Advanced-CVA model is linked to the permission for using IMA for specific interest rate risk and the IMM approach according to Article 383(1) of the CRR. As for the IMM method, there are no provisions in the CRR concerning material changes. The assessment for material changes by FI follows a similar process as the assessment of permission to apply for the use of internal models. (c) Internal models are assessed and supervised at different divisions within FI, depending on the types of risk for which internal models may be used. The Credit risk models unit are responsible for the supervision of the IRB approach for credit risk. The Market- and liquidity division are responsible for the supervision and assessment of internal model for market risk, which also includes the use of internal models approach for master netting agreements and internal model method for calculating EAD. The Operational risk department runs the supervision of advanced measurement approaches models used for calculation operational risks. Credit risk models (IRB) Performance review is conducted in conjunction with the regularly occurring supervisory activities (SREP and risk meetings with the banks). During the SREP data on each risk parameter is reviewed for corporate and retail exposures in order to evaluate models' performance and degree of conservatism, and the institutes' validation reports from the last year is perused. Before every risk meeting[100] the institutions are asked to submit data on risk parameters, migration matrices etc. In addition to the SREP and regular risk meetings, FI participate in EBA's yearly benchmarking exercise. FI has also taken part of ECB's TRIM review of Swedish banks subsidiaries. During these reviews, FI has been given the opportunity to review preliminary findings and also participate in the discussions on which findings that should be included in the final assessment and presented to the banks. FI has also used the results of these reviews to align the ongoing assessments of the Swedish banks IRB-models. However, FI has not shown it has the capacity to evaluate a bank's internal assessment process nor to approve the models (or material changes to the models) in due time. In recent years, FI has faced considerable challenges retaining IRB model experts. The staffing situation is at times affected by substantial turnover driven by tough competition from the private sector, particularly since the start of review of the IRB approach conducted by the EBA in 2019. Currently, FI also suffers from lack of experience due to the high turnover. Nowadays, there are 11 banks IRB approved (approximately 75% of banking assets) and because of the EBA IRB review that pointed out the need to make

[100] Risk meetings are generally held every 3 or 6 months, depending on how important FI deems the institute to be to the financial stability. Risk meetings are held on ad-hoc basis for category 3 institutions.

	comprehensive changes in all existing PD and LGD models, there are almost a hundred applications waiting to be approved. In addition, assessors saw evidence of material issues in IRB models (when issues were corrected, it led to a 65% increase in RWA for credit risk) that were captured during the EBA benchmarking exercise, which although not fully formalized, is used by FI as a part of the ongoing monitoring of performance of IRB models. It is worth mentioning that FI currently applies add-ons under P2R for corporate exposures (in general) and CRE exposures (in particular). The requirement for CRE exposure under P2R is set as a risk-weight floor of 35 percent of the average risk weight for corporates exposures secured by CRE and of 25 percent of the average risk weight for corporates exposures secured by commercial residential property. These measures are applied to all institutions, and even though they are motivated not by deficiencies at the level of the individual institute, but rather by a perception that there is a general underestimation of the actual risk for some types of exposures, they help mitigating the effects on capital of deficiencies in IRB models not yet addressed, but not the deficiencies itself. <u>Market and counterparty credit risk models</u> FI regularly—through the quarterly risk review sessions—requests banks to hand in quantitative and other relevant data and other information related to the recent market and counterparty credit risk development. The information request that banks respond to also covers internal model frameworks for market and counterparty credit risk. That is, both regulatory (approved) models and models used for internal risk measurements. Based on the information received FI undertakes a high-level review of model outcomes, including back-testing performance, on a quarterly basis. The quarterly review also aims to support FI's risk experts' efforts to identify potential deficiencies related to the regulatory models, such as simplifying assumptions, parameter settings, and/or shortcomings in the model design, underlying algorithms and/or other important issues that would require a deeper analysis. However, changes to business strategies, position taking, and changes to market risk profiles may also lead FI to identify the need for targeted analyzes of internal approaches. The deeper analysis may be undertaken in terms of an offsite or onsite inspection. In fact, FI has conducted in 2018 a thematic inspection on counterparty risk management and measures of exposure amounts which, after founding material deficiencies, led to an increase in the alpha factor in accordance with article 284(4) of the CRR, from its base (i.e., non-modelled) value 1.4 to the new value 1.5. Finally, FI participates in the EBA Supervisory Benchmarking Exercise, which covers IRB and IMA models and the performance out of hypothetical benchmark portfolios. This enables FI to get further insights into how Swedish banks perform in a broader EU context, out of a hypothetical portfolio perspective.

	Operational risk From the one bank that uses AMA, FI review, on an annual basis, the AMA validation report from Operational Risk. FI also follows up on Internal Audit's potential findings in regard to the AMA model. When the finalization of the Basel 3 framework is transposed in the EU, Swedish banks will no longer be permitted to use AMA for operational risk. Currently, FI has only 4 FTE for market risk and 2 FTE for operational risk. Even though the lack of capacity to evaluate internal models is more severe in credit risk models, market and operational risk also face constraints. The constraints lead to a supervisory process that is not intrusive and that over-relies on audit reports. (d) FI has no power to impose conditions on models' approval. It believes that deficiencies should be corrected before approving any model. (e) If FI finds material deficiencies in an institution's use of internal assessment of risk, FI may require that the institutions remedy these deficiencies in a way that FI deems appropriate according to Section 2 of Chapter 5 of the Special Supervisions Act (SFS 2014:968). FI may also require an institution to hold additional capital for deficiencies in internal models by imposing a P2R. If an institution with permission to use internal assessments fails to comply with the requirement as stated above, according to Section 3 to 5 of Chapter 5 of the Special Supervisions Act, FI has the power to revoke the institutions permission to use internal models if it considers the timely remediation unlikely. Even though FI has the power to revoke the license, it has not decided to do so. In one case, FI required an institution to revert to the standardized approach for credit risk for exposures related to one of the branches when there was a change in the legal status and the branch converted to a subsidiary. From the evidence presented, historically shortcomings with IRB and credit risk, more generally, have been addressed through pillar 2 add-ons, what might raise doubts about willingness to act in terms of the revoking powers. The lack of resources associated with the need to involve the legal department in the process to revoke a license might also affect the willingness to act.
EC6	The supervisor has the power to require banks to adopt a forward-looking approach to capital management (including the conduct of appropriate stress testing).[101] The supervisor has the power to require banks: (a) to set capital levels and manage available capital in anticipation of possible events or changes in market conditions that could have an adverse effect; and (b) to have in place feasible contingency arrangements to maintain or strengthen capital positions in times of stress, as appropriate in the light of the risk profile and systemic importance of the bank.

[101] "Stress testing" comprises a range of activities from simple sensitivity analysis to more complex scenario analyzes and reverses stress testing.

Description and findings re EC6	(a) Sections 1 and 2 in Chapter 6 of the Banking and Financing Business Act (SFS 2004:297) establishes that a credit institution shall specifically ensure that its credit risks, market risks, operational risks, and other risks do not, on aggregate, jeopardize the institution's ability to fulfil its obligations. In order to fulfil this requirement, it shall, at a minimum, have methods which enable it to regularly value and maintain capital which, in terms of amount, class, and breakdown, is sufficient to cover the type and level of the risks to which it is, or may become, exposed. The institution shall evaluate these methods to ensure that they provide full coverage. As described in EC 13 of CP 15, institutions shall have an internal stress testing framework to evaluate adverse effects on the institution (including in the context of the internal capacity adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP)). In addition, as explained in EC 1, FI may also communicate a P2G: a level that FI expects the bank to hold over and above the minimum requirements. The methodology for determining the P2G takes in account a sensitivity-based stress test that estimates the potential fall in capital levels at the bank given a number of assumptions and methodology choices and is described in a public paper. The assessors note that the FI appropriately applies the P2G additional requirements in a comprehensive way. However, FI's use of banks' internal stress testing results are less clear. During meetings with the FI, the assessors were informed that if for some reason (it should be a rare event) banks' internal stress testing results led to a capital requirement higher than FI's calculation, the capital levels required would still be based on the FI's figure. FI argued that in this case, supervision would conduct a deeper analysis on the reasons behind the difference. (b) In addition, Chapter 6a of the BFBA (2004:297) requires institutions to establish recovery plans in accordance with the provisions of the chapter that should be commensurate with and proportionate to the risk profile of the bank.
AC1	For non-internationally active banks, capital requirements, including the definition of capital, the risk coverage, the method of calculation, the scope of application and the capital required, are broadly consistent with the principles of the applicable Basel standards relevant to internationally active banks.
Description and findings re AC1	As mentioned in EC 2, the CRR and accompanying FI Regulations apply to all institutions captured by Article 4(1)(3) of the CRR, which includes the internationally active banks within Sweden but is not restricted to them. The CRR is applicable on both consolidated basis and on solo (entity) level for all institutions. The CRR provides for the possibility to derogate from the prudential requirements on entity level by the use of capital waivers set out in article 7 of the CRR. FI has not made use of those waivers, i.e., the minimum capital requirements under the CRR applies to all institutions. Apart from the aspects that Sweden has implemented in a more conservative way that EU, the remaining criticism raised in the EU RCAP still hold for non-internationally active banks, but it is not considered material.

AC2	The supervisor requires adequate distribution of capital within different entities of a banking group according to the allocation of risks.[102]
Description and findings re AC2	As described under EC1 and EC2, FI requires and decides capital requirements for all credit institutions within a banking group. FI has not made use of the capital waivers in article 7 of the CRR to exempt the capital requirement on entity basis. Therefore, requirements applied at the group level are broadly the same as for solo level, except for the following: • The systemic risk buffer and the O-SII buffer are only applied at the highest available level of consolidation in Sweden, hence not at solo level for bank subsidiaries of Swedish banking groups. • P2G is only applied at the highest available level of consolidation in Sweden, hence not at solo level for bank subsidiaries of Swedish banking groups.
Assessment of Principle 16	Materially Non-Compliant
Comments	The BFBA (SFS 2004:297, Chapter 9) stipulates that requirements for own funds, capital requirements and large exposure requirements are prescribed in the EU's Capital Requirement Regulation No 575/2013 (CRR). In December 2014, the BCBS issued its RCAP assessment of Basel III regulations for the EU.[103] The RCAP concluded that the prudential regulatory framework in the EU and the nine Member States was "materially non-compliant" with the minimum standards prescribed under the Basel framework. In general, the Swedish application of the CRR is conservative and does not make use of all the discretions available and, therefore, it is more in line with Basel III. For instance, Sweden has not exercised the waiver applicable to the consolidation of insurance companies, applies risk weight floors to mortgage and has not used the generous transitional phase-in.[104] However, the remaining criticism raised in the EU RCAP still hold, even though it is not considered material. Sweden also has a conservative approach in terms of capital requirements and buffers. FI has introduced methodologies for pilar 2 requirement that takes into account some risks that FI consider not to be covered by the Pillar 1 capital requirements: flow back risk associated with securitization; pension risk; interest rate risk and additional market risk; risks related to CRE lending; credit-related concentration risk and risk weights for exposures to corporates. In addition, FI may decide on additional capital requirement under pillar 2 for other risk that banks are or may be exposed to and has done so in several cases. With respect to buffers, Sweden has introduced a systemic risk buffer of 3 percent and has manifested that it will apply a positive neutral rate of 2 percent going

[102] Please refer to Principle 12, Essential Criterion 7.

[103] https://www.bis.org/bcbs/publ/d300.pdf.

[104] Options and discretions.

	forward for the CCyB. Sweden has also introduced a P2G that can be communicated to banks based on the outcome of FI's stress test and quantitative and qualitative analysis. Therefore, considering a P2R of 2 percent (P2R values varies significantly across institutions, 2 percent was chosen arbitrarily based on recent figures for largest institutions), the total capital required (including buffers) in Sweden would amount to 18.5 percent (8% + 2.5% + 2% + 3% + 1% + 2%, minimum requirement + CCoB + CCyB + SRB + O-SII + P2R), excluding P2G, which is significantly higher than established in the Basel Framework. FI's potential to intervene in a bank is affected by the degree to which the bank is in breach of the requirement. Breaches to the minimum requirement or P2R, require action on the part of FI and lead to automatic restrictions on certain value transfers and to the obligation of submitting a capital conservation plan. Breaches of the P2G have no automatic consequences, at the same time as FI has the possibility to intervene and require action on the part of the bank when this is justified on the basis of the current situation. FI has showed the assessors that it has been really active in requiring additional P2R and P2G for institutions. Methodologies for calculating P2R[105] and P2G[106] are public. However, with respect to internal models, FI has not shown it has the capacity to evaluate a bank's internal assessment process nor to approve the models (or material changes to the models) in due time. The review of performance of IRB models is also, as a consequence of the ongoing IRB repair, currently focused on high level monitoring of performance and model governance, and detailed testing including as part of onsite examination is not carried out. Currently, the monitoring of performance of internal credit risk models is currently done through the SREP, risk review meetings and EBA exercises. FI is mostly able to focus on the completeness check for now. The ongoing assessment of performance of IRB models could, however, be enhanced through introduction of a more comprehensive offsite monitoring and onsite testing process. The process could potentially involve collection and analysis of granular model level data from banks, onsite evaluation of the quality of the deployment of the approved IRB models by banks including assignment of exposures to the specific IRB models, and review of banks' data and model governance arrangements. This is very critical in ensuring the integrity of the models used by banks to generate capital requirements and the reliability of the solvency positions reported by the major Swedish banks, in particular because IRB banks accounts for roughly 75% of banking's assets. In recent years, FI has faced considerable challenges retaining internal model experts. The staffing situation is at times affected by substantial turnover driven by tough competition

[105] New Capital Requirements for Swedish Banks

[106] General approach to assessing Pillar 2 guidance for Swedish banks

	from the private sector, particularly since the start of review of the IRB approach conducted by the EBA in 2019. Assessors saw evidence of material issues in IRB models (that when corrected led to an increase of 65% in credit risk RWA), that were captured during the EBA benchmarking exercise, which although not fully formalized, is used by FI to inform its regular supervisory process. As in other CPs, appropriate supervisory activities might only be achieved through deep-dive investigations which are scarce and does not fulfil the role of continuous supervision. Besides imposing specific capital charges, FI has the power to limit its operations in any respect within a certain time, to reduce the risks therein, or take any other measures necessary to rectify the situation where a company fails to fulfil regulatory requirements. The assessors note, however, that examples of measures other than requiring additional capital (either through P2R or P2G) are scarcer. In this sense, it is important to mention that additional capital is not always the appropriate countermeasure. For instance, issues related to risk management should ideally be addressed through improvements in risk management practices, not necessarily requiring additional capital. FI noted that it would be appropriate to require additional capital where for instance deficiencies in risk management practices have led to an underestimation of the capital need, which is consistent with the views of the assessors. This may particularly be the case where deficiencies in the risk management of IRB banks creates a risk of under-estimation of the required capital.
Principle 17	**Credit risk.**[107] The supervisor determines that banks have an adequate credit risk management process that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate credit risk[108] (including counterparty credit risk)[109] on a timely basis. The full credit lifecycle is covered including credit underwriting, credit evaluation, and the ongoing management of the bank's loan and investment portfolios.
Essential criteria	
EC1	Laws, regulations or the supervisor require banks to have appropriate credit risk management processes that provide a comprehensive bank-wide view of credit risk exposures. The supervisor determines that the processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank, take into account market and macroeconomic conditions and result in prudent standards of credit underwriting, evaluation, administration and monitoring.

[107] Principle 17 covers the evaluation of assets in greater detail; Principle 18 covers the management of problem assets.

[108] Credit risk may result from the following: on-balance sheet and off-balance sheet exposures, including loans and advances, investments, inter-bank lending, derivative transactions, securities financing transactions and trading activities.

[109] Counterparty credit risk includes credit risk exposures arising from OTC derivative and other financial instruments.

Description and findings re EC1	The BFBA, (Chapter 6, section 2) stipulates that a credit institution shall identify, measure, manage, internally report and have control over the risks associated with its operations. In that context, the institution shall assure that it possesses satisfactory internal controls. FI's regulation regarding governance, risk management and control at credit institutions (FFFS 2014:1) establishes high level requirements for the Board and the managing director in Chapter 3, complemented by Chapters 2, 4, 5 and 7. Regulations and general guidelines regarding management of credit risks in credit institutions and securities companies (FFFS 2018:16) further specify the supervisor's expectations of an undertaking's governance and the responsibilities with specific focus on credit risk to other counterparties. The regulation covers areas within credit risk such as governance, identification, measurement, credit risk assessments, credit decisions, credits with increased risk and credits to related parties. General guidelines on credits regarding consumer credit (FFFS 2021:29) specify supervisors' expectations on undertakings management of consumer credits. It reflects in large the EBA Guidelines on loan origination and monitoring (EBA/GL/2020/06) in the area related to credit risk assessment of consumers, however not fully covering all aspects related to housing credits. The EBA SREP guidelines describe how supervisors are expected to conduct their assessment of banks' credit risk management and controls (paragraphs 179 to 195). The basis for supervision is the SREP review process which, in relation to credit risk, is based on the credit risk assessment method (part of the "handbook") which in turn is broadly based on the EBA GL SREP. The observation related to the high-level provisions of the internal manuals is particularly harmful for credit risk which could rely on the more specific provisions provided in EBA/GL/2020/06. Along the same line, as in all specific risks, the method for FI to assess the SREP is high-level and FI lacks the resources to perform more intrusive supervision as explained in CPs 2 and 9. The small number of onsite inspections and the small amount of time spent in loco on categories 1 and 2 is insufficient to comply with the provisions in this CP. When assessing an undertaking's credit risk management processes other tools and information are also used. Credit risk KRI, collection of specific data in different deep dives (mortgage credits, CRE credits and consumer credits) and investigations are also useful tools when evaluating the credit risk management processes. With respect to the deep-dive investigations, FI has published a report[110] about credit institutions' management of counterparty risk and CVA risks that focused on five main areas: 1. quantitative risk measurement, valuation and value adjustment, 2. risk mitigation with regards to the risk associated with non-cleared derivatives,

[110] Credit institutions' management of counterparty risk and CVA risks

	3. credit institutions' internal instructions for taking on new products and markets, 4. stress tests, and 5. internal risk management and governance. When it comes to evaluating an undertaking's internal instructions and their relevance within the credit risk management process, FI relies on supervisor expertise. The undertaking's internal instructions and internal control reports regarding management of credit risk are collected by the supervisor and briefly controlled on a regular basis. Special attention is given to internal control reports with focus on specific findings including the undertakings proposed actions to handle the findings. When deemed necessary the findings are discussed at regular meetings with the undertaking. Depending on the findings it might lead to a specific investigation. The team responsible for the supervision of credit risk has a broad range of responsibilities (CCR excluded, but consumer protection, ESG, related parties, country and transfer risk, among others are included) with a rather limited number of head counts, overall, nine people. Therefore, the guiding principle in supervision is to follow the perceived or identified risks within the area of credit risk, instead of performing a more complete assessment. The priorities will hence vary over time. Prioritization of activities is a joint effort with input from different departments at FI. Different analyzes made by the Economic Analysis Office, the Bank Analysis & Policy Department, as well as cooperation with other teams within supervision. As mentioned in different CPs, the assessors believe that the SREP process is too high-level to be able to properly capture material findings. Deep-dive instigations have proven to be more useful in this sense, but since they are scarce, resource consuming and take too long to be finalized, they are not considered to be efficient to cover the regular supervisory process gaps.
EC2	The supervisor determines that a bank's Board approves, and regularly reviews, the credit risk management strategy and significant policies and processes for assuming,[111] identifying, measuring, evaluating, monitoring, reporting and controlling or mitigating credit risk (including counterparty credit risk and associated potential future exposure) and that these are consistent with the risk appetite set by the Board. The supervisor also determines that senior management implements the credit risk strategy approved by the Board and develops the aforementioned policies and processes.
Description and findings re EC2	FI's Regulation regarding governance, risk management and control at credit institutions (FFFS 2014:1) establishes high level requirements for the Board and the managing director in Chapter 3, complemented by Chapters 2, 4, 5, and 7. FI's regulation regarding governance, risk management and control (FFFS 2014:1) stipulates that the board shall ascertain that an undertaking has a risk strategy. It is also the responsibility of the board to evaluate it on a regular basis and, if necessary, update it.

[111] "Assuming" includes the assumption of all types of risk that give rise to credit risk, including credit risk or counterparty risk associated with various financial instruments.

	Regulations and general guidelines regarding management of credit risks (FFFS 2018:16) further specify the supervisor's expectations of an undertaking's governance and the responsibilities with specific focus on credit risk to other counterparties than consumers. The regulation covers areas within credit risk such as governance, identification, measurement, credit risk assessments, credit decisions, credits with increased risk and credits to related parties. It applies to all forms of credit risk, including counterparty credit risk. As mentioned in CP 14 and in EC1, the primary tool for determination of the undertakings processes in this aspect are inspections. The relevant documents are for a number of undertakings collected also in the regular review process, the SREP. On a more ad hoc basis the processes for approval of risk strategies as well as their implantation are reviewed in conjunction with the regular review process.
EC3	The supervisor requires, and regularly determines, that such policies and processes establish an appropriate and properly controlled credit risk environment, including: (a) a well-documented and effectively implemented strategy and sound policies and processes for assuming credit risk, without undue reliance on external credit assessments; (b) well defined criteria and policies and processes for approving new exposures (including prudent underwriting standards) as well as for renewing and refinancing existing exposures, and identifying the appropriate approval authority for the size and complexity of the exposures; (c) effective credit administration policies and processes, including continued analysis of a borrower's ability and willingness to repay under the terms of the debt (including review of the performance of underlying assets in the case of securitization exposures); monitoring of documentation, legal covenants, contractual requirements, collateral and other forms of credit risk mitigation; and an appropriate asset grading or classification system; (d) effective information systems for accurate and timely identification, aggregation and reporting of credit risk exposures to the bank's Board and senior management on an ongoing basis; (e) prudent and appropriate credit limits, consistent with the bank's risk appetite, risk profile and capital strength, which are understood by, and regularly communicated to, relevant staff; (f) exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank's senior management or Board where necessary; and (g) effective controls (including in respect of the quality, reliability and relevancy of data and in respect of validation procedures) about the use of models to identify and measure credit risk and set limits.

Description and findings re EC3	(a) The BFBA (Chapter 8, Sections 1–3) stipulates that an undertaking's credit assessment must be based on the applicant's repayment capacity, that all credit decisions must be based on appropriate information and that all credit decisions must be documented. FI's regulation regarding management of credit risks (FFFS 2018:16, Chapter 2) requires undertakings to have appropriate internal rules for credit risk management. The rules shall be in line with the documented credit risk appetite of the undertaking. The rules must cover a number of areas, such as conditions that must be met for decisions about credits with increased risk. Rules regarding the required material upon which the decision shall be based for credit assessments and reviews must also be established as well as documentation requirements of credit decisions. FI's regulation regarding governance, risk management and control (FFFS 2014:1, Chapter 5, Section 11) states that an undertaking shall, when it assesses its risks, perform a critical review of its own thereof, and not solely rely on external assessments. When an undertaking identifies, assesses and measures risks, it shall perform forward-looking and backward-looking analyzes. As mentioned in CP 14 and in EC1, the primary tool for determination of the undertakings processes for assuming credit risks are inspections. The relevant documents are for a number of undertakings collected also in the regular review process, the SREP. To be able to properly assess classification of assets and reliance on external credit assessments, it would be important to perform credit file reviews. However, FI has not performed credit file reviews for categories 1 and 2 banks since 2017. (b) FI's regulation regarding governance, risk management and control at credit institutions (FFFS 2014:1, Chapter 2, Section 1 paragraph 2) specify that an undertaking shall ensure that it has current and documented decision-making procedures that clearly specify reporting lines for risk management purposes. FI's regulation regarding management of credit risks (FFFS 2018:16) and the accompanying background document provides more clarity on the matter. Chapter 3, Section 2 establishes that an undertaking shall have procedures and methods to regularly identify measure, internally report and control the level of its credit risks, including the probability of default and loss given default. The underlying data shall be reliable and complete. Chapter 6 of the same regulation stipulate that an undertaking shall review all credits at least once a year. Credits with increased risk shall be reviewed more frequently. The review shall include an assessment of the borrower's risk of default. There are additional provisions in FI's regulations with respect to criteria for granting credits with increased risk and credits to related parties. The provisions in the above-mentioned regulations aim at mitigating the risk of inadequate classification through renewal or renegotiation. There is further guidance on criteria and policies and processes for approving new exposures in the background document. That is, a credit decision, which include an approval to grant a new credit or a change of an already approved credit, is described in the memorandum connected to FI's regulation regarding management of credit risks (FFFS 2018:16) The EBA guideline on loan

	origination and monitoring is also a relevant in defining the requirements on credit decisions and monitoring while the EBA guidelines on management of nonperforming and forborne exposures require management to define adequate approval process for nonperforming exposures (NPE) work out decisions. However, FI has been unable to show the assessors that there is a supervisory process to verify circumvention of the classification and rating requirements, including rescheduling, refinancing or reclassification of lending exposures. (c) FI's regulation regarding management of credit risks (FFFS 2018:16, Chapter 6) establishes several requirements with respect to the review of credit exposures. EBA guidelines on credit institutions' credit risk management practices and accounting for expected credit losses (EBA/GL/2017/06) provide guidance on evaluating the effectiveness of an institution's credit risk management practices, policies, processes and procedures that affect loan loss provisions. Paragraph 43 requires the credit rating process to include an independent review function. However, there is no requirements related to the review of the performance of underlying assets in the case of securitization exposures (which is still a very small market in Sweden). As explained in EC 5 of CP 18, in the quarterly risk meetings, banks send information on 25 largest (from different perspectives). Depending on initial findings, FI may review credit files in-depth, which comprises among other things the bank's risk classification of the client, the bank's analysis of the client's repayment capacity, the (re)valuation of collateral and whether the credit should be classified as credit impaired (and/or possibly forborne). (d) FI's regulation regarding governance, risk management and control (FFFS 2014:1, Chapter 2) states that an undertaking shall ensure that it has current and appropriate IT systems. FI assesses IT systems during the SREP. It does not require any specific information systems nor perform detailed assessments on the systems, unless a need to perform a specific inspection is identified. See EC 7 of CP 15 for more details. (e) FI's regulation regarding management of credit risks (FFFS 2018:16, Chapter 5) contains general guidelines on a sound risk culture for credit risk and what such rules as a minimum should cover. FI's regulation regarding governance, risk management and control (FFFS 2014:1, Chapter 5, Section 2) states that risk management framework as shall be well integrated into the undertaking's organizational and decision-making structure, and pertain to all material risks in the undertaking. The EBA SREP guidelines recommend that supervisors verify that policies and procedures are sound and consistent with the credit risk strategy, and cover, inter alia, credit limits (paragraph 182.c); that such policies are adequate for the nature and complexity of the institution's organization and activities, and enable a clear understanding of the credit risk inherent to the different products and activities under the scope of the institution (paragraphs. 182.d and 193.a) and are clearly formalized, communicated, and applied consistently across the institution (paragraph 182.e). Assessor found evidence that FI assesses the relationship between credit limits, risk appetite, risk profile and capital strength in banks policies. However, for FI to determine

	the actual communication of risk culture to the relevant staff it would be advisable to perform more in loco activities. Assessing the flow of reports, the reports themselves and talking to the senior management might not be enough. Please see EC1 of CP 15 for details. (f) The EBA SREP guidelines recommend that supervisors verify that the bank has appropriate internal controls and practices to ensure that breaches of and exceptions to policies, procedures and limits are reported in a timely manner to the appropriate level of management for action (paragraph 192.c). FI assesses breaches policies and reporting during SREP. Supervisors found evidence that limit breaches are analyzed in SREP assessments. (g) For IRB banks, the EBA SREP guidelines recommend that supervisors assess whether the internal validation process is sound and effective in challenging model assumptions and identifying any potential shortcomings with respect to credit risk modelling, credit risk quantification, and the credit risk management system (paragraph 217). Due to the constraints mentioned in Principle 16 EC 5, FI is behind schedule in the majority of applications associated with the ongoing IRB repair, but have finalized the completeness checks for all applications that have been received.
EC4	The supervisor determines that banks have policies and processes to monitor the total indebtedness of entities to which they extend credit and any risk factors that may result in default including significant unhedged foreign exchange risk.
Description and findings re EC4	In FI's regulation regarding management of credit risks (FFFS 2018:16, Chapter 4) it is stipulated that an undertaking's credit assessment shall be based on well-defined criteria. It further stipulates that the credit assessment shall be performed on a basis that provides an accurate overview of the borrower's repayment capacity and the pledged collateral and other credit risk mitigation techniques. The credit assessment shall also be forward looking based on available historical data. The background document of the abovementioned regulation clarifies that the requirements are based on expectations that the credit risk assessment shall be based on sufficient information in order to be able to evaluate both the repayment capacity of the borrower and the credit risk exposure to the undertaking. Sufficient information may vary depending on numerous factors such as the specific creditor, the size of the credit and the risk level of it. FI gives in the background document examples of factors that can be considered in the assessment, such as the purpose of the credit, credit conditions, sources of repayment, historic repayment capacity, analysis of the forward-looking repayment capacity based on a financial analysis, cash flow and sensitivity analysis. Also forward looking prospective for the sector, the market and the country as well as political and sustainability related risks are normal to consider. When credits are granted to consumers, the current and future debt situation of the consumer should be taken into account in the credit risk assessment according to the same document and according to what is stated in the FI's guidelines on loans in consumer relations (FFFS 2021:29).

	However, to be able to monitor the total indebtedness of consumers more information should be available both to FI and institutions. It would be important, therefore, to create a centralized credit registry.
EC5	The supervisor requires that banks make credit decisions free of conflicts of interest and on an arm's length basis.
Description and findings re EC5	The Securities Companies Act (SFS 2005:551) specifies areas where certain positions in a company represent conflict of interest. The regulation prohibits the specified persons to accept certain positions, manage specified tasks, enter into certain agreements etc. Affected positions are shareholders (chapter 7, section 46), board members (chapter 8, section 23), CEO (chapter 8, section 34), auditor (chapter 9, section 17), nonprofessional auditors (chapter 10, section 10). The BFBA (SFS 2004:297, Chapter 8, Section 5) also provides a list of persons considered as potentially having a conflict of interest and permits some discretion to FI to discern whether an individual qualifies under the categories stated. Further, the EBA GL on internal governance stipulates that an undertaking's conflicts of interest framework should ensure that decisions regarding the granting of loans and entering into other transactions with members of the management body and their related parties are taken objectively, without undue influence by conflicts of interests and are, as a general principle, conducted at arm's length. FI's regulation regarding governance, risk management and control (FFFS 2014:1) also specifies that an undertaking shall ensure that it has procedures for managing, distinguishing between duties and preventing conflicts of interest. According to the same regulation, the undertaking shall also ensure that no person single-handedly processes a transaction throughout the entire processing chain.
EC6	The supervisor requires that the credit policy prescribes that major credit risk exposures exceeding a certain amount or percentage of the bank's capital are to be decided by the bank's Board or senior management. The same applies to credit risk exposures that are especially risky or otherwise not in line with the mainstream of the bank's activities.
Description and findings re EC6	FI's regulation regarding governance, risk management and control (FFFS 2014:1, Chapter 2, Section 1) specifies that an undertaking shall ensure that it has current and documented decision-making procedures that clearly specify reporting lines and that staff has the expertise and knowledge necessary for the discharge of the responsibilities allocated to them. However, credit policy is not required to prescribe those exposures that are especially risky or otherwise not in line with the mainstream of the bank's activities or major credit risk exposures exceeding a certain amount or percentage of the bank's capital are to be decided by the bank's Board or senior management. It should be noted that the board is, as stipulated in the Companies Act, responsible for the management of the company's business activities. In line with FFFS 2014:1, section 3, chapter 3 it shall review, and if required, update internal documents it has decided on, such as specific requirements and mandates to decide on exposures, as expressed in CP 17, EC 2. Big, complex or especially risky exposures are hence normally decided by the CEO or the board in line with the instructions decided by the board. Further guidance on credit

	decision making are available in the EBA guideline on loan origination and monitoring, section 4.4 and FFFS 2018:16, chapter 5.
EC7	The supervisor has full access to information in the credit and investment portfolios and to the bank officers involved in assuming, managing, controlling and reporting on credit risk.
Description and findings re EC7	BFBA (Chapter 13, Sections 3–4) sets out an undertaking's obligation to provide with any and all information regarding their operations and related circumstances that FI may require. FI's regulation regarding governance, risk management and control (FFFS 2014:1, Chapter 2, Section and 7) establishes that risk data shall be compilable at least in the event of crisis situations, stress tests and at the request of FI. All banks must provide a detailed report of their asset quality in the quarterly reporting (COREP and FINREP). Uniform reporting requirements in all Member States in Europe ensure data availability and comparability. FI's regulations governing the reporting of interim and annual report data (FFFS 2014:14), also contain requirements on undertakings' quarterly reporting of balance sheets and income statements with specifications. The undertakings under supervision are regularly required to report to FI. The reporting shall be in line with the requirements of the CRR and the standard report. Undertakings are also specifically required to provide certain reports within the regular review process and ahead of the quarterly and bi-annual meetings with FI or when FI ask them. FI usually ask undertakings to report specific data when performing inspections or deep dives but also at specific occasions, such as the pandemic. See also CP 10 on supervisory reporting. FI's experience is that there is no problem in obtaining the necessary information, on site or off site. FI has provided evidence in the recent Covid pandemic crisis, that banks were able to quickly react and provide the requested information without significant delay.
EC8	The supervisor requires banks to include their credit risk exposures into their stress testing programs for risk management purposes.
Description and findings re EC8	The EBA SREP guidelines require supervisors to assess whether the institution has undertaken stress testing to understand the impact of adverse events on its credit risk exposures and on the adequacy of its credit risk provisioning (paragraph 211). The EBA Guidelines on Stress Testing (EBA/GL/2018/04) provide a starting point for the design of stress tests, which can be followed by banks and used by supervisors in their interaction with banks on this subject. However, as mentioned in EC 13 of CP 15, the assessors found evidence that banks' internal stress testing are assessed from a high-level perspective and do not fully cover the recommendations in the BCBS stress testing principles (2018).
Assessment of Principle 17	Largely Compliant
Comment	FI has made great progress since the last FSAP with respect to the regulatory framework. In 2018, FI has issued a regulation regarding management of credit risks in credit

	institutions and securities companies. The regulation further specifies the supervisor's expectations of an undertaking's governance and the responsibilities with specific focus on credit risk. The regulation covers areas within credit risk such as governance, identification, measurement, credit risk assessments, credit decisions, credits with increased risk and credits to related parties. FI has also issued general guidelines on credits regarding consumer credit, which specify supervisory expectations on undertakings management of consumer credits. It reflects in large part the EBA Guidelines on loan origination and monitoring; however, it does not fully cover all aspects related to housing credits. Despite the new regulation, there is no requirement that exposures that are big, complex, especially risky or otherwise not in line with the mainstream of the bank's activities or major credit risk exposures exceeding a certain amount or percentage of the bank's capital are to be decided by the bank's Board or senior management. The authorities are, however, of the view that self-regulation in this area is preferable as long as it works well and, as FI has not had any issues with this, the need to issue detailed instructions in this area has not been identified. The EBA guideline on loan origination and monitoring is also a relevant in defining the requirements on credit decisions and monitoring while the EBA guidelines on management of nonperforming and forborne exposures require management to define adequate approval process for nonperforming exposures (NPE) work out decisions. However, FI has been unable to show the assessors that there is a supervisory process to verify circumvention of the classification and rating requirements, including rescheduling, refinancing or reclassification of lending exposures. Another aspect worth noting is that financial institutions and FI are not able to monitor the total indebtedness of consumers because of lack of information. The basis for supervision is the SREP review process which, in relation to credit risk, is based on the credit risk assessment method (part of the "handbook"). The observation related to the high-level provisions of the internal manuals in CP 15 is particularly harmful for credit risk which could rely on more specific provisions in EBA Guidelines on loan origination and monitoring. The team managing credit risk within banking supervision has a broad range of responsibilities with a rather limited number of staff. Therefore, the supervisory process for credit risk relies on supervisory expertise and on internal control reports and focus on perceived or identified risks instead of performing a fuller assessment. For instance, performing credit file review is important for assessing different provisions in this CP, such as policies for renewing and refinancing transactions, classification of assets and undue reliance on external credit assessments. However, FI has not performed credit file reviews for categories 1 and 2 banks since 2017. In loco activities are also important for FI to determine the actual communication of risk culture to the relevant staff. Assessing the

	flow of managerial and risk reports, the reports themselves and talking to the senior management might not be enough. Therefore, FI has been unable to show the assessors that there is a supervisory process to address all the particularities in this CP. As in other risk areas, FI lacks the resources to perform more intrusive supervision, as explained in CPs 2 and 9. The lack of onsite inspections and the small amount of time spent in loco on categories 1 and 2 is insufficient to properly assess the provisions in this CP. Deep-dive instigations have proven to be more useful in this sense, but since they are scarce, resource consuming and take too long to be finalized, they are not considered to be efficient to cover the regular supervisory process gaps.
Principle 18	**Problem assets, provisions and reserves.**[112] The supervisor determines that banks have adequate policies and processes for the early identification and management of problem assets, and the maintenance of adequate provisions and reserves.[113]
Essential criteria	
EC1	Laws, regulations or the supervisor require banks to formulate policies and processes for identifying and managing problem assets. In addition, laws, regulations or the supervisor require regular review by banks of their problem assets (at an individual level or at a portfolio level for assets with homogenous characteristics) and asset classification, provisioning and write-offs.
Description and findings re EC1	FI's regulation regarding management of credit risks (FFFS 2018:16) stipulate that an undertaking shall have special rules for credits with increased risk, including who may take decisions on credits with increased risks, criteria for which credits entail an increased risk and methods for identifying credits with increased risk. Chapter 7 of the same regulation is dedicated to the management of credits with increased risk. It mandates an effective credit risk management at an early stage, regular reviews (in less than a year), investigation whether repayment plan should be initiated and need of mitigation. The review shall be performed at the individual level when required in accordance with the undertaking's internal rules and taking into consideration the size and assessed risk level of the credit. Sweden's regulation of classifying/provisioning of exposure for regulatory purposes is based on the CRR. Article 47a and 178 of the CRR stipulates when an exposure is nonperforming or when a default shall be considered to have occurred. As in FI's regulations and general guidelines regarding annual accounts (FFFS 2008:25, Chapter 7, Section 2), the basis for calculating provisioning is according to IFRS 9. However, for regulatory requirements, adjustments are made for prudential purposes

[112] Principle 17 covers the evaluation of assets in greater detail; Principle 18 covers the management of problem assets.

[113] Reserves for the purposes of this Principle are "below the line" non-distributable appropriations of profit required by a supervisor in addition to provisions ("above the line" charges to profit).

	according to CRR (as accounting standards shall present a "true and fair view of the provisions"). See Principle 10 EC 2. There are also two EBA guidelines that are applicable in Sweden: guidelines on management of nonperforming and forborne exposures (EBA NPL GL) which specify sound risk management practices for credit institutions for managing, including the review, nonperforming exposures (NPEs), forborne exposures (FBEs) and foreclosed assets and guidelines on disclosure of nonperforming and forborne exposures (EBA NPE disclosure GL) which specify the content and uniform disclosure formats for credit institutions for disclosures related to NPEs, FBEs and foreclosed assets. Besides these two guidelines there is also the EBA GL on credit institutions' credit risk management and accounting for expected credit losses, which stipulates that credit institutions should have in place sound governance, systems, and controls in order to be able to manage exposures with increased risk and identify them before they are past due. As for supervisory reporting of "performing," "nonperforming" and "forborne," the standards issued in the "EBA Final Draft Technical Standards on supervisory reporting on forbearance and nonperforming exposures under article 99 (4) of Regulation (EU) No 575/2013 (EBA ITS on NPE and FBE) are mandatory for Swedish banks.
EC2	The supervisor determines the adequacy of a bank's policies and processes for grading and classifying its assets and establishing appropriate and robust provisioning levels. The reviews supporting the supervisor's opinion may be conducted by external experts, with the supervisor reviewing the work of the external experts to determine the adequacy of the bank's policies and processes.
Description and findings re EC2	An undertaking's policies and processes for grading and classifying assets is reviewed in the regular SREP process. Due to resource constraints regular supervision do not go through credit files. In order to do so, they would need a specific investigation. For the most significant banks, the last credit file review was in 2019. For the less significant banks, that have been assessed to have a higher risk appetite and hence worse asset quality, inspections with credit file reviews are more common, but still not comprehensive nor frequent. FI considers remarks in statements by internal or external auditors to prioritize. Since the last investigation was performed in 2019, FI has not performed any investigation since the introduction of IFRS9. Covid pandemic has brought attention to this matter, the credit expert team have recently started a deep-dive analysis on, amongst others, overlays and forbearance that will cover multiple areas and be supported by accounting experts.
EC3	The supervisor determines that the bank's system for classification and provisioning takes into account off-balance sheet exposures.[114]
Description and findings re EC3	According to article 5 p. 1 in the CRR an "exposure" means an asset or off-balance sheet item. Article 24 stipulates that the valuation of assets and off-balance sheet items shall be effected in accordance with the applicable accounting framework. Thus, off-balance sheet

[114] It is recognized that there are two different types of off-balance sheet exposures: those that can be unilaterally cancelled by the bank (based on contractual arrangements and therefore may not be subject to provisioning), and those that cannot be unilaterally cancelled.

	items must be taken into account in an undertaking's classification and provisioning system. In addition, the EBA SREP guidelines require competent authorities to consider whether the data, information systems and analytical techniques are appropriate to detect, measure, and monitor credit risk inherent in all on- and off-balance-sheet activities (paragraph 206). EBA ITS on supervisory reporting includes off-balance sheet items, and particularly loan commitments and financial guarantees provided. The same constraints with respect to the supervisory review of classification and provisioning mentioned in EC 2 apply to off-balance sheet items.
EC4	The supervisor determines that banks have appropriate policies and processes to ensure that provisions and write-offs are timely and reflect realistic repayment and recovery expectations, taking into account market and macroeconomic conditions.
Description and findings re EC4	The EBA SREP guidelines require competent authorities to ensure that systems and methodologies enable the institution to determine the level of provision and credit valuation adjustments required to cover expected and incurred losses (p. 208). The regular SREP review covers strategies for credit risk management (including strategies related to exposures with increased risk) and the level of provisions and allowances are analyzed. FI's risk assessment method for credit risk, which serve as an internal guidance for assessing problem assets, is based on the EBA guidelines. According to the method, supervisors analyze the evolution of level of provisions and allowances and related ratios.
EC5	The supervisor determines that banks have appropriate policies and processes, and organizational resources for the early identification of deteriorating assets, for ongoing oversight of problem assets, and for collecting on past due obligations. For portfolios of credit exposures with homogeneous characteristics, the exposures are classified when payments are contractually in arrears for a minimum number of days (e.g., 30, 60, 90 days). The supervisor tests banks' treatment of assets with a view to identifying any material circumvention of the classification and provisioning standards (e.g., rescheduling, refinancing or reclassification of loans).
Description and findings re EC5	FI's regulation regarding management of credit risks (FFFS 2018:16, Chapter 7) requires an effective credit risk management at an early stage, regular reviews (in less than a year), investigation whether repayment plan should be initiated and need of mitigation for credits with increased risk. The review shall be performed at the individual level when required in accordance with the undertaking's internal rules and taking into consideration the size and assessed risk level of the credit. The EBA SREP Guidelines (p. 212) mandate competent authorities to assess whether the institution has defined and implemented continuous and effective monitoring of credit risk exposure based on specific indicators and relevant triggers to provide effective early warning alerts.

	The classification of exposures in arrears is regulated by the EBA ITS on Supervisory Reporting. FINREP template F18 classifies the exposures in different buckets depending on the number of days in arrears (less than 30; between 30 and 60; between 60 and 90; and more than 90, which is considered nonperforming). The EBA SREP Guidelines (p. 187) require competent authorities, when assessing portfolio credit quality, to pay particular attention to the adequacy of the classification of the credit exposures and assess the impact of potential misclassification, with the subsequent delay in the provisioning and recognition of losses by the institution. In conducting this assessment, competent authorities may use peer analysis and benchmark portfolios, where available. Competent authorities may also use sampling of loans when assessing portfolio credit quality. FI use sampling of loans when assessing portfolio credit quality. The information requested ahead of the regular quarterly or bi-annual meetings includes a requirement for the undertaking to report certain exposures with increased risk. The request covers the 25 largest exposures on watch list, the 25 largest nonperforming exposures as well as 25 largest exposures with forbearance measures. If the same exposure occurs in more than one undertaking (which should occur in very specific few cases and, therefore, cannot be considered a comprehensive assessment), the supervisor can compare the classifications and evaluate any differences between the undertakings. FI is able to assess the exposures' evolution, not the classification itself. To avoid the risk of misrepresentation of classification and provisioning due to the focus on large exposures, FI could extend the analysis over different modalities (including small and medium enterprises, retail). When deemed necessary, specific questions related to classification and valuation are discussed to better understand if an undertaking is compliant with regulations or not. Supervisory documents provided to the assessors demonstrate that attention is given to these matters. However, the observations regarding the intrusiveness of the supervision suffer the same constraints explained in CP 9 and, therefore, supervision is unable to properly test banks' treatment of assets with a view to identifying any material circumvention of the classification and provisioning standards.
EC6	The supervisor obtains information on a regular basis, and in relevant detail, or has full access to information concerning the classification of assets and provisioning. The supervisor requires banks to have adequate documentation to support their classification and provisioning levels.
Description and findings re EC6	Supervisory reporting obligations are established in the EBA ITS on Supervisory Reporting, which has a specific template for NPEs (F18) and forborne exposures (F19) to be reported quarterly. Based on requirements in FI's regulation governing the reporting of interim and annual report data (FFFS 2014:14), FI receives a quarterly standard report from each undertaking. The report is based on IFRS. Since the introduction of COREP (first reporting period Q3 2014) and FINREP (first reporting period Q4 2014), loan losses, restructured loans and nonperforming loans by bank and exposure class are collected by FI on a quarterly basis

	through the reporting. For the quarterly and bi-annual meetings, banks prepare an information package comprising i.e., updates on watch lists and impaired credits.
EC7	The supervisor assesses whether the classification of the assets and the provisioning is adequate for prudential purposes. If asset classifications are inaccurate or provisions are deemed to be inadequate for prudential purposes (e.g., if the supervisor considers existing or anticipated deterioration in asset quality to be of concern or if the provisions do not fully reflect losses expected to be incurred), the supervisor has the power to require the bank to adjust its classifications of individual assets, increase its levels of provisioning, reserves or capital and, if necessary, impose other remedial measures.
Description and findings re EC7	If, in light of the level of problem assets, FI deems an undertaking's level of provisions and/or overall financial strength to be insufficient, then FI has power to intervene and demand that the undertaking rectify the situation through setting higher capital requirements BFBA (Chapter 15, Section 1). However, FI cannot overrule the bank's decision on classifications of individual assets and increase its levels of provisioning, i.e., FI needs a legal basis to act. If an undertaking's risk classifications are identified as potentially incorrect, an inspection can be initiated in order to inspect the undertakings asset classification and provisioning procedures. If deficiencies are identified, FI can have legal grounds to order to rectify. Until rectification is made, FI can decide on a Pillar II add-on.
EC8	The supervisor requires banks to have appropriate mechanisms in place for regularly assessing the value of risk mitigants, including guarantees, credit derivatives and collateral. The valuation of collateral reflects the net realizable value, taking into account prevailing market conditions.
Description and findings re EC8	In Swedish banks, real estate taken as collateral is generally recognized at market value, in line with section 9.3 of the EBA Guidelines on management of nonperforming and forborne exposures and Section 7 of the EBA Guidelines on loan origination and monitoring (EBA/GL/2020/06). Moreover, article 208(3) of the CRR stipulates that institutions shall monitor property values at a minimum every year for CRE and at a minimum every three years for residential real estate. More frequent monitoring shall be carried out where the market is subject to significant changes in conditions. The property valuation shall be reviewed when information available to institutions indicates that the value of the property may have declined materially relative to general market prices. Valuations are further regulated in CRR article 229. Regarding nonperforming exposures, the EBA ITS on NPE and FBE stipulate that exposures shall be categorized for their entire amount and without taking into account the existence of any collateral. Article 208(3) of the CRR contains requirements on the monitoring of property values and on property valuation. In addition, the EBA guidelines on management of NPEs and Forborne exposures (EBA/GL/2018/06) include further specifications on valuation of immovable property.

	According to the credit risk assessment method, the regular SREP review contains elements where the supervisor has to review the undertakings methods used for credit reduction purposes. In particular, FI assesses the rules regarding the assets that are eligible as collateral and their valuation and leverage principles that apply to them, including how climate-related risks are considered in the valuation principles. Since the majority of operations in Sweden is collateralized by real state, FI focus on performing the assessment over the real state collaterals.
EC9	Laws, regulations or the supervisor establish criteria for assets to be: (a) identified as a problem asset (e.g., a loan is identified as a problem asset when there is reason to believe that all amounts due, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement); and (b) reclassified as performing (e.g., a loan is reclassified as performing when all arrears have been cleared and the loan has been brought fully current, repayments have been made in a timely manner over a continuous repayment period and continued collection, in accordance with the contractual terms, is expected).
Description and findings re EC9	The CRR, article 47 a, establishes when an exposure shall be classified as nonperforming and when nonperforming and forborne exposures shall cease to be classified as nonperforming. Article 178 (which is used by IRB banks for capital requirement calculation purposes) states when an exposure shall be classified as defaulted. The CRR is unspecific as regards the discontinuation of the default status (Article 178.5) The criteria for discontinuation of the qualification of nonperforming and forborne exposures are to be applied by institutions for supervisory reporting on top of the criteria they already apply for the discontinuation of the quality of defaulted exposure, as per Article 178 of the CRR. Further instructions on management of nonperforming and forborne exposures can be found in EBA's guideline on management of nonperforming and forborne exposures (EBA/GL/2018/06). The EBA ITS on Supervisory Reporting introduces the definition of nonperforming exposure, used for supervisory reporting (instructions for template F18 in Annex V).
EC10	The supervisor determines that the bank's Board obtains timely and appropriate information on the condition of the bank's asset portfolio, including classification of assets, the level of provisions and reserves and major problem assets. The information includes, at a minimum, summary results of the latest asset review process, comparative trends in the overall quality of problem assets, and measurements of existing or anticipated deterioration in asset quality and losses expected to be incurred.
Description and findings re EC10	FI's regulation governing the reporting of interim and annual report data (FFFS 2014:1, Chapter 3, Section 2) stipulates that board members shall be thoroughly familiar with and knowledgeable about the undertaking's operations and the nature and scope of its risks. According to Chapter 5, Section 5 of the same regulation, an undertaking shall have a procedure for regularly reporting the risks that exist or which could perceivably arise in the operations to the board of directors and the risk committee, if such has been

	appointed, the managing director and other functions that require such information, so that they receive reliable, current and complete reports in a timely manner. The board of directors and the risk committee, if such has been appointed, shall establish the nature, volume, format and frequency of the risk information they are to receive. FI's determination as to whether the Board receives timely and relevant information on the condition of an undertaking's asset portfolio is also made in the course of SREP, where Board minutes and Directors' packages often are collected for review. In the assessment of reports, aspects such as the reports timeliness, their content and coverage can be evaluated by the supervisor.
EC11	The supervisor requires that valuation, classification and provisioning, at least for significant exposures, are conducted on an individual item basis. For this purpose, supervisors require banks to set an appropriate threshold for the purpose of identifying significant exposures and to regularly review the level of the threshold.
Description and findings re EC11	FI's regulation regarding management of credit risks (FFFS 2018:16, Chapter 7) is dedicated to credits with increased risk. Credits with increased risk shall be regularly reviewed (in less than one year) and the review shall be performed on an individual level when required in accordance with the undertaking's internal rules and taking into consideration the size and assessed risk level of the credit. According to the definition in the EBA ITS on Supervisory Reporting (instructions for table F18 in Annex V), the classification of exposures as nonperforming shall be done on an individual basis or for the overall exposure to a given debtor. Since January 1, 2018, IFRS 9 replaces IAS 39. Assessments of impairment and loan allowance estimation can be made both on individual and collective basis under IFRS 9. According to article 47b, p. 4 in the CRR difficulties experienced by an obligor in meeting its financial commitments (as per the Article) shall be assessed at obligor level, taking into account all the legal entities in the obligor's group which are included in the accounting consolidation of the group, and natural persons who control that group.
EC12	The supervisor regularly assesses any trends and concentrations in risk and risk build-up across the banking sector in relation to banks' problem assets and takes into account any observed concentration in the risk mitigation strategies adopted by banks and the potential effect on the efficacy of the mitigant in reducing loss. The supervisor considers the adequacy of provisions and reserves at the bank and banking system level in the light of this assessment.
Description and findings re EC12	Trends and risks in different portfolios of the different undertakings are regularly discussed within the credit expert team. The regular SREP review is further normally combined with benchmarking discussions with special focus on credit risk. The portfolios, the quality of the obligors as well as underlying securities (if any) are compared and risks are discussed. The same applies for the assessments and grades given. As the analyzes of the undertakings are relatively comparable this is an opportunity to monitor the asset quality of the major banks in the market.

	FI has a large degree of independence in setting priorities. Based on the risk identification process, initiatives are taken to make certain deep-dives or investigations within areas that are seen as problematic, either from a credit risk and/or stability perspective or from a consumer protection perspective. Examples of sectors that have been given special attention, mainly from a credit risk perspective, over the last five years are oil- and gas as well as CRE. From the risk identification process FI has established, it is hard to affirm that it will be able to take into account any observed concentration in the risk mitigation strategies adopted by banks and the potential effect on the efficacy of the mitigant in reducing loss, unless they are significant and become one of FI's focus areas. When related to FI's focus area, the assessors were shown evidence that FI was able to perform deep-dive investigations and challenge undertakings' provisioning levels, for example. On an annual basis the mortgage lending market[115] and the consumer lending market[116] is closely monitored and reports are published. Another report is the "Bank Barometer" (Sw. Bankbarometern), which is also published twice a year. It is more descriptive in nature, but captures trends at the industry level. Trends for the past five years are published in the bi-annual report Bankbarometern, where an indicator related to credit losses, i.e., the amount of problem loans, are followed over the years. The report will be provided separately.
Assessment of Principle 18	Largely Compliant
Comments	FI's regulation regarding management of credit risks (FFFS 2018:16) stipulate that an undertaking shall have special rules for credits with increased risk, which covers most of the provisions in this CP. However, FI still lacks some powers. FI cannot overrule a bank's decisions on a classification of individual assets and increase its levels of provisioning, i.e. FI needs a legal basis to act. If an undertaking's risk classifications are identified as potentially incorrect, an inspection can be initiated in order to assess the undertakings asset classification and provisioning procedures. If deficiencies are identified, FI can have legal grounds to order the relevant bank to rectify the identified shortcoming. Until rectification is made, FI can decide on a Pillar II add on. The compliance with this CP is heavily dependent on the supervisory process. FI reviews the undertaking's policies and processes for grading and classifying assets in the regular SREP. Due to resource constraints supervision do not regularly go through credit files. FI assesses major changes in classification and remarks in statements by internal or external auditors to prioritize. Reviewing credit files is fundamental to ensure that banks comply with their own credit risk management procedures and processes, to challenge

[115] https://www.fi.se/en/published/reports/swedish-mortgage-reports/?page=2

[116] https://www.fi.se/en/published/reports/reports/2021/swedish-consumer-credit/

	institutions' classification and provisioning practices and to identify any material circumvention or misclassifications, in order comply with this CP. FI does not regularly perform review of credit files, and therefore is not able to challenge the banks' classification of exposures and adequacy of provisioning. However, it does use sampling of loans to monitor the evolution of credit risks. The information requested ahead of the regular quarterly or bi-annual meetings includes a requirement for the undertaking to report certain exposures with increased risk. The request covers the 25 largest exposures on watch list, the 25 largest nonperforming exposures as well as 25 largest exposures with forbearance measures. To avoid the risk of misrepresentation of classification and provisioning due to the focus on large exposures, FI could extend the analysis over a more representative and wider sample that includes large corporates, SMEs, retail, etc. Trends and risks in different portfolios of the different undertakings are regularly discussed within the credit expert team. The regular SREP review is further normally combined with benchmarking discussions with special focus on credit risk. FI has a large degree of independence in setting priorities. Based on the risk identification process, initiatives are taken to undertake certain deep-dives or investigations within areas that are seen as problematic, either from a credit risk and/or stability perspective or from a consumer protection perspective. Examples of sectors that have been given special attention, mainly from a credit risk perspective, over the last five years are oil- and gas as well as CRE. For these areas, FI was able to review credit information and challenged classification and provisioning levels as well as effectiveness of risk mitigation strategies. Apart from the chosen focus areas, it is hard to affirm that FI will be able to take into account any observed concentration in the risk mitigation strategies adopted by banks and the potential effect on the efficacy of the mitigant in reducing loss. FI's determination as to whether the Board receives timely and relevant information on the condition of an undertaking's asset portfolio is also made in the course of SREP, where Board minutes and Directors' packages often are collected for review. In the assessment of reports, aspects such as the reports timeliness, their content and coverage can be evaluated by the supervisor. In summary, as mentioned in different CPs, the assessors believe that the SREP process is too high-level to be able to properly capture material findings. Deep-dive instigations have proven to be more useful in this sense, but since they are scarce, resource consuming and take too long to be finalized, they are not considered to be efficient to cover the regular supervisory process gaps. To be able to properly assess classification of assets and reliance on external credit assessments, it would be important to perform credit file reviews. Credit file reviews are particularly important for the assessment of the adequacy of provisions, however, for categories 1 and 2 banks, FI has not performed any credit file review since 2017.
Principle 19	**Concentration risk and large exposure limits.** The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and

	control or mitigate concentrations of risk on a timely basis. Supervisors set prudential limits to restrict bank exposures to single counterparties or groups of connected counterparties.[117]
Essential criteria	
EC1	Laws, regulations or the supervisor require banks to have policies and processes that provide a comprehensive bank-wide view of significant sources of concentration risk.[118] Exposures arising from off-balance sheet as well as on-balance sheet items and from contingent liabilities are captured.
Description and findings re EC1	CRR, Part Four, Articles 387–403, regulates the large exposure regime for European countries. Article 393 of the CRR requires that institutions have sound administrative and accounting procedures and adequate internal control mechanisms for the purposes of identifying, managing, monitoring, reporting and recording all large exposures (i.e., exposures equal or in excess of 10 percent of Tier 1 capital). According to Article 389 of the CRR, an "exposure" means any asset or off-balance sheet item. Article 394 of CRR requires that institutions report to competent authorities their large exposures and additional information on their 10 largest exposures (20 largest for IRB banks). Article 395 imposes limits to their large exposures. FI's regulation regarding management of credit risks (FFFS 2018:16, Chapter 2, Section 1) further requires that the documented risk appetite for credit risk shall specify the scope and focus of the total credit risk to which the undertaking may be exposed, composition of the credit portfolio, diversification and concentration. Within the framework for its risk appetite, the undertaking shall also have limits for its credit risks. It also states that a decision to change the risk appetite for credit risks shall be preceded by a written analysis of how the change in risk appetite may affect the undertaking's concentration. The effects of a change to the risk appetite must be monitored and evaluated.
EC2	The supervisor determines that a bank's information systems identify and aggregate on a timely basis, and facilitate active management of, exposures creating risk concentrations and large exposure[119] to single counterparties or groups of connected counterparties.
Description and findings re EC2	FI´s regulation regarding governance, risk management and control (FFFS 2014:1, Chapter 2, Section 7) contains general guidelines related to compilation of risk data, such as

[117] Connected counterparties may include natural persons as well as a group of companies related financially or by common ownership, management or any combination thereof.

[118] This includes credit concentrations through exposure to: single counterparties and groups of connected counterparties both direct and indirect (such as through exposure to collateral or to credit protection provided by a single counterparty), counterparties in the same industry, economic sector or geographic region and counterparties whose financial performance is dependent on the same activity or commodity as well as off-balance sheet exposures (including guarantees and other commitments) and also market and other risk concentrations where a bank is overly exposed to particular asset classes, products, collateral, or currencies.

[119] The measure of credit exposure, in the context of large exposures to single counterparties and groups of connected counterparties, should reflect the maximum possible loss from their failure (i.e., it should encompass actual claims and potential claims as well as contingent liabilities). The risk weighting concept adopted in the Basel capital standards should not be used in measuring credit exposure for this purpose as the relevant risk weights were devised as a measure of credit risk on a basket basis and their use for measuring credit concentrations could significantly underestimate potential losses (see "*Measuring and controlling large credit exposures*, January 1991).

	concentration risk. It also requires banks to have the capability to gather and automatically compile data regarding the undertaking's significant and measurable risks as soon as possible. The IT systems supporting such compilation shall be flexible and able to meet various analysis needs. Risk data shall be compilable at least in the event of crisis situations, stress tests and at the request of FI. The EBA SREP guidelines (EBA/GL/2014/13) requires competent authorities to assess whether the institution has appropriate skills, systems and methodologies to identify and measure credit concentration risks (identify and measure credit concentration risks, etc.). FI concentration risk assessment is performed within the credit risk assessment in SREP, in line with the EBA SREP guidelines. FI's concentration risk assessment involves sectors, industries, sectors that are expected to face climate-related physical and transition risks as a result of climate change, individual counterparties, group of connected counterparties, geographical areas and collateral. In this sense, it does not clearly encompass all the aspects mentioned in the footnote 82. In the context of the SREP review FI collects and assesses policies, processes and undertakings regulations on how they compile concentrations. FI also collects specific information on credit related concentration risk in line with FI's Pillar II method for credit related concentration risk within the SREP review.
EC3	The supervisor determines that a bank's risk management policies and processes establish thresholds for acceptable concentrations of risk, reflecting the bank's risk appetite, risk profile and capital strength, which are understood by, and regularly communicated to, relevant staff. The supervisor also determines that the bank's policies and processes require all material concentrations to be regularly reviewed and reported to the bank's Board.
Description and findings re EC3	FI´s regulation regarding management of credit risks (FFFS 2018:16, Chapter 2, Section 1) specifies that an undertaking's documented risk appetite for credit risk shall specify the scope and focus of the total credit risk to which the undertaking may be exposed, the composition of the credit portfolio, diversification and concentration. Within the framework for its risk appetite, the undertaking shall also have limits for its credit risks. Regulation also states that a decision to change the risk appetite for credit risks shall be preceded by a written analysis of how the change in risk appetite may affect the undertaking's total credit risk and the credit portfolio's composition, diversification and concentration. The effects of a change to the risk appetite must be monitored and evaluated. FI´s regulation regarding governance, risk management and control (FFFS 2014:1, Chapter 5, Section 1) stipulates that an undertaking shall have a risk management framework containing the strategies, processes, procedures, internal rules, limits, controls and reporting procedures required to ensure that the undertaking may, on an ongoing basis, identify, measure, govern, internally report and exercise control of the risks to which it is or could perceivably become exposed. Section 2 of the same chapter further clarify that an undertakings risk management framework shall be well integrated into the undertaking's

	organizational and decision-making structure, and pertain to all material risks in the undertaking. Section 3 clarify that the board of directors shall decide on internal rules. Section 5 clarifies that an undertaking shall have a procedure for regularly reporting the risks that exist or which could perceivably arise in the operations to the board of directors and the risk committee, if such has been appointed, the managing director and other functions that require such information, so that they receive reliable, current and complete reports in a timely manner. The EBA SREP guidelines (EBA/GL/2014/13, paragraph 202) recommend that competent authorities assess whether the institution has a sound, clearly formulated and documented credit risk strategy, approved by the management body. For this assessment, competent authorities should take into account: whether this strategy supports risk-based decision-making, reflecting aspects that may include, for example, exposure type (commercial, consumer, real estate, sovereign), economic sector, geographical location, currency and maturity, including concentration tolerances. FI assesses concentration limits in discussions with the banks usually within the SREP process. Breaches are reported to the board and reviewed by supervisors through the analysis of board and internal control minutes. Different expressions are used to classify the breaches. Depending on the severity of the breach, the routines on reporting to FI may vary. Severe breaches shall normally be reported within 24 hours whereas less severe breaches can be reported in the next quarterly dialogue with FI. There is usually a differentiation in terms of supervisory action with respect to regulatory and internal limits breaches. Communication to relevant staff is assessed through report analysis and onsite supervision, which face resource constraints as mentioned in CP 9.
EC4	The supervisor regularly obtains information that enables concentrations within a bank's portfolio, including sectoral, geographical and currency exposures, to be reviewed.
Description and findings re EC4	Article 394 of CRR requires that institutions report to competent authorities their large exposures and additional information on their 10 largest exposures (20 largest for IRB banks). These include the identification of a client or a group of connected clients, the value of the exposure before credit risk mitigation, types of credit protection, and expected run-off of the exposure. FI has specific reporting requirements of concentration risk within the SREP process related to name, sector and geographical concentrations. It includes a breakdown of the aggregate credit portfolio on individual industries, portfolios and geographies. The breakdown shows both nominal exposure and RWA per sector, segment and country. The reporting is necessary for FI to be able to calculate the pillar 2 requirement related to concentration risk, described in FI's memorandum "Pillar 2-method for calculation of capital add-ons for credit related concentration risk." In summary, FI calculates Pillar 2 capital requirements for name concentration, industry concentration and geographic concentration using a Herfindahl index-based approach for companies using the

	Standardised Method for credit risk and a method combining Herfindahl index and Gordy-Lütkebohmerts approach for IRB banks. In addition, the two supervisory reports required under the EBA reporting framework 3.0 also present information on concentration risk. COREP, which is received quarterly, contains information on large exposures and groups of connected clients. In templates 26-29 banks are required to report name concentrations (including connected clients and concentration to shadow banks) and exposures to different geographical markets. In FINREP, which is also received quarterly, banks are required to report exposures to different sectors of economic activity by using NACE codes (Regulation (EC) No 1893/2006 of the European Parliament and of the Council).
EC5	In respect of credit exposure to single counterparties or groups of connected counterparties, laws or regulations explicitly define, or the supervisor has the power to define, a "group of connected counterparties" to reflect actual risk exposure. The supervisor may exercise discretion in applying this definition on a case-by-case basis.
Description and findings re EC5	FI´s regulation regarding management of credit risks (FFFS 2018:16) make a direct reference to the article 4(1)(39) of the CRR to define of a group of connected clients. The aforementioned regulation establishes that the credit assessment shall investigate, identify and document the need for co-limitation for a group of connected clients. Co-limitation shall be applied if a need for co-limitation has been identified. EBA Guidelines on the treatment of connected clients (EBA/GL/2017/15) provide further guidance on how to identify a group of connected clients based on two types of interconnections, i.e., control relationships and economic dependencies. In addition, regulation regarding prudential requirements and capital buffers (FFFS:2014:12, Chapter 5, Section 4) establish that an undertaking should analyze, as a minimum, whether a specific list of clients shall be considered to be a group of connected clients. FI does not exercise discretion in applying the definition of a group of connected counterparties on a case-by-case basis. Due to resource constraints regular supervision does not go through credit files and therefore does not verify the definition of a group of connected counterparties adopted by a bank unless for ad hoc manual sanitize checks.
EC6	Laws, regulations or the supervisor set prudent and appropriate[120] requirements to control and constrain large credit exposures to a single counterparty or a group of connected counterparties. "Exposures" for this purpose include all claims and transactions (including those giving rise to counterparty credit risk exposure), on-balance sheet as well as off-balance sheet. The supervisor determines that senior management monitors these limits and that they are not exceeded on a solo or consolidated basis.
Description and findings re EC6	Article 389 of the CRR defines what an exposure is within the large exposure regime, which includes any asset or off-balance sheet item. Article 390 of the CRR specify how the

[120] Such requirements should, at least for internationally active banks, reflect the applicable Basel standards. As of September 2012, a new Basel standard on large exposures is still under consideration.

	exposure value shall be calculated. The calculation shall cover the total exposures of a group of connected clients. It shall cover exposures in the trading book and in the non-trading book. There are specific requirements related to, for example, derivative contracts. Some listed exposures are also excluded from the calculations, such as exposures related to settlement limits. CRR article 392 contains the definition of a large exposure. An institution's exposure to a client or a group of connected clients shall be considered a large exposure where the value of the exposure is equal to or exceeds 10 % of its Tier 1 capital. CRR article 395 sets limits on large exposures. According to the article, an institution shall not incur an exposure to a client or group of connected clients the value of which exceeds 25% of its Tier 1 capital, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403. According to CRR article 11, the large exposure regime also applies at the consolidated group level. Limits may be exceeded for a limited period of time for the exposures in the institution's trading book provided that the conditions laid out in article 395(5) are met. In this case, the institution shall report to the competent authorities without delay the amount of the excess and the name of the client concerned and, where applicable, the name of the group of connected clients concerned. Article 393 of the CRR establishes that institutions shall have sound administrative and accounting procedures and adequate internal control mechanisms for the purposes of identifying, managing, monitoring, reporting, and recording all large exposures and subsequent changes to them. In addition, regulation regarding prudential requirements and capital buffers (FFFS:2014:12, Chapter 5, Section 4) require an undertaking to conduct a thorough analysis of all exposures exceeding 2 percent of the undertakings or the group’s eligible capital when determining large exposures to a group of connected clients. FI assesses concentration limits in discussions with the banks usually within the SREP process. Breaches are reviewed by supervisors through the analysis of board and internal control minutes. Contingent on the materiality of the limit breach institutions are subject to supervisory measures. Assessors found evidence (discussion on evolution and breaches of large single exposure, 20 largest net exposures, among others) that FI assesses that senior management monitors these limits and that they are not exceeded on a solo or consolidated basis, during SREP.
EC7	The supervisor requires banks to include the impact of significant risk concentrations into their stress testing programs for risk management purposes.
Description and findings re EC7	EBA´s guidelines on stress testing (EBA/GL/2018/04, Section 4.7.8) mandates institutions to assess concentration risk considering on- and off-balance-sheet exposures, as well as banking, trading and hedging positions in their stress testing. Paragraphs 171 to 178 provides details for banks.

	An undertakings' ICAAP as well as the recovery plans contain elements related to stress testing. Those elements are evaluated when the documents are up for review by FI. The ICAAP review is performed in line with EBA guidelines on ICAAP and ILAAP information collected for SREP purposes (EBA/GL/2016/10). The ICAAP review is always performed in combination with the SREP. As mentioned in EC13 of CP 15, the assessors found evidence that banks' internal stress testing are assessed from a high-level perspective, therefore, not clearly taking into account significant risk concentrations.
Additional criteria	
AC1	In respect of credit exposure to single counterparties or groups of connected counterparties, banks are required to adhere to the following: (a) 10 percent or more of a bank's capital is defined as a large exposure; and (b) 25 percent of a bank's capital is the limit for an individual large exposure to a private sector nonbank counterparty or a group of connected counterparties. Minor deviations from these limits may be acceptable, especially if explicitly temporary or related to very small or specialized banks.
Description and findings re AC1	The definition of large exposures and the correspondent limits given in Articles 392 and 395 of the CRR are in accordance with these provisions. However, regulation regarding prudential requirements and capital buffers (FFFS 2014:12, Chapter 5) establish certain exemptions that weaken these limits, such as exposures: • incurred by an institution to its parent undertaking or subsidiaries (Section 1); • to institutions within the European Economic Area (EEA), provided that those exposures do not constitute such institutions' own funds, do not last longer than the following business day and are not denominated in a major trading currency (Section 1); and • related to covered bonds (Section 2). The exemption listed above are in line with the exemptions allowed by Article 400 (21, 2c and 2f) of the CRR. Competent authorities may fully, or partially exempt exposures listed under Article 400 (2).
Assessment of Principle 19	Largely Compliant
Comments	The CRR sets the large exposures regime and determines the limits to be observed. While the framework is broadly aligned with the Basel large exposures there are some exceptions that weaken the limit such as exposures related to: parent or subsidiaries, institutions within EEA and covered bonds. The potential consequences of these deviations are not clearly monitored by FI. However, the EBA published a report (EBA/Rep/2022/16) which analyzes European banks' use of various exemptions from the limits for large exposures such as exemptions concerning covered bonds. The report quantifies the impact of a potential removal of individual exemptions.

	FI does not exercise discretion in applying the definition of a group of connected counterparties on a case-by-case basis. Due to resource constraints regular supervision does not go through credit files and therefore does not verify the definition of a group of connected counterparties adopted by banks unless for ad hoc manual sanitize checks. FI concentration risk assessment is performed within the credit risk assessment in SREP, in line with the EBA SREP guidelines. FI's concentration risk assessment involves sectors, industries, sectors that are expected to face climate-related physical and transition risks as a result of climate change, individual counterparties, group of connected clients, geographical areas and collateral. In this sense, it does not clearly encompass all the aspects mentioned in the footnote 82. In terms of supervisory information, besides the two supervisory reports required under the EBA reporting framework 3.0 (COREP and FINREP), FI has specific reporting requirements of concentration risk within the SREP process related to name, sector and geographical concentrations. It includes a breakdown of the aggregate credit portfolio on individual industries, portfolios and geographies. The breakdown shows both nominal exposure and risk-weighted assets (RWA) per sector, segment and country. FI has imposed Pillar 2 capital requirements related to concentration described in FI's memorandum "Pillar 2-method for calculation of capital add-ons for credit related concentration risk." The requirement considers name, industry and geographic concentration. It is based on a Herfindahl Index- approach for companies using the Standardised Method for credit risk and a method combining Herfindahl index and Gordy-Lütkebohmerts approach for IRB banks. However, in terms of bank's own stress testing, as mentioned in EC13 of CP 15, the assessors found evidence that banks' internal stress testing are, in some aspects, assessed from a high-level perspective, therefore, not clearly taking into account significant risk concentrations.
Principle 20	**Transactions with related parties**. In order to prevent abuses arising in transactions with related parties[121] and to address the risk of conflict of interest, the supervisor requires banks to enter into any transactions with related parties[122] on an arm's length basis; to monitor these transactions; to take appropriate steps to control or mitigate the risks; and to write off exposures to related parties in accordance with standard policies and processes.
Essential criteria	

[121] Related parties can include, among other things, the bank's subsidiaries, affiliates, and any party (including their subsidiaries, affiliates and special purpose entities) that the bank exerts control over or that exerts control over the bank, the bank's major shareholders, Board members, senior management and key staff, their direct and related interests, and their close family members as well as corresponding persons in affiliated companies.

[122] Related-party transactions include on-balance sheet and off-balance sheet credit exposures and claims, as well as, dealings such as service contracts, asset purchases and sales, construction contracts, lease agreements, derivative transactions, borrowings, and write-offs. The term transaction should be interpreted broadly to incorporate not only transactions that are entered into with related parties but also situations in which an unrelated-party (with whom a bank has an existing exposure) subsequently becomes a related-party.

EC1	Laws or regulations provide, or the supervisor has the power to prescribe, a comprehensive definition of "related parties." This considers the parties identified in the footnote to the Principle. The supervisor may exercise discretion in applying this definition on a case-by-case basis.
Description and findings re EC1	Swedish laws and regulations have different provisions on related parties. The Swedish Companies Act (SFS 2005:551, Chapter 21) forbid companies to lend money (cash) to certain related parties mainly related to the board, shareholders or persons with controlling influence. The BFBA (SFS 2004:297, Chapter 8, Section 5) forbids credit institutions to enter into a services agreement subject to terms and conditions which differ from those the institution normally applies to a similar, but broader set of related parties that includes senior staff. And FI's regulation regarding management of credit risks (FFFS 2018:16) that contains special management requirements to related parties whose activities can have a material impact on the firm's risk level. So, depending on the matter in question, FI can apply different definitions of related parties according to the definitions in the laws or regulation that broadly encompasses the definition of related parties in the footnote.
EC2	Laws, regulations, or the supervisor require that transactions with related parties are not undertaken on more favorable terms (e.g., in credit assessment, tenor, interest rates, fees, amortization schedules, requirement for collateral) than corresponding transactions with non-related counterparties.[123]
Description and findings re EC2	According to BFBA (SFS 2004:297, Chapter 8, Section 5), a credit institution may not enter into a services agreement subject to terms and conditions which differ from those the institution normally applies, or enter into other agreements subject to terms and conditions that are not commercially justified, with or for the benefit of: 1. a member of the board; 2. a person in a senior management position who alone or together with a third party is authorized to determine lending matters which otherwise must be determined by the board of directors; 3. an employee who holds a senior position; 4. any shareholder or holder of participating interests, other than the State, with holdings equal to at least three percent of the outstanding capital; 5. a person who is a spouse or cohabitee of a person referred above; or 6. a legal person in which such a person as referred above holds a significant financial interest in the capacity of owner or member.
EC3	The supervisor requires that transactions with related parties and the write-off of related-party exposures exceeding specified amounts or otherwise posing special risks are subject to prior approval by the bank's Board. The supervisor requires that Board members with

[123] An exception may be appropriate for beneficial terms that are part of overall remuneration packages (e.g., staff receiving credit at favorable rates).

	conflicts of interest are excluded from the approval process of granting and managing related-party transactions.
Description and findings re EC3	The BFBA (SFS 2004:297, Chapter 8, Section 6) stipulates that the board, independent of the size or risk (i.e., for all transactions), shall handle issues of services agreement (including the granting of credits) with related parties. In addition, the Companies Act (SFS 2005:551, Chapter 8, Section 23) stipulates that a board member shall not be involved in matters where a conflict of interest may arise. FI's regulation regarding management of credit risks (FFFS 2018:16, Chapter 8, Section 4) also stipulates that an undertaking's credit procedures shall be organized such that no person participates in the handling of a matter that applies to a related-party, a related-party's undertaking or in other situations where there is a risk for bias.
EC4	The supervisor determines that banks have policies and processes to prevent persons benefiting from the transaction and/or persons related to such a person from being part of the process of granting and managing the transaction.
Description and findings re EC4	Beyond the provisions in laws and regulations mentioned in EC 1-3, FI's regulation regarding management of credit risks (FFFS 2018:16, Chapter 8, Section 4) establishes that an undertaking shall have special procedures and methods for identifying, managing, internally reporting and controlling credits to related parties. The undertaking's procedures and methods shall make it possible to compile the undertaking's credits to related parties, both for individual borrowers and for all related parties. In the SREP, when reviewing an undertaking's policies and procedures, as well as Board (and other relevant bodies') minutes, FI checks those credits to related parties are addressed to the Board. Further, if a board member in an issue is disqualified due to conflict of interest, a control is made that the member did not take part of the decision. Assessors were able to verify that, in the SREP, FI assesses if the code of conduct (which includes internal rules for conflicts of interest) has been evaluated by the board.
EC5	Laws or regulations set, or the supervisor has the power to set on a general or case by case basis, limits for exposures to related parties, to deduct such exposures from capital when assessing capital adequacy, or to require collateralization of such exposures. When limits are set on aggregate exposures to related parties, those are at least as strict as those for single counterparties or groups of connected counterparties.
Description and findings re EC5	In the context of Chapter 6 of the BFBA FI may take measures against credit institutions that extend credit to related parties in a manner not consistent with sound business practices. However, there is not a clear and specific power for FI to impose limits for exposures to related parties, to deduct such exposures from capital when assessing capital adequacy, or to require collateralization of such exposures. Exposures to related parties would only be clearly limited as in the large exposures' limits.
EC6	The supervisor determines that banks have policies and processes to identify individual exposures to and transactions with related parties as well as the total amount of exposures, and to monitor and report on them through an independent credit review or

	audit process. The supervisor determines that exceptions to policies, processes and limits are reported to the appropriate level of the bank's senior management and, if necessary, to the Board, for timely action. The supervisor also determines that senior management monitors related-party transactions on an ongoing basis, and that the Board also provides oversight of these transactions.
Description and findings re EC6	Based on the laws and regulations mentioned in ECs 1-4, transactions with related parties are monitored as part of the credit assessment within the regular SREP process. Inspections are made when deemed necessary based on FI's risk-based approach. FI's general method for credit risk assessment is valid for all types of transactions, including those to related parties. As for other credit exposures, there are no provisions requiring the monitoring and reporting on related parties' exposures to be subjected to an independent credit review or audit process. (see EC 3 of CP 17). The assessors were provided two examples where conflict of interest issues have been found in specific credit risk inspections in 2018. However, the general criticism of the lack of intrusiveness which makes it difficult for issues to be identified in the regular SREP process also applies here.
EC7	The supervisor obtains and reviews information on aggregate exposures to related parties.
Description and findings re EC7	Chapter 8, Section 6 of the BFBA requires that the Board of the credit institution keeps a written record of all agreements entered into with related parties. This record is checked at least annually by the external auditors, and by FI at credit risk inspections, when needed. Information on transactions and exposures toward related parties are reported in Finrep, templates 31.01 and 31.02, which follows the accounting standards and hence does not meet the requirements of this CP as regards the definition of related parties and of the relevant transactions. FI has mentioned that credit to related parties is not considered a material risk in Sweden because exposures are small. One of the reasons behind this might be the requirement in law that all exposures must to be approved by the board, irrespective of their size.
Assessment of Principle 20	Largely Compliant
Comments	Swedish law has specific provisions on related parties that curtails conflict of interest. FI has made progress with respect to including additional specific provisions with respect to related parties in its credit risk regulation, since the last FSAP. The provisions mainly address management requirements to related parties whose activities can have a material impact on the firm's risk level. However, there is still no clear and specific power for FI to impose limits for exposures to related parties, to deduct such exposures from capital when assessing capital adequacy, or to require collateralization of such exposures. Issues with respect to reporting on aggregated related-party transactions would also need to be addressed.

	In terms of FI's supervision, the limit of its supervisory capacity also impacts the supervision of related parties' aspects. The assessors were provided with two examples where conflict of interest issues have been found in specific credit risk inspections in 2018. However, the general criticism of the lack of intrusiveness which makes it difficult for issues to be identified in the regular SREP process also applies here. FI has mentioned that credit to related parties is not considered a material risk in Sweden because exposures are small. One of the reasons behind this might be the requirement in law that all exposures to related parties must to be approved by the board, irrespective of their size.
Principle 21	**Country and transfer risks**. The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate country risk[124] and transfer risk[125] in their international lending and investment activities on a timely basis.
Essential criteria	
EC1	The supervisor determines that a bank's policies and processes give due regard to the identification, measurement, evaluation, monitoring, reporting and control or mitigation of country risk and transfer risk. The supervisor also determines that the processes are consistent with the risk profile, systemic importance and risk appetite of the bank, take into account market and macroeconomic conditions and provide a comprehensive bank-wide view of country and transfer risk exposure. Exposures (including, where relevant, intra-group exposures) are identified, monitored and managed on a regional and an individual country basis (in addition to the end-borrower/end-counterparty basis). Banks are required to monitor and evaluate developments in country risk and in transfer risk and apply appropriate countermeasures.
Description and findings re EC1	Country and transfer risks are elements within credit risk. FI's regulation regarding management of credit risks (FFFS 2018:16) Chapter 1 Section 5 p. 7 and 10 define: 1) Country risk as credit risks due to transfer risk, regulatory environment and political risks in a specific country; and 2) Transfer risk: risk of not being able to transfer currency to and from a specific country. Chapter 2, Section 3 and Chapter 3, Section 1 of the same regulation requires undertakings to have appropriate internal rules for credit risk management, which shall be in line with their documented credit risk appetite. The rules must cover the undertaking's procedures and methods for identifying, measuring, governing, internally reporting and

[124] Country risk is the risk of exposure to loss caused by events in a foreign country. The concept is broader than sovereign risk as all forms of lending or investment activity whether to/with individuals, corporates, banks or governments are covered.

[125] Transfer risk is the risk that a borrower will not be able to convert local currency into foreign exchange and so will be unable to make debt service payments in foreign currency. The risk normally arises from exchange restrictions imposed by the government in the borrower's country. (Reference document: *IMF paper on External Debt Statistics – Guide for compilers and users*, 2003.)

	controlling credit risks and special rules for certain types of risks such as country- and transfer risks, covering, as a minimum the country risk for individual borrowers and the undertaking's total credit risk per country. Rules regarding the required material upon which the decision shall be based for credit assessments and reviews must also be established as well as documentation requirements of credit decisions. EBA' SREP guidelines (EBA/GL/2014/13) require FI to assess if an undertakings country risk is in line with the provisions in paragraph 176. The provisions cover country risk aspects such as concentrations of country risk, the economic strength and stability of a borrower's country, the risk of sovereign intervention and potential events that might affect both a country and debtors in that country. In its supervision, FI considers country risk in the context of cross border activity (e.g., subsidiary holdings and branches, investments, portfolio composition). FI contacts an undertaking directly when a high-profile country event needs to be taken into consideration in order to identify exposures, assess possible mitigation by the firm or even (e.g., in case of EU imposed sanctions) to ensure firms have frozen assets as necessary. Sanctions related to countries or individuals are also, where relevant, discussed in the regular meetings with the undertakings. The assessors found the definition of country and transfer risk in line with the BCP definition, even though it does not clearly list important socio-political changes and largely unpredictable events. In addition, the assessors were not provided with evidence that supervisors follow an ultimate risk approach.
EC2	The supervisor determines that banks' strategies, policies and processes for the management of country and transfer risks have been approved by the banks' Boards and that the Boards oversee management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the banks' overall risk management process.
Description and findings re EC2	Country and transfer risks are elements within credit risk. There are no specific provisions or supervisory processes. ICAAP reports and SREP assessments have been unable to evidence the supervisory approach.
EC3	The supervisor determines that banks have information systems, risk management systems and internal control systems that accurately aggregate, monitor and report country exposures on a timely basis; and ensure adherence to established country exposure limits.
Description and findings re EC3	As mentioned in CP 19, exposure concentration to different countries is monitored, however, there are no established country exposure limits. Country and transfer risks are elements within credit risk. There are no specific provisions or supervisory processes.
EC4	There is supervisory oversight of the setting of appropriate provisions against country risk and transfer risk. There are different international practices that are all acceptable as long as they lead to risk-based results. These include:

	(a) The supervisor (or some other official authority) decides on appropriate minimum provisioning by regularly setting fixed percentages for exposures to each country taking into account prevailing conditions. The supervisor reviews minimum provisioning levels where appropriate. (b) The supervisor (or some other official authority) regularly sets percentage ranges for each country, taking into account prevailing conditions and the banks may decide, within these ranges, which provisioning to apply for the individual exposures. The supervisor reviews percentage ranges for provisioning purposes where appropriate. (c) The bank itself (or some other body such as the national bankers association) sets percentages or guidelines or even decides for each individual loan on the appropriate provisioning. The adequacy of the provisioning will then be judged by the external auditor and/or by the supervisor.
Description and findings re EC4	The accounting framework, i.e., IFRS 9, is principle based. Aspects that can have an impact on an exposure, such as macro related risks, shall be taken into account by an undertaking. Management overlays can be used to manage risks in certain exposures, for example in relation to a country or a region. There are no provisions established against country risk and transfer risk minimum provisions. FI conduct targeted investigations or deep dives regarding exposures toward different countries when needed. Special focus has been given portfolios in countries that have been subject to international sanctions or otherwise seen as risky. On an ad hoc basis the undertakings may be required to inform and elaborate on exposures and portfolios in certain countries. During meetings, it became clear to the assessors that countries in the European Union were not considered in a country and transfer risk perspective.
EC5	The supervisor requires banks to include appropriate scenarios into their stress testing programs to reflect country and transfer risk analysis for risk management purposes.
Description and findings re EC5	Country and transfer risks are an element within credit risk. No specific provisions with respect to country and transfer risks have been implemented. As mentioned in EC 13 of CP 15, the assessors found evidence that banks' internal stress testing are assessed from a high-level perspective and do not fully cover the recommendations in the BCBS stress testing principles (2018).
EC6	The supervisor regularly obtains and reviews sufficient information on a timely basis on the country risk and transfer risk of banks. The supervisor also has the power to obtain additional information, as needed (e.g., in crisis situations).
Description and findings re EC6	Finrep templates 20.4 to 20.7 contain information 'country-by-country' on the basis of the residence of the immediate counterparty. The breakdown provided includes exposures or liabilities with residents in each foreign country in which the institution has exposures. Exposures or liabilities with international organizations and multilateral development are assigned to 'Other countries.' However, this information is not sufficient to assess country risk and transfer risk of banks.

	The BFBA, chapter 13, section 3 gives FI the right to request information on an undertakings business and other conditions related to it that the authority requires. Thus, additional information can be required when necessary and evidence was shown to the assessors that is has actually been required in the past in crisis situations.
Assessment of Principle 21	Non-Compliant
Comments	Country and transfer risks are elements taken into account within credit risk, as per the regulation regarding management of credit risks (FFFS 2018:16). The assessors found the definition of country and transfer risk is in line with the BCP definition, even though it does not clearly list important socio-political changes and largely unpredictable events. In addition, the assessors were not provided with evidence to show that supervisors follow an ultimate risk approach. The incorporation of country risk into stress tests and into provision by banks is not explicitly required by FI. The supervisory processes, described in the FI's credit risk assessment method for SREP, do not cover the requirements set out in this CP. ICAAP reports and SREP assessments have also been unable to show the country and transfer risk analysis. Sweden is a regional banking hub, acting in particular as the parent jurisdiction for the majority of the systemic entities of the Nordic region. Cross border banking activity and country exposure is therefore a significant feature of the banking system, even if it is concentrated in only a few institutions. However, in discussions with the assessors, it became clear that in the EU regulations (CRR and CRD) countries within the European Union are not considered as third countries from a country and transfer risk perspective. Therefore, it is paramount that a proper supervisory process for country and transfer risk is introduced.
Principle 22	**Market risk**. The supervisor determines that banks have an adequate market risk management process that takes into account their risk appetite, risk profile, and market and macroeconomic conditions and the risk of a significant deterioration in market liquidity. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate market risks on a timely basis.
Essential criteria	
EC1	Laws, regulations or the supervisor require banks to have appropriate market risk management processes that provide a comprehensive bank-wide view of market risk exposure. The supervisor determines that these processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank; take into account market and macroeconomic conditions and the risk of a significant deterioration in market liquidity; and clearly articulate the roles and responsibilities for identification, measuring, monitoring and control of market risk.
Description and findings re EC1	Sweden has not implemented any specific national banking law or supporting regulation that specifically addresses the management of market risk.

	In fact, FI has repealed a specific regulation on the management of market and liquidity risks (FFFS 2000:10) arguing that the regulation is outdated, and that there are corresponding, and binding rules in other FI regulations that are more aligned with regulation (EU) 575/2013, and also easier to apply to modern trading books, compared to FFFS 2000:10. In addition, FI also applies general provisions for the trading book, as started in Article 102 – 106 of regulation (EU) No. 575/2013 (CRR), as well as detailed regulatory standards in the CRR for position subject to the internal model approach (IMA). In addition, EBA Guidelines on the treatment of structural FX positions (EBA/GL/2020/09) is effective in Sweden as a general guideline, and used in approval process of waivers in accordance with article 352 (2) of the CRR. With respect to institutions' market risk frameworks and related organizational structures, including internal risk measurement, risk control, risk appetite frameworks, and risk management, FI has found applicable parts of general national banking laws and supporting regulations that mention market risk useful. This includes BFBA (2004:297) on risk management and on responsibilities of the board and the Supervision of Credit institutions and Investments Firm Act SFS (2014:968), on supervision of internal models. It also includes, FI's regulation regarding governance, risk management and control (FFFS 2014:1) that set provisions on governance, risk appetite framework, limit set-up, IT system support, responsibility of the board and the CEO, including the responsibility to review the efficiency of the institution's risk management and internal control functions. Even though the laws and regulations are general and fairly high level, the assessors verified that FI has been able to apply such provisions in recent market risk and counterparty credit risk inspections. However, this might not be true for all situations. For instance, the lack of detailed regulation has, similar to other EU jurisdictions, proven problematic when performing inspections about front office and first line activities, such as requirements on intra-day monitoring and P&L attribution for non-IMA banks, system support, aspects of xVA and other contemporary market risk and market risk related issues. Hence, current Basel standards and therefore the CRR assume end-of-day calculations of risk. In addition, FI has pointed out that the Final Draft RTS on Assessment Methodology has not been adopted and published in the EU Official Journal and, thus, is not directly enforceable within the EU. However, FI argue that it has successfully used the Final Draft RTS as a best market practice tool for various assessments. In this sense, FI would benefit from more granular regulations stating requirements on risk positions and the management of risk positions not covered by the internal model approach (IMA). FI performs the market risk management process assessment in the SREP. The assessment follows the EBA GL SREP grading methodology, which amongst others considers: • Market risk exposure, measures and metrics; and • Market risk governance and management.

	The assessors were able to verify FI's assessment of banks' ICAAP, which, considering the materiality of market risk in relation to other risks, looked more detailed than other risks' assessments.
EC2	The supervisor determines that banks' strategies, policies and processes for the management of market risk have been approved by the banks' Boards and that the Boards oversee management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the banks' overall risk management process.
Description and findings re EC2	FI bases the supervision of institutions on EU and national regulation as mentioned in EC1. The overall efficiency of market risk management and controls are assessed through the regular Quarterly Risk Review (QRR) sessions, and the SREP, which is based on the EBA SREP GL. The ongoing supervision of market risk and market risk models includes, but is not limited to: 1. Positions, exposures, and risk measures; 2. Governance and risk management; and 3. Internal models for capital requirements including banks' practices. FI assesses relevant documentation as part of the SREP, with the purpose to evaluate the quality of processes and the documentation (and the alignment between the two), including the use and implementation of models and metrics. The SREP evaluation follows both a general and specific path. The general path uses an internal assessment method developed by FI out of the EBA SREP Guidelines. The aim of the general part is to harmonize assessments across banks and to track and follow general market risk trends among banks. FI's method also serves as a benchmark tool used by the market risk experts to compare SREP outcomes and evaluations. The specific path is dedicated to specificities of certain institutions, and thus to track latent risks, exposure to tail risk events and hidden vulnerabilities. However, to get a deeper understanding of latent risks and vulnerabilities, and to get sufficient insights into the efficiency of market risk management and control of tail risks, other specific measures and deeper analyzes are called for. Therefore, FI also engages in studies, both qualitatively and quantitatively, of the banks' model, its underlying assumptions, P/L attribution, and back-testing processes and hence also, P/L explained and P/L unexplained. Based on this, FI focuses on potential inconsistencies and the banks' internal process to follow up on limits and, in particular, limit breaches and back-testing. As it is the case with other specific risks, these studies are not frequent. In the last five years, FI was only able to perform six onsite inspections. However, some of the inspections carried out are thematic/targeted reviews and cover multiple institutions simultaneously. The CRR inspection, for instance, covers four institutions, and also for one of the banks an "embedded" inspection specifically dedicated to the bank's IMM framework.

EC3	The supervisor determines that the bank's policies and processes establish an appropriate and properly controlled market risk environment including: (a) effective information systems for accurate and timely identification, aggregation, monitoring and reporting of market risk exposure to the bank's Board and senior management; (b) appropriate market risk limits consistent with the bank's risk appetite, risk profile and capital strength, and with the management's ability to manage market risk and which are understood by, and regularly communicated to, relevant staff; (c) exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank's senior management or Board, where necessary; (d) effective controls about the use of models to identify and measure market risk, and set limits; and (e) sound policies and processes for allocation of exposures to the trading book.
Description and findings re EC3	FI bases the supervision of market risk management of institutions on EU and national regulation as mentioned in EC1. However, since some of the regulations are high-level, they do not cover "sound policies and processes for allocation of exposures to the trading book." FI has particularly found policies and procedures regarding the trading/banking book boundary to be an area of where the compliance with current regulatory standards (i.e., essentially article 102-104 of the CRR) can be questioned. This is also in line with observations and experiences from other EU competent authorities and international peer banks. It is important to note that this issue has already been addressed by the BCBS and it expected to be implemented in the EU in 2024 with the fundamental review of the trading book (FRTB). The market risk assessment within the SREP process follow the EBA SREP guidelines. Grades are based on elements of risk exposure (market risk, profitability, concentration risk and stress testing including sVaR) and elements of risk management (strategy and risk appetite, organizational framework, risk management framework and internal control framework) scores. The assessors verified that FI has been able to apply such provisions in the SREP process (general path). However, as mentioned in EC 2, to be able to get a deeper understanding of latent risks and vulnerabilities, deep dive-inspections would be needed (specific path). As it is the case with other specific risks, these investigations are not frequent. In the last five years, FI was only able to perform 6 onsite inspections. It should be mentioned, however, that some of these inspections were targeted and thematic and covered several institutions. Once FRTB is implemented in Sweden, it would be important to perform such a deep-dive investigation to assess compliance with the regulation and the boundary between the trading and banking book.

	The assessors saw that FI relies on the second line of defense to monitor banks' internal trading limits and were informed that FI has had one case where FI were not informed about an internal material breach as fast as it should.
EC4	The supervisor determines that there are systems and controls to ensure that bank' marked-to-market positions are revalued frequently. The supervisor also determines that all transactions are captured on a timely basis and that the valuation process uses consistent and prudent practices, and reliable market data verified by a function independent of the relevant risk-taking business units (or, in the absence of market prices, internal or industry-accepted models). To the extent that the bank relies on modeling for the purposes of valuation, the bank is required to ensure that the model is validated by a function independent of the relevant risk-taking businesses units. The supervisor requires banks to establish and maintain policies and processes for considering valuation adjustments for positions that otherwise cannot be prudently valued, including concentrated, less liquid, and stale positions.
Description and findings re EC4	According to FI's regulatory code (FFFS 2008:25, Chapter 7) the EU requirement to prepare the consolidated financial statements in accordance with the IFRS is extended to all credit institutions, whether publicly traded or not. This requirement thus sets the principles for the fair valuation of financial instruments, including principles for considering CVA for derivatives. Articles 34 and 105 of CRR cover comprehensive regulatory standards regarding valuation, valuation governance, and prudent valuation, as well as the prudential capital aspects associated with additional valuation adjustments. In addition, the draft technical standard on IMA provides guidance on valuation aspects within the IMA framework. Valuation aspects are regularly captured by FI through the QRR, where FI requests information, including quantitative data, on valuation and valuation uncertainties, as part of the broader information request package. The data sets are then assessed, analyzed, and discussed internally, and banks are challenged in case of specific issues or inconsistencies in the data. COREP and FINREP data is also analyzed and vulnerabilities identified on a best effort basis. FI's market risk team also assesses contemporary valuation aspects such as xVA exposures to derivatives and CVA. Valuation aspects may also be captured in inspections and thematic analyzes. In 2018, FI conducted a prudent valuation inspection that led to a comprehensive action plan for the institutions involved to remedy shortcomings. The assessors were able to verify that during the SREP, FI assesses bank's systems from a risk management and control perspective. Please see CP 10 EC 3 for more details on valuation governance requirements.
EC5	The supervisor determines that banks hold appropriate levels of capital against unexpected losses and make appropriate valuation adjustments for uncertainties in determining the fair value of assets and liabilities.
Description and findings re EC5	The CRR, Title IV Chapters 1-5, provides the minimum regulatory capital standards addressing capital for unexpected losses to market risk positions. Banks can use internal

	models for the computation of capital requirements for market risk (Article 362 of the CRR), subject to approval from competent supervisory authorities, which assess whether the minimum requirements established by the regulation are fulfilled (Article 363). To guarantee the reliability of internally developed methodologies, material changes to the models are also subject to supervisory approval (Article 363(3) of the CRR and Commission Delegated Regulation (EU) No 529/2014). The CRR, Title I Chapter 3, defines capital deductions (from the capital base) for valuation uncertainties connected to fair valued positions (both assets and liabilities). The CRR, Title VI provides minimum regulatory capital standards for CVA risk. The CRR also comprise a comprehensive set of articles to cover valuation management and governance of fair valued positions to specifically address additional valuation adjustments for valuation uncertainties on fair valued assets and liabilities. FI evaluates institutions' capital situation regarding market risk through ongoing supervision activities, the QRR and through the SREP process where the ICAAP is analyzed. To accomplish this, FI relies on both quantitative and qualitative assessments of information which is regularly requested from the banks. The quantitative analysis is based on COREP data as well as on granular data with higher frequency collected through regular data requests. In terms of internal model banks, FI participates in the EBA supervisory benchmark exercise regarding IMA (which is jointly conducted with IRB), and so evaluates the performance of the Swedish IMA banks in an international context.
EC6	The supervisor requires banks to include market risk exposure into their stress testing programs for risk management purposes.
Description and findings re EC6	According to Article 368 (g) of the CRR the institution shall frequently conduct a rigorous program of stress testing, which encompasses market risk. The EBA SREP Guidelines (p. 246) recommend that supervisors assess whether an institution has implemented adequate stress that complement its risk measurement system, which should take into account: • stress test frequency; • whether relevant risk drivers are identified (e.g., illiquidity/gapping of prices, concentrated positions, one-way markets, etc.); • assumptions underlying the stress scenario; and • internal use of stress-testing outcomes for capital planning and market risk strategies. FI includes aspects of stress testing of market risk exposures as part of information requests in SREP and quarterly risk reviews. The reported outcomes by banks are assessed, assumptions and results are challenged by FI. Stress test has also been evaluated inspections with regards to counterparty credit risk and market risk. The largest non-IMA banks are also required to present a stress calibration of the internal (i.e., nonprudential) IMA.

Assessment of Principle 22	Largely Compliant
Comments	Sweden has not implemented any specific national banking law or supporting regulation that specifically addresses market risk from a risk management perspective. On the contrary, FI has repealed a specific regulation on the management of market and liquidity risks (FFFS 2000:10) arguing that there are corresponding rules in other FI regulations. However, there is evidence where the lack of detailed regulation has already proven problematic such as in front office and first line activities and trading/banking book boundary. It is worth mentioning that most of the issues related to the trading/banking book boundary are expected to be addressed in 2024 when the EU implement the fundamental review of the trading book (FRTB). The assessors noted that FI relies on the second line of defense to monitor banks' internal trading limits, which in the absence of close monitoring could lead to material breaches other than prudential VaR breaches not being reported as fast as it should. FI assesses relevant documentation as part of the SREP, with the purpose of evaluating the quality of processes and the documentation (and the alignment between the two), including the use and implementation of models and metrics. The SREP evaluation follows both a general and specific path. The general path uses an internal assessment method developed by FI out of the EBA SREP Guidelines. The aim of the general part is to harmonize assessments across banks and to track and follow general market risk trends among banks. FI's method also serves as a benchmark tool used by the market risk experts to compare SREP outcomes and evaluations. The specific path is dedicated to specificities of certain institutions, and thus to track latent risks, exposure to tail risk events and hidden vulnerabilities. However, to get a deeper understanding of latent risks and vulnerabilities, and to get sufficient insights into the efficiency of market risk management and control of tail risks, other specific measures and deeper analyzes are called for. As it is the case with other specific risks, these studies are not frequent. In the last five years, FI was only able to perform 6 onsite inspections.
Principle 23	**Interest rate risk in the banking book**. The supervisor determines that banks have adequate systems to identify, measure, evaluate, monitor, report and control or mitigate interest rate risk[126] in the banking book on a timely basis. These systems take into account the bank's risk appetite, risk profile and market and macroeconomic conditions.
Essential criteria	
EC1	Laws, regulations or the supervisor require banks to have an appropriate interest rate risk strategy and interest rate risk management framework that provides a comprehensive bank-wide view of interest rate risk. This includes policies and processes to identify, measure, evaluate, monitor, report and control or mitigate material sources of interest rate

[126] Wherever "interest rate risk" is used in this Principle the term refers to interest rate risk in the banking book. Interest rate risk in the trading book is covered under Principle 22.

	risk. The supervisor determines that the bank's strategy, policies and processes are consistent with the risk appetite, risk profile and systemic importance of the bank, take into account market and macroeconomic conditions, and are regularly reviewed and appropriately adjusted, where necessary, with the bank's changing risk profile and market developments.
Description and findings re EC1	FI's mandate to require P2R for IRRBB is prescribed in the sixth chapter of BFBA (SFS 2004:297). Sweden does not have, apart from the measuring and reporting requirements in FFFS 2007:04, any national banking law or supporting regulation that specifically addresses interest risk in the banking book. However, the EBA GL on interest rate risk in the banking book (EBA/GL/2018/02) is, as all EBA GLs, applicable in Sweden. However, the EBA Guidelines on the management of interest rate risk arising from non-trading activities (EBA/GL/2018/02) specify the systems to be implemented by institutions for the identification, evaluation and management of the interest rate risk arising from the non-trading book activities (i.e., IRRBB), governance, sudden and unexpected changes in the interest rate and general expectations for the identification and management of credit spread risk. FI's internal method of assessing IRRBB used in the SREP is based on the EBA IRRBB guideline. The method assesses quantitative and qualitative perspective of IRRBB; strategy and risk appetite; organizational framework; risk management framework and internal control framework. In quarterly risk review meetings, banks discuss interest rate related developments and model changes with FI. Internal audit logs and findings are other tools through which FI gets information of banks risk management and control. For the interest rate risk analysis, FI uses a standard report prescribed in FI's regulation on reporting interest rate risk in the banking book, IRRBB (FFFS 2007:4) and as a part of the QRR, requires banks to send in reports describing the bank's interest repricing situation on a detailed level. These reports are granular enough to provide input to the standardized EV stress-tests in EBA IRRBB Guidelines. In addition, since 2014, FI has had outstanding a public memorandum describing how FI as a conclusion of its SREP process will add a pillar-2 requirement directly proportional to interest rate risk in individual banks' banking books. These are based on an economic value stress test in the style of the Supervisory Outlier Test in the EBA IRRBB guidelines. The input to the stress test consists of a banking book comprehensive table of the interest rate repricing date and volumes for all contractual interest rate sensitive instruments.
EC2	The supervisor determines that a bank's strategy, policies and processes for the management of interest rate risk have been approved, and are regularly reviewed, by the bank's Board. The supervisor also determines that senior management ensures that the strategy, policies and processes are developed and implemented effectively.
Description and findings re EC2	As explained in EC 1, FI, based on general provisions in the laws and regulations, assesses banks' strategy, policies and processes for the management of interest rate risk.

	Governance is included in the EBA SREP GL and section 4.3 of the EBA IRRBB Guidelines. As mentioned in EC1, FI's internal method of assessing IRRBB used in the SREP is based on the EBA guidelines. FI reviews internal validation reports and the internal and external audit functions activity with regards to interest rate risk, and requests information of the internal audit as well as the audit log and planned audit activities. As in all specific risk, the method for FI to assess the SREP is high-level and FI lacks the resources to perform more intrusive supervision as explained in CPs 2 and 9. There has been no inspection aimed at IRRBB in the last five years. The lack of onsite inspections and the small amount of time spent in loco on categories 1 and 2 and the over-reliance on reports analysis is insufficient to comply with the provisions in this CP.
EC3	The supervisor determines that banks' policies and processes establish an appropriate and properly controlled interest rate risk environment, including: (a) comprehensive and appropriate interest rate risk measurement systems; (b) regular review, and independent (internal or external) validation, of any models used by the functions tasked with managing interest rate risk (including review of key model assumptions); (c) appropriate limits, approved by the banks' Boards and senior management, that reflect the banks' risk appetite, risk profile and capital strength, and are understood by, and regularly communicated to, relevant staff; (d) effective exception tracking and reporting processes which ensure prompt action at the appropriate level of the banks' senior management or Boards where necessary; and (e) effective information systems for accurate and timely identification, aggregation, monitoring and reporting of interest rate risk exposure to the banks' Boards and senior management.
Description and findings re EC3	The banking laws (SFS 2014:968), (SFS 2004:297), and (FFFS 2014:1) provide the high-level principles on which institutions have to establish a controlled interest rate risk environment. The details are prescribed in the EBA Guidelines (EBA/GL/2018/02) and in supporting regulations (FFFS 2007:04) regards IRRBB reporting. In SREP, FI verifies banks internal models for IRRBB and require banks to hold as Pillar 2 capital for it, since the P2R is based on banks' internal calculations given a standard shock. However, as mentioned in EC 2, the lack of onsite inspections and the small amount of time spent in loco on categories 1 and 2 and the over reliance on reports analysis is insufficient to comply with the provisions.
EC4	The supervisor requires banks to include appropriate scenarios into their stress testing programs to measure their vulnerability to loss under adverse interest rate movements.
Description and findings re EC4	According to FI's regulation on reporting interest rate risk in other operations (FFFS 2007:4), banks must calculate and report to FI what effect an interest rate interest rate

	shock would have on its economic value. The interest rate shock must correspond to a sudden and sustained parallel shift of 200 basis points applied to the return curves. The FI pillar-2 calculation model is based the EBA guideline on the management of interest rate risk arising from non-trading book activities (EBA/GL/2018/02). The guideline presents six scenarios as the supervisory outlier test on which the pillar 2 calculation model is based.
Additional criteria	
AC1	The supervisor obtains from banks the results of their internal interest rate risk measurement systems, expressed in terms of the threat to economic value, including using a standardized interest rate shock on the banking book.
Description and findings re AC1	According to FI's regulation on reporting interest rate risk in other operations (FFFS 2007:4), banks must calculate and report to FI what effect a sudden change in the general interest rate situation (interest rate shock) will have on its economic value. The interest rate shock must correspond to a sudden and sustained parallel shift with 200 interest points applied to the return curves to which current positions are linked at the time of reporting. If such an interest rate shock results in the company's economic value falling by more than 20% in relation to its capital base, the company must also submit a report to FI on what measures are required to reduce such a potential decline.
AC2	The supervisor assesses whether the internal capital measurement systems of banks adequately capture interest rate risk in the banking book.
Description and findings re AC2	During the SREP process FI assesses the adequacy of bank's internal IRRBB capital with support from banking rules (SFS 2014:968), (SFS 2004:297), (FFFS 2014:1) and regulations and EBA-guidelines (EBA/GL/2018/02). Specifically, FI uses its own Pillar 2 methodology and measure for IRRBB pillar-2 capital to aid the process. The pillar 2 capital requirement for IRRBB is determined in accordance with FI's methodology.
Assessment of Principle 23	Largely Compliant
Comments	FI's mandate to require P2R for IRRBB is prescribed in the sixth chapter of BFBA (SFS 2004:297). Sweden has not implemented any banking law or supporting regulation that specifically addresses interest risk in the banking book. However, the EBA Guidelines on the management of interest rate risk arising from non-trading activities (EBA/GL/2018/02) specify: (i) the systems to be implemented by institutions for the identification, evaluation and management of the interest rate risk arising from the non-trading book activities (i.e., IRRBB); (ii) internal governance arrangements in relation to management of IRRBB; (iii) sudden and unexpected changes in the interest rate for the purpose of supervisory review and evaluation, and (iv) general expectations for the identification and management of credit spread risk in the non-trading book. FI's internal method of assessing IRRBB used in the SREP is based on the EBA guidelines on management of IRRBB. The method assesses quantitative and qualitative perspective

	of IRRBB; strategy and risk appetite; organizational framework; risk management framework and internal control framework. In quarterly risk review meetings, banks discuss interest rate related developments and model changes with FI. Internal audit logs and findings are other tools through which FI gets information on banks' risk management and control. For the interest rate risk analysis, FI uses a standard report prescribed in FI's regulation on reporting interest rate risk in other operations (FFFS 2007:4) and as a part of the QRR, requires banks to send in reports describing the bank's interest repricing situation on a detailed level. These reports are granular enough to provide input to the standardized EV stress-tests in EBA IRRBB Guidelines. In addition, since 2014, FI has had outstanding a public memorandum describing how FI as a conclusion of its SREP process will add a pillar-2 requirement directly proportional to interest rate risk in individual banks' banking books. These are based on an economic value stress test in the style of the Supervisory Outlier Test in the EBA IRRBB guidelines. The input to the stress test consists of a banking book comprehensive table of the interest rate repricing date and volumes for all contractual interest rate sensitive instruments. As in all specific risk, the method for FI to assess the SREP is high-level and FI lacks the resources to perform more intrusive supervision as explained in CPs 2 and 9. There has been no inspection aimed at IRRBB in the last five years besides the 2017-2018 inspection covering Credit Spread Risk in the Banking Book (CSRBB) in the 8 banks outside of category 1. The lack of onsite inspections and the small amount of time spent in loco on categories 1 and 2 and the over reliance on reports analysis is insufficient to fully comply with the provisions in this CP. In particular, recent changes in interest rate in Sweden should motivate a deeper analysis from FI.
Principle 24	**Liquidity risk**. The supervisor sets prudent and appropriate liquidity requirements (which can include either quantitative or qualitative requirements or both) for banks that reflect the liquidity needs of the bank. The supervisor determines that banks have a strategy that enables prudent management of liquidity risk and compliance with liquidity requirements. The strategy takes into account the bank's risk profile as well as market and macroeconomic conditions and includes prudent policies and processes, consistent with the bank's risk appetite, to identify, measure, evaluate, monitor, report and control or mitigate liquidity risk over an appropriate set of time horizons. At least for internationally active banks, liquidity requirements are not lower than the applicable Basel standards.
Essential criteria	
EC1	Laws, regulations or the supervisor require banks to consistently observe prescribed liquidity requirements including thresholds by reference to which a bank is subject to supervisory action. At least for internationally active banks, the prescribed requirements are not lower than, and the supervisor uses a range of liquidity monitoring tools no less extensive than, those prescribed in the applicable Basel standards.
Description and findings re EC1	Both Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) have been implemented as binding liquidity requirements in Sweden.

	Liquidity Coverage Ratio (LCR) On January 1, 2013, FI's regulations regarding requirements for liquidity coverage ratios and reporting of liquid assets and cash flows (FFFS 2012:6) went into effect. The Swedish LCR was based on the Basel Committee's standard from 2010 since the liquidity requirement under the CRR has not yet been specified. The requirement was binding in all currencies combined as well as in EUR and in USD separately. In October 2015, LCR regulation went into effect in Europe by Article 412(1) of the CRR and supplemented by the commission Delegated Regulation (EU) 2015/61. At first, it entailed a LCR of 60 percent on banks; this level has since been gradually raised up to 100% from January 1, 2018, onwards, one year ahead of the internationally agreed schedule. The EU's LCR framework was subject to a RCAP review by the BCBS in 2017. The framework was found to be overall largely compliant with the Basel LCR standard, reflecting the fact that most but not all provisions of the Basel standard were incorporated in the EU LCR framework. The RCAP found one material deviation and four potentially material deviations. The material deviation, which is also considered material in Sweden, is related to the expansion of the HQLA definition, in which the EU Authorities include some instruments that are not listed in the Basel standard. In Level 1 HQLA, the EU Authorities recognize the eligibility of high-quality covered bonds with some criteria applied, in particular a high credit rating and minimum issue size. The treatment of certain inflows is also less stringent than under Basel, while the opposite is true for some outflows. The four potentially material deviations are related to HQLA Level 2B: EU covered bonds and asset backed securities, definition of operational deposits, treatment of operational deposits and LCR disclosure. These are not considered to be material in Sweden, unless for the disclosure. The BCBS disclosure standards is based on daily observations when calculating average LCR values, while in Sweden it is based on the simple average of month-end observations over the 12 months preceding the end of each quarter. In addition, in a few cases, FI applies a liquidity waiver to solo entities that form part of a liquidity subgroup in accordance with EU CRR article 8. FI has restricted the percentage of covered bonds issued by Swedish issuers that may be included in the liquidity reserve. A maximum of 50 percent of the total liquidity reserve may consist of covered bonds issued by Swedish issuers when calculating the LCR, however, the overall limit of 70 percent for other issuers in the EU-regulation is still valid. This restriction applies to the consolidated situation in affected institutions. This restriction further specifies the operational requirement set out in Article 8(1) of the LCR regulation. The Pillar 1 requirement for the composition of the liquidity reserve in different asset categories in accordance with Article 17 of the LCR regulation is not affected by the restriction on Swedish issuers. The reason behind the restriction relates to the fact that the issuers' risk exposure of the covered bonds is heavily concentrated to Swedish mortgages, which can affect the bonds' market liquidity if the mortgage market were to suffer shocks.

	Net Stable Funding Ratio (NSFR) An EU regulation (CRR/CRDV) with a minimum Pillar 1 requirement of 100 percent in total currencies came into force in June 2021. Banks must meet the NSFR requirement on an ongoing basis and report on a quarterly basis.
EC2	The prescribed liquidity requirements reflect the liquidity risk profile of banks (including on- and off-balance sheet risks) in the context of the markets and macroeconomic conditions in which they operate.
Description and findings re EC2	Under the LCR, credit institutions are required to hold a minimum amount of high-quality liquid assets to cover net outflows calculated using a standardized regulatory stress scenario. It contains treatments for both on- as well as off-balance sheet items. The NSFR require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. NSFR covers a one-year horizon and measures available stable funding (ASF) in relation to required stable funding (RSF). The assumptions for these items are calibrated to reflect a certain degree of stress. In addition, according to FI's regulation regarding management of liquidity risks (FFFS 2010:7, Chapter 3 Section 3), a firm shall use several customized risk measures and key ratios to calculate its comprehensive liquidity risk. The firm shall apply a forward-looking view to its liquidity risk and assess the structure of the balance sheet, cash flows, liquidity positions and risks in off-balance sheet items. Risk measurements and key ratios shall identify vulnerabilities in day-to-day operations and during periods of stress. The measurement methods, where applicable, shall distinguish between liquidity risks in different currencies.
EC3	The supervisor determines that banks have a robust liquidity management framework that requires the banks to maintain sufficient liquidity to withstand a range of stress events, and includes appropriate policies and processes for managing liquidity risk that have been approved by the banks' Boards. The supervisor also determines that these policies and processes provide a comprehensive bank-wide view of liquidity risk and are consistent with the banks' risk profile and systemic importance.
Description and findings re EC3	FI's regulation regarding management of liquidity risks (FFFS 2010:7) requires undertakings to have a robust and comprehensive liquidity risk management framework. According to Chapter 3, Section 3, a firm shall use several customized risk measures and key ratios to calculate its comprehensive liquidity risk. Risk measurements and key ratios shall identify vulnerabilities in day-to-day operations and during periods of stress. The measurement methods, where applicable, shall distinguish between liquidity risks in different currencies. In Chapter 3, Section 7, it's stated that the firm shall regularly conduct stress tests that identify and measure the liquidity risk under different scenarios and ensure that the firm's current exposures to liquidity risk agree with the established risk tolerance. Furthermore, in Chapter 4, Section 7, firms shall set limits to control its exposure and sensitivity to liquidity risk in total and in different currencies. The limits shall be tested regularly and adjusted when circumstances or the board's risk tolerance change. Chapter 2, Section 2 states that a firm shall have strategies, guidelines and instructions for

	managing the firm's liquidity risk in accordance with risk tolerance decided by the board. Finally, Chapter 2, Sections 3 and 4 establish that the managing director shall review and report the firm's management of liquidity risks and its liquidity to the board on a regular basis and that the board shall both ensure that the firm's senior management manages liquidity risks in accordance with the firm's risk tolerance and, at least annually, review and approve strategies to manage liquidity risk. FI´s assessment of liquidity risk is based on SREP (quarterly review meeting, qualitative assessment, ILAAP assessment), liquidity monitoring (KRI indicators – dashboard), deep-dive inspections and regulatory stress tests. Under the SREP, FI has quarterly risk review meetings with the three major banks and semi-annually risk review meetings with the eight medium sized credit institutions with a predetermined agenda where for example limits and exposures including any limit breaches are discussed. The supervisory assessment of liquidity and funding risk management is a qualitative assessment, graded according to the EBA GL SREP, covering different areas such as: risk appetite; stress tests; liquidity risk strategy; funding risk strategy and limits. In addition, the ILAAP is assessed in terms of completeness, credibility, forwarding looking and forecast and include many of the abovementioned areas. FI also assesses the level of liquidity and funding risk through an analysis of various risk indicators that are intended to illustrate the level of risk. FI has defined 20 different key risk indicators including LCR and NSFR each of which are scored from between 1-4 on scale set out in the EBA's guideline. In ongoing supervision including within the SREP, FI monitors that credit institutions meet LCR and NSFR. In addition, FI has created in November 2021 an automated Liquidity Risk Dashboard which provides a dynamic and graphical view of various Liquidity Key Risk Indicators. The Dashboard is an analysis-tool and a complement to the key risk indicators included in SREP where trends, peer group comparison and Balance Sheet-related key figures can be observed. Key functionality shows trends in key risk metrics such as, structure of liquidity reserve, loan to deposit ratios, survival horizon, committed credit facilities and balance sheet structure. It also displays a traffic light system for the regulatory metrics such as LCR and NSFR including limit monitoring of those. The dashboard is used for all bank categories and business models. In the last five years there have been eight liquidity risk inspections. The focused on different aspects: LCR breach of limit, LCR calculation, funding structure (2002-2019 and 2019-2021), management and governance, intraday, and stress test. More specifically, in 2018, FI completed an onsite inspection of liquidity risk management and governance. The purpose of the inspection was to assess the banks' compliance with Chapters 2-4, selected parts from FI's regulations regarding management of liquidity risks

	in credit institutions and investment firms (FFFS 2010:7). Focus areas in the regulation were mainly: • Organizational requirements (risk tolerance, liquidity risk control document and independent audit); • Measurement of liquidity risks (various liquidity risk measures) and limit management; and • Contingency planning Information related to these areas is requested within the framework of SREP and quarterly reviews, but the survey intended to go deeper into these aspects and through relevant controls ensure that the regulations are an integral part of risk management also in practice. According to the EBA guideline, stress tests should be defined by Competent Authorities as an independent tool for assessing liquidity risks in the short, medium and long term to, among other things, identify and assess risks within and after 30 days, which are not sufficiently covered by established minimum requirements. Supervisors need to have their own opinion on liquidity risks as complementary information to the institutions internal stress tests on survival horizon. The maturity ladder template (ML template) is used to capture all maturity mismatches that can arise on a bank's balance sheet and is a standardized reporting template within the EU. The ML is automatically reported through the ALMM package and is a good platform for a transparent and comparable analysis of the bank's survival horizons; not only in Sweden but also on a European level. Based on the template, it is possible to create so-called survival horizons in order to assess how long a bank can survive on its liquidity reserve given different scenarios for in- and outflows from assets and liabilities in the balance sheet following stress assumptions. Since the maturity ladder is a standardized report, the following is possible: • transparent analysis of the banks' risks in the balance sheet; • comparability between different banks (peer analysis); and • continuity in the analysis of risks to capture trends where reporting occurs on a regular basis following an established schedule. Aligned with the guidelines, the FI has developed a stress test tool. FI is able to perform analyzes and stress tests of the banks' maturity mismatches.
EC4	The supervisor determines that banks' liquidity strategy, policies and processes establish an appropriate and properly controlled liquidity risk environment, including: (a) clear articulation of an overall liquidity risk appetite that is appropriate for the banks' business and their role in the financial system and that is approved by the banks' Boards; (b) sound day-to-day, and where appropriate intraday, liquidity risk management practices;

	(c) effective information systems to enable active identification, aggregation, monitoring and control of liquidity risk exposures and funding needs (including active management of collateral positions) bank-wide; (d) adequate oversight by the banks' Boards in ensuring that management effectively implements policies and processes for the management of liquidity risk in a manner consistent with the banks' liquidity risk appetite; and (e) regular review by the banks' Boards (at least annually) and appropriate adjustment of the banks' strategy, policies and processes for the management of liquidity risk in the light of the banks' changing risk profile and external developments in the markets and macroeconomic conditions in which they operate.
Description and findings re EC4	a) Chapter 2, Section 1 of FI's regulations regarding management of liquidity risks (FFFS 2010:7) require credit institutions to have a documented, and Board approved, risk tolerance that is based on an expressed quantitative and qualitative view of what constitutes appropriate liquidity risk in relation to the credit institution's operational objective, strategy and general risk preference. b) Chapter 4 Section 3 of the same regulation establishes that credit institutions shall manage its intraday liquidity positions and any associated risks to meet payment and settlement obligations in different currencies and in different payment systems. The firm shall be able to meet its obligations on a timely basis under both normal conditions and in the presence of market disruptions as well as identify and prioritize the most critical obligations. c) There is no specific requirement with respect to systems liquidity management. FI's regulation regarding governance, risk management and control (FFFS 2014:1, Chapter 2, Sections 6 and 7) states that an undertaking shall have IT systems and reporting procedures that ensure that information regarding its operations and risk exposure are current and relevant, and that external reporting is reliable, current, complete and timely. It also states that an undertaking shall have the capability to gather and automatically compile data regarding the undertaking's significant and measurable risks as soon as possible. The IT systems supporting such compilation shall be flexible and able to meet various analysis needs. Risk data shall be compilable at least in the event of crisis situations, stress tests and at the request of FI. d) Chapter 2 Section 2 of FFFS 2010:7 states that a firm shall have strategies as well as guidelines and instructions for managing the firm's liquidity risk in accordance with the risk tolerance decided by the board. Chapter 2 Sections 3 and 4 of the same regulation state that a firm's managing director shall review and report the firm's management of liquidity risks and its liquidity to the board on a regular basis and that the board shall ensure that the firm's senior management manages liquidity risks in accordance with the firm's risk tolerance. e) Chapter 2 Sections 4 and 5 of the same regulation states that the board, at least annually, shall review and approve strategies and guidelines related to the firm's

	management of liquidity risk and that the guidelines shall ensure that the firm monitors and meets future liquidity needs during both normal daily management and temporary and drawn-out crisis situations. As mentioned in ECs 1 and 3, liquidity strategies as well as polices and processes for management of liquidity risk are discussed in the quarterly risk reviews and SREP. In the SREP, FI assess liquidity risk according to its internal guidelines. The assessment is qualitative in nature but is also scored on the same scale as risk exposure where the assessment criteria correspond to a score on the scale provided by the EBA GL SREP. The assessors found evidence that liquidity risk appetite, day-to-day liquidity risk management, which includes intraday practices at least for the more significant banks, and board overseeing are assessed in the quarterly risk reviews and in the SREP. An inspection on the treatment of intraday liquidity and intraday liquidity management was also performed in 2015 for the largest banks in Sweden.
EC5	The supervisor requires banks to establish, and regularly review, funding strategies and policies and processes for the ongoing measurement and monitoring of funding requirements and the effective management of funding risk. The policies and processes include consideration of how other risks (e.g., credit, market, operational and reputation risk) may impact the bank's overall liquidity strategy, and include: (a) an analysis of funding requirements under alternative scenarios; (b) the maintenance of a cushion of high quality, unencumbered, liquid assets that can be used, without impediment, to obtain funding in times of stress; (c) diversification in the sources (including counterparties, instruments, currencies and markets) and tenor of funding, and regular review of concentration limits; (d) regular efforts to establish and maintain relationships with liability holders; and (e) regular assessment of the capacity to sell assets.
Description and findings re EC5	a) According to FI's regulations regarding management of liquidity risks (FFFS 2010:7, Chapter 4, Section 2), the firm shall identify the factors that have the largest impact on its ability to raise funds and closely follow these factors to ensure that the assessed funding opportunities still apply under various probable developments. b) Chapter 4, Section 5 of the same regulation states that a firm shall hold a separate reserve of high-quality liquid assets to secure the firm's short-term capacity to meet payment obligations in the event of lost or impaired access to regularly available funding sources. The assets in the liquidity reserve shall be unencumbered. The size of the liquidity reserve shall be such to enable the firm to withstand a serious liquidity shortfall without needing to alter its business model. c-d) Chapter 4, Section 2 of the same regulation states that a firm shall, in a long-term plan for future funding (funding strategy), strive to have sufficient diversification within its sources of funding in terms of, where applicable, the number and type of counterparties, the type of financial instruments, secured and unsecured borrowing, maturities, currencies

	and geographic markets. The firm shall also be present in its chosen funding markets and ensure that it has a strong relationship with funds providers to promote effective diversification of funding sources. e) Chapter 4, Section 5 of the same regulation establishes that the liquidity reserve shall consist of assets that enable the rapid creation of liquidity at foreseeable values. The liquidity reserve shall be composed of assets that are both liquid on private markets and eligible for refinancing by central banks. Deposits with central banks or any other bank that will be available the following day may be calculated as part of the liquidity reserve. The firm shall ensure that there are no obstacles to drawing on the reserve's assets for short-term financing. Liquidity strategies as well as polices and processes for management of liquidity risk are discussed in the quarterly risk reviews and SREP. In the SREP, FI assess that the banks fulfil the regulation above. The assessment is qualitative in nature but is also scored on the same scale as risk exposure where the assessment criteria correspond to a score on the scale provided by the EBA GL SREP. The assessors were able to verify in the SREP assessment that the principles in this EC with respect to (a), (b) and (c) are broadly covered. With respect to the assessment of the capacity to sell assets (e), in the SREP, FI verifies if the Bank's Liquidity Strategy includes a description of asset encumbrance, i.e., to ensure that the bank has adequate overview and control over assets that are available for sale. FI also assesses that the Bank's Liquidity Strategy includes a description on how the bank ensures that their liquid assets are under the control of a specific liquidity management function within the credit institution and is able to monetize the assets at any time during the 30 calendar days stress period. FI also assesses that the bank test the access to the market for those assets and their usability. Assessors were unable to properly verify in the documents provided that the SREP covers (d). Please see ECs 1 and 3 for more details.
EC6	The supervisor determines that banks have robust liquidity contingency funding plans to handle liquidity problems. The supervisor determines that the bank's contingency funding plan is formally articulated, adequately documented and sets out the bank's strategy for addressing liquidity shortfalls in a range of stress environments without placing reliance on lender of last resort support. The supervisor also determines that the bank's contingency funding plan establishes clear lines of responsibility, includes clear communication plans (including communication with the supervisor) and is regularly tested and updated to ensure it is operationally robust. The supervisor assesses whether, in the light of the bank's risk profile and systemic importance, the bank's contingency funding plan is feasible and requires the bank to address any deficiencies.
Description and findings re EC6	According to FI's regulations regarding management of liquidity risks (FFFS 2010:7, Chapter 4, Section 9) a firm shall have a contingency funding plan for managing liquidity crises. The contingency plan shall clearly define the distribution of responsibility for all affected personnel and contain instructions for how the firm shall address liquidity shortfalls. The plan shall specify appropriate measures for handling the consequences of

	different types of crisis situations and contain definitions of events that trigger and escalate the contingency plan. The contingency plan shall be tested and updated on a regular basis based on the results from the stress tests. Furthermore, according to article 414 of the CRR, on compliance with liquidity requirements, states that an institution that does not meet, or does not expect to meet, the LCR or NSFR, including during times of stress, shall immediately notify the competent authorities thereof and shall submit to the competent authorities without undue delay a plan for the timely restoration of compliance with LCR and NSFR, as appropriate. In September 2015 FI implemented EBA guidelines on harmonized definitions and templates for funding plans of credit institutions (EBA/GL/2014/04). The funding plan template is reported once a year and includes liquidity forecasts for the next three years. The aim of the funding plan reporting is three-fold; • Intensify the assessments of the funding and liquidity risks incurred by credit institutions, as well as their funding risk management, within the broader balance sheet structure. • Monitor credit institutions' plans to reduce reliance on public sector funding sources and to assess the viability of such plans for each national banking system. • Assess the impact of credit institutions' funding plans on the flow of credit to the real economy. FI uses the information in funding plan template when discussing reported data at risk reviews and challenging the institutions own internal liquidity adequacy assessment process (ILAAP), sent on a yearly basis by categories 1 and 2 banks, as part of the SREP. FI has also performed one inspection that covered the review and analysis of the three Swedish major banks' funding structure including a risk assessment between 2002-2019. FI is currently performing the same inspection for the period of 2019-2021.
EC7	The supervisor requires banks to include a variety of short-term and protracted bank-specific and market-wide liquidity stress scenarios (individually and in combination), using conservative and regularly reviewed assumptions, into their stress testing programs for risk management purposes. The supervisor determines that the results of the stress tests are used by the bank to adjust its liquidity risk management strategies, policies and positions and to develop effective contingency funding plans.
Description and findings re EC7	FI's regulations regarding management of liquidity risks (FFFS 2010:7) establishes requirements for banks' stress tests in Sections 7-9 of Chapter 3. According to the provisions, a firm shall be well prepared to manage liquidity under abnormal conditions. The firm shall therefore regularly conduct stress tests that identify and measure the liquidity risk under different scenarios and ensure that the firm's current exposures to liquidity risk agree with the established risk tolerance. The firm shall design appropriate scenarios based on its current risk profile. These scenarios shall be based on varying degrees of stress and duration and take into consideration both firm-specific and

	market-related problems. The problems should be tested both individually and in combination. The stress tests shall take into consideration intraday liquidity and the need for liquidity for time-critical payments and be based on its own and its customers' risk exposure and the focus and complexity of its business. The primary components of the stress test shall be the assumption that the firm no longer has access to unsecured market financing and the assumption that the general public will make large deposit withdrawals. Market-wide stress tests shall be based on assumptions of rapidly falling market values for some assets and a general deterioration in the conditions for market funding. In addition, the firm shall regularly review the assumptions that form the basis for the applied stress test scenarios to ensure they are still relevant. A firm shall use the stress test results to adjust its strategies, guidelines and positions and the results should agree with the firm's risk tolerance. FI has regular discussions with institutions about the refinancing risk in various foreign currency funding markets. FI discusses the banks' internal stress tests, assumptions and result at quarterly and semi-annual risk meeting with the banks. FI also requests the credit institutions liquidity stress testing framework and methodology in connection with the yearly SREP information request. Furthermore, FI determines that the results of the stress tests are used by the bank when FI performs a review of the ILAAP. In the ILAAP review FI assesses that the credit institution has included a description of quantitative and qualitative analysis of the outcomes of stress testing result and impact on the funding profile. The bank should also include a description of stress testing and its integration into the risk management and control framework. The assessor also found evidence that stress tests are taken into account to develop effective contingency funding plans. In addition, FI is currently compiling an internal analyze report on how the major Swedish banks' internal liquidity stress tests are structured with a clear focus on methodology, its hypothetical scenarios and assumptions. Significant differences in how banks calculate their stress tests, and their quantitative outcomes will also be analyzed. Furthermore, the banks' methods, assumptions and quantitative outcomes will be compared with FI's own liquidity stress, based on the stress test tool that FI has developed, and which is based on reported COREP data. The analyze report is ongoing and is expected to be finalized during the second quarter of 2022. These deep-dive analysis allow FI to have a better understanding of the subject compared to the analysis performed yearly during the SREP.
EC8	The supervisor identifies those banks carrying out significant foreign currency liquidity transformation. Where a bank's foreign currency business is significant, or the bank has significant exposure in a given currency, the supervisor requires the bank to undertake separate analysis of its strategy and monitor its liquidity needs separately for each such significant currency. This includes the use of stress testing to determine the appropriateness of mismatches in that currency and, where appropriate, the setting and regular review of limits on the size of its cash flow mismatches for foreign currencies in

	aggregate and for each significant currency individually. In such cases, the supervisor also monitors the bank's liquidity needs in each significant currency, and evaluates the bank's ability to transfer liquidity from one currency to another across jurisdictions and legal entities.
Description and findings re EC8	Article 415(2) of the CRR requires an institution to report LCRs separately in the significant currencies, i.e., in which it has more than five percent of its total liability, or if it has a significant branch in a Member State using a different currency. EU regulation also requires institutions to also calculate and monitor the LCR requirement in these currencies. While a foreign currency LCR is calculated and reported, it is not subject to a requirement under Pilar 1. According to the Basel standards, while the LCR is expected to be met and reported in a single currency, banks are expected to be able to meet their liquidity needs in each currency and maintain HQLA consistent with the distribution of their liquidity needs by currency. But there is no explicit quantitative requirement by currency. As a part of Pillar 2 requirements, FI requires institutions in Supervision Categories 1 and 2, i.e., the largest institutions that account for approximately 75 percent of the systems' total assets, to meet an LCR ratio in both EUR and USD respectively that is at least 100 percent if the currency is significant to the institution in question. FI also applies a Pillar 2 requirement to all other individual significant currency, including SEK. The LCR ratio for each of these other currencies (excluding EUR and USD) needs to be at least 75 percent. In addition, FI has introduced an additional diversification requirement on the liquidity reserve's composition. A quantitative requirement lower than 100 percent in a single currency imply that inflows in this currency for example EUR and USD may be used to cover outflows in other currencies such as SEK. This creates a dependence on a well-functioning currency swap market and individual institutions having access to this market. The Riksbank has pointed out in the consultation memorandum[127] that, since it is not possible to count on these conditions always being fulfilled during a crisis, the requirement should not be set at a level that is lower in SEK than it is in EUR and USD. As explained in ECs 1,3 and 7, FI continuously monitors that the banks are following the EU's minimum requirement on liquidity risks, according to the EBA's guidelines, and FI also uses liquidity stress testing in the supervision. An ad-hoc analysis on major banks funding structure was performed in 2020. The purpose of the analysis was to specifically map historical trends in those Swedish major banks' balance sheets, with a focus on the financing structure. The analysis focuses on identifying risks associated with the banks sources of funding and which could further materialize in a systemic crisis alternatively in a bank-specific crisis and to shed light on the banks over time market financing, various forms of deposits and currency distribution. The analysis

[127] https://www.fi.se/contentassets/3e190a45815a439dabed5db68f03ff6f/lcr-buffert-190704-1002eng.pdf

	report includes information of the historical development of the major banks' financing structure during the last 18-year period (2002-2019).[128]
Additional criteria	
AC1	The supervisor determines that banks' levels of encumbered balance-sheet assets are managed within acceptable limits to mitigate the risks posed by excessive levels of encumbrance in terms of the impact on the banks' cost of funding and the implications for the sustainability of their long-term liquidity position. The supervisor requires banks to commit to adequate disclosure and to set appropriate limits to mitigate identified risks.
Description and findings re AC1	FI's regulations regarding management of liquidity risks (FFFS 2010:7, Chapter 4, Section 4) requires firms to manage its collateral and monitor these for its subsidiaries with regard to jurisdiction and currency exposure. The firm shall distinguish between encumbered and unencumbered assets. However, there is no explicit recommendation for banks to set appropriate limits to mitigate risks posed by excessive levels of encumbrance. The level of encumbered assets is reported by credit institutions through FINREP on quarterly basis and discussed in the quarterly and semi-annually risk review meetings. The level of encumbered assets is evaluated as a key risk indicator in the SREP and monitored in the liquidity dashboard. The asset encumbrance reporting provides FI with the necessary information on the level of asset encumbrance in institutions and the aim of the asset encumbrance reporting is to: • compare the reliance on secured funding and the degree of structural subordination of unsecured creditors and depositors across institutions; • assess the ability of institutions to handle funding stress, by providing an assessment of the ability of switching to secured funding; and • assess incorporations into crisis management, as it allows for a broad assessment of the amounts of assets available in a resolution situation.
Assessment of Principle 24	Largely Compliant
Comments	Both Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) have been implemented as binding liquidity requirements in Sweden. In 2011, Sweden first implemented LCR based on the Basel Committee's standard from 2010 since the liquidity requirement under the CRR has not yet been specified. Once LCR and NSFR were implemented in CRR, Sweden started following the regulation. The EU's LCR framework was subject to a RCAP review by the BCBS in 2017. The framework was found to be overall largely compliant with the Basel LCR standard, reflecting the fact that most but not all provisions of the Basel standard were incorporated in the EU LCR framework. FI has restricted the percentage of covered bonds to Swedish

[128] https://www.fi.se/contentassets/0a5ff2b1b4094a1dafb919cbf96aa38d/fi-analys-31-storbankernas-finansieringsstruktur_sammanfattn_eng.pdf

	issuer to a maximum of 50 percent of the total liquidity reserve, however, the overall limit of 70% in the EU-regulation is still valid. The BCBS disclosure standards is based on daily observations when calculating average LCR values, while in Sweden it is based on the simple average of month-end observations over the 12 months preceding the end of each quarter. In addition, there is no explicit recommendation for banks to set appropriate limits to mitigate risks posed by excessive levels of encumbrance. As a Pillar 2 requirement, FI requires institutions in Supervision Categories 1 and 2 to meet an LCR ratio in both EUR and USD respectively that is at least 100 percent, if the currency is significant to the institution in question. FI also applies a Pillar 2 requirement to all other individual significant currency. The LCR ratio for each of these other currencies, including SEK, (excluding EUR and USD) needs to be at least 75 percent. In addition, FI has introduced an additional diversification requirement on the liquidity reserve's composition. The assessors support FI approach to include pillar 2 requirements on different currencies. A quantitative requirement lower than 100 percent in a single currency imply that inflows in this currency for example EUR and USD may be used to cover outflows in other currencies, such as SEK. This creates a dependence on a well-functioning currency swap market and individual institutions having access to this market. The Riksbank has pointed out in the consultation memorandum[129] that, since it is not possible to count on these conditions always being fulfilled during a crisis, the requirement should not be set at a level that is lower in SEK than it is in EUR and USD. In SREP, FI assesses the level of liquidity and funding risk through an assessment of various risk indicators that are intended to illustrate the level of risk. FI has defined 20 different key risk indicators including LCR and NSFR each of which are scored from between 1-4 on scale set out in the EBA's guideline. In ongoing supervision including within the SREP, FI monitors that credit institutions meet LCR and NSFR. Under SREP FI also assesses liquidity and funding risk management in a qualitative assessment under SREP covering ten different areas. In September 2015 FI implemented EBA guidelines on harmonized definitions and templates for funding plans of credit institutions (EBA/GL/2014/04). The funding plan template is reported once a year and includes liquidity forecasts for the next three years. FI uses the information in funding plan template when discussing reported data at risk reviews and challenging the institutions' ILAAP, sent on a yearly basis by categories 1 and 2 banks, as part of the SREP. In addition, FI is currently compiling an internal analyze report on how the major Swedish banks' internal liquidity stress tests are structured with a clear focus on methodology, its hypothetical scenarios and assumptions.

[129] https://www.fi.se/contentassets/3e190a45815a439dabed5db68f03ff6f/lcr-buffert-190704-1002eng.pdf

	In November 2021, FI made great progress in creating an automated Liquidity Risk Dashboard which provides a dynamic and graphical view of various Liquidity Key Risk Indicators. The Dashboard is an analysis-tool and complement the key risk indicators included in SREP where trends, peer group comparison and Balance Sheet-related key figures can be observed. Key functionality shows trends in key risk metrics such as, structure of liquidity reserve, loan to deposit ratios, survival horizon, committed credit facilities and balance sheet structure. It also displays a traffic light system for the regulatory metrics such as LCR and NSFR including limit monitoring of those. The dashboard is used for all bank categories and business models.
Principle 25	**Operational risk**. The supervisor determines that banks have an adequate operational risk management framework that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk[130] on a timely basis.
Essential criteria	
EC1	Law, regulations or the supervisor require banks to have appropriate operational risk management strategies, policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk. The supervisor determines that the bank's strategy, policies and processes are consistent with the bank's risk profile, systemic importance, risk appetite and capital strength, take into account market and macroeconomic conditions, and address all major aspects of operational risk prevalent in the businesses of the bank on a bank-wide basis (including periods when operational risk could increase).
Description and findings re EC1	FI's regulation regarding the management of operational risks (FFFS 2014:4) require banks to have appropriate operational risk management strategies, policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk. Chapter 2 Sections 1 and 2 mandates an undertaking to have internal rules for the management of operational risks specifying: 1. its main operational risks; 2. the methods and processes used to identify, measure and manage operational risks and the procedures for managing the risk; 3. the risk appetite and limits related to operational risks; 4. the procedures for determining and monitoring risk appetite and limits; and 5. principles for operational risk transfer.

[130] The Committee has defined operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk.

	EBA SREP GL provides the basis for supervisory assessment of operational risk. The guidelines are reflected in high level provisions in the internal method for assessing operation risk under the SREP. FI requests specific operational risk information yearly within the SREP framework, receives and analyzes the operational risk report from the banks 2 (category 2) – 4 (category 1) times per year, prepare and perform specific risk focus discussions in regular meetings and include governance and control of operational risk in onsite inspections. Depending on the risk assessment, the meetings might focus on different aspects, for instance: outsourcing, implementation of new EBA guidelines and AML directives, critical ICT third party providers, business continuity management, etc. Based on trends gathered from the supervision process and from the operational risk KRIs, banks considered to have higher operational risks are prioritized for an onsite inspection. The assessors were able to verify FI´s evaluation of operational risk in the SREP assessment, which considers internal and external fraud including ICT security risk; employment practices and workplace safety; clients, products and business practices; external events including damage to physical assets; business disruption and system failure; execution delivery and process management including ICT change and ICT outsourcing and overall operational risk management framework. In addition, in the last 3 years, there has been 12 inspections which allow for more deep-dive investigations. Some of these investigations led to the publication of the following supervisory reports: 1) FI Supervision report 18: Continuity management at banks[131]; and 2) FI Supervision report 9: Information and Cyber Security work in banks.[132] The first report shows that many banks are working actively with continuity management and have implemented key measures to reduce the risk of serious disruptions. FI recommend improvements in their continuity management as follows: • Strengthen the internal governance and control of continuity management, including the continuity management strategy, risk appetite for operational risk and independent control functions. • Further develop the methods of impact analysis to ensure that all critical functions, including those dependent on one another and on support functions, are identified. • Clarify content and structure of contingency plans, continuity plans and recovery plans.

[131] https://www.fi.se/contentassets/e2f9ed5f9f3b421ea725460a922c1794/fi-tillsyn-18-bankernas-kontinuitetshantering_eng.pdf

[132] https://www.fi.se/contentassets/84144fb815c44be88f2bc1773e55a559/fi-tillsyn-9-banker-info-cybersakerhet-eng.pdf

	• Ensure that appropriate continuity tests are conducted for all significant processes and the IT systems that support these processes. • Improve reporting of results from completed continuity tests to provide management and boards with relevant and meaningful information. The second report explains that several banks are increasing their focus on information and cyber security, but many have not yet fully adapted their work to the changes in the environment introduced by higher level of digitalization and an increase in cyber threats. FI has also noted a number of areas where the banks can improve, summarized in the following general recommendations to the management of the banks: • Ensure that the information security management system – organization, security enhancing processes, procedures and controls – that has been adopted, is also implemented in the daily operation and throughout all business units of the bank. • Establish an ability to analyze and assess current cyber threat, and which actors that are behind these threats, enabling to adapt the risk management continuously. Improved and • expanded collaboration and information sharing between the banks, and between banks and other stakeholders, will strengthen this ability. • • Prioritize training of staff to raise the level of awareness regarding information and cyber security.
EC2	The supervisor requires banks' strategies, policies and processes for the management of operational risk (including the banks' risk appetite for operational risk) to be approved and regularly reviewed by the banks' Boards. The supervisor also requires that the Board oversees management in ensuring that these policies and processes are implemented effectively.
Description and findings re EC2	FI's regulation regarding the management of operational risks (FFFS 2014:4, Chapter 2, Sections 1 and 2) establishes that the board of directors shall decide on and regularly evaluate and, if necessary, update the internal rules on the management of operational risk and the risk appetite for operational risks. In addition, it states that the managing director shall decide on and regularly evaluate and update the limits for operational risks, if needed.
EC3	The supervisor determines that the approved strategy and significant policies and processes for the management of operational risk are implemented effectively by management and fully integrated into the bank's overall risk management process.
Description and findings re EC3	During operational risk onsite inspections governance is part of the review. In performed onsite inspections, governance and control as well as sample test of a few business processes and underlying systems are performed to evaluate that the strategy, policies and processes for management of operational risk are implemented effectively by management and fully integrated into the bank's overall risk management process. Banks' staff (not only senior management) participate in FI's meetings, so that FI can assess integration of operational risk management process.

	In addition, FI supervision review compliance and internal audit reports to ascertain that the management has implemented strategies, policies and processes and periodically reports to the board. Please refer to EC 1 for additional details.
EC4	The supervisor reviews the quality and comprehensiveness of the bank's disaster recovery and business continuity plans to assess their feasibility in scenarios of severe business disruption which might plausibly affect the bank. In so doing, the supervisor determines that the bank is able to operate as a going concern and minimize losses, including those that may arise from disturbances to payment and settlement systems, in the event of severe business disruption.
Description and findings re EC4	The requirement for banks to maintain and contingency, business continuity and recovery plans is set out in FI's Regulations regarding the management of operational risks (FFFS 2014:4). During 2018-2019, FI performed onsite business continuity management inspections on four banks. In June 2020, FI published a supervisory report (FI Supervision 18 Continuity management at banks) based on observations in inspections and experiences from the supervision activity that addresses the quality and comprehensiveness of the bank's disaster recovery and business continuity plans. During 2020 FI requested Covid-19 status updates regularly from banks under supervision, where the focus from the operational risk department was on business contingency plans. Institutions have updated their business contingency plans on a continuous basis where needed.
EC5	The supervisor determines that banks have established appropriate information technology policies and processes to identify, assess, monitor and manage technology risks. The supervisor also determines that banks have appropriate and sound information technology infrastructure to meet their current and projected business requirements (under normal circumstances and in periods of stress), which ensures data and system integrity, security and availability and supports integrated and comprehensive risk management.
Description and findings re EC5	FI's Regulations and regarding the management of operational risks (FFFS 2014:4, Chapter 3, Sections 1 and 4) establishes that an undertaking shall identify operational risks in its products, services, functions, processes and IT systems. Provisions on how an undertaking is supposed to manage IT systems are provided in Chapter 3 of FI's regulation regarding information security, IT operations and deposit systems (FFFS 2014:5). The EBA Guidelines on it-, information- and cyber (ICT) and security risk management provides the basis for supervisory assessment of ICT risk. The guidelines are reflected in high level principle-based provisions in the internal method for assessing operation risk under the SREP. EBA guidelines in ICT is based on two elements of the RAS: (a) risk level: operational risk (identification of material operational risk sub-categories, ICT-risk, and (b) risk control: as part of risk management and controls. During the SREP and ICT risk onsite inspections, governance is part of the inspection. Governance and control of ICT risk as well as sample test of a few business processes and

	underlying business application and infrastructure systems are assessed to evaluate that the strategy, policies and processes for management of operational- including ICT risk are implemented effectively by management and fully integrated into the bank's overall risk management process. Please refer to EC 1 for additional details.
EC6	The supervisor determines that banks have appropriate and effective information systems to: (a) monitor operational risk; (b) compile and analyze operational risk data; and (c) facilitate appropriate reporting mechanisms at the banks' Boards, senior management and business line levels that support proactive management of operational risk.
Description and findings re EC6	The requirements for institutions to manage operational risk are set out in FI's regulations regarding the management of operational risks (FFFS 2014:4). Chapter 4 establish requirements when reporting operational risks to the board of directors and managing director. In particular, the reports should include indicators for operational risks, breaches of risk appetite and risk limits and serious incidents. In addition, the undertaking shall also report the results from tests of the contingency, continuity and recovery plans to the board of directors at least once a year. As explained in EC 1, FI requests specific operational risk information yearly within the SREP framework, prepare and perform specific risk focus discussions in regular meetings and include governance and control of operational risk in onsite inspections. Based on the close analysis of the regular operational risk reports from the banks, FI can follow and challenge the management of operational risks and the reporting mechanisms at the banks top management as sell as the sound functions of the 1st, 2nd and 3rd line of defense. FI determines that banks have appropriate management system to manage the operational and ICT risks, but not requiring any specific information systems for the purpose. The assessors found evidence that FI does not perform detailed assessments on the systems, unless a specific need is identified.
EC7	The supervisor requires that banks have appropriate reporting mechanisms to keep the supervisor apprised of developments affecting operational risk at banks in their jurisdictions.
Description and findings re EC7	Based on BFBA (SFS 2004:297, Chapter 13, Section 3) FI asks that category 1 banks (quarterly) and category 2 banks (semi-annually) report the status and internal assessments of operational risks, incidents, losses and risk indicators. The requirements for institutions to report significant incidents to FI are set out in FI's general guidelines regarding reporting of events of material significance (FFFS 2021:2) and for payment institutions in regulation regarding activities of payment service providers (FFFS 2018:4). The significant incidents that are reported are sent to a dedicated mailbox managed by the operational risk group.

	Appropriate reporting mechanisms for operational risk are also set out in RTS on supervisory reporting (EU Regulation 680/2014) requiring regular reporting to the supervisor regarding own funds requirements for operational risk (quarterly) and operational risk losses by business lines and event types (semi-annually).
EC8	The supervisor determines that banks have established appropriate policies and processes to assess, manage and monitor outsourced activities. The outsourcing risk management program covers: (a) conducting appropriate due diligence for selecting potential service providers; (b) structuring the outsourcing arrangement; (c) managing and monitoring the risks associated with the outsourcing arrangement; (d) ensuring an effective control environment; and (e) establishing viable contingency planning. Outsourcing policies and processes require the bank to have comprehensive contracts and/or service level agreements with a clear allocation of responsibilities between the outsourcing provider and the bank.
Description and findings re EC8	The requirements for institutions to manage and monitor outsourced activities are set out in FI's regulations regarding governance, risk management and control (FFFS 2014:1). a-c) Chapter 10 Section 5 paragraphs 1-11 establishes that an undertaking shall exercise due skill, care and diligence when entering into, managing and terminating outsourcing agreements relating to work or functions of material significance to the operations. d) Chapter 10 Section 3 establishes that an undertaking shall ensure that it has staff with sufficient knowledge and experience to ensure that the undertaking has control of the outsourced operations. e) Chapter 10 Section 5 paragraphs 8 and 11 state that the continuity and quality of the services offered by the undertaking to its customers are not affected by the termination of the outsourcing agreement. FI's regulations regarding governance, risk management and control (FFFS 2014:1, Chapter 10, Section 2) require institutions to notify FI in advance when intending to outsource functions of material significance to the operations. However, there might be a lack of clarity in terms of the definition of significant agreements/outsourcing, and currently there is no regulation that requires undertakings to inform changes or terminations to FI. FI was able to show the assessors that outsourcing and third-party risks have been a focus area for FI during the last five years. A number of supervisory activities has been performed to address these risks (a-e). There is a yearly review of the required update of the financial institutions governing documents and policies within the SREP, which include governing documents related to outsourcing and third-party risk. In addition, FI follows contracts and SLA agreements by looking at compliance and audit reports and ask for information on the major contracts in meetings held with institutions.

Additional criteria	
AC1	The supervisor regularly identifies any common points of exposure to operational risk or potential vulnerability (e.g., outsourcing of key operations by many banks to a common service provider or disruption to outsourcing providers of payment and settlement activities).
Description and findings re AC1	Due to the lack of a database to collect information of outsourcing providers, FI is unable to identify common points of exposure to operational risk or to potential vulnerabilities. The new regulation Digital Operational Resilience Act from the EU (DORA) might be able address this issue. However, it is not possible to assert as the draft is still incipient and it has been delayed (estimated to enter into force in 2025).
Assessment of Principle 25	Largely Compliant
Comments	FI requests specific operational risk information yearly within the SREP framework, receives and analyzes the operational risk report from the banks semiannually for category 2 banks and quarterly for category 1 banks, prepare and perform specific risk focus discussions in regular meetings and include governance and control of operational risk in onsite inspections. Depending on the risk assessment, the meetings might focus on different aspects, for instance: outsourcing, implementation of new EBA guidelines and AML directives, critical ICT third party providers, crisis management, etc. In addition, based on trends gathered from the supervision process and from the operational risk KRIs, banks considered to have higher operational risks are prioritized for an onsite inspection. There are some examples of supervisory reports, which help illustrate FI's deep-dive analysis of bank's operational risk management practices, that have been published: 1) FI Supervision report 18: Continuity management at banks; and 2) FI Supervision report 9: Information and Cyber Security work in banks. The first report shows that many banks are working actively with continuity management and have implemented key measures to reduce the risk of serious disruptions. The second report explains that several banks are increasing their focus on information and cyber security, but many have not yet fully adapted their work to the changes in the environment introduced by higher level of digitalization and an increase in cyber threats. Both reports include recommendations from FI. FI was able to show the assessors hat cyber risks, outsourcing and third-party risks have been a focus area for FI during the last five years, in addition to business continuity plans. According to the abovementioned report, banks should: • Ensure that the information security management system – organization, security enhancing processes, procedures and controls – that has been adopted, is also implemented in the daily operation and throughout all business units of the bank.

	• Establish an ability to analyze and assess current cyber threat, and which actors that are behind these threats, enabling to adapt the risk management continuously. • Improved and expanded collaboration and information sharing between the banks, and between banks and other stakeholders, will strengthen this ability. • Prioritize training of staff to raise the level of awareness regarding information and cyber security. FI determines that banks have appropriate management systems to manage the operational and ICT risks, but it does not require any specific information systems for the purpose. The assessors found evidence that FI does not perform detailed assessments on the systems, unless a specific need is identified. FI's regulations require institutions to notify FI in advance when intending to outsource functions of material significance to their operations. However, there might be a lack of clarity in terms of the definition of significant agreements/outsourcing, and currently there is no regulation that requires undertakings to inform FI of changes or terminations of contracts. Due to the lack of a database to collect information of outsourcing providers, FI is unable to identify common points of exposure to operational risk or to potential vulnerabilities.
Principle 26	**Internal control and audit**. The supervisor determines that banks have adequate internal control frameworks to establish and maintain a properly controlled operating environment for the conduct of their business taking into account their risk profile. These include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding the bank's assets; and appropriate independent[133] internal audit and compliance functions to test adherence to these controls as well as applicable laws and regulations.
Essential criteria	
EC1	Laws, regulations or the supervisor require banks to have internal control frameworks that are adequate to establish a properly controlled operating environment for the conduct of their business, taking into account their risk profile. These controls are the responsibility of the bank's Board and/or senior management and deal with organizational structure, accounting policies and processes, checks and balances, and the safeguarding of assets and investments (including measures for the prevention and early detection and reporting of misuse such as fraud, embezzlement, unauthorized trading and computer intrusion). More specifically, these controls address: (a) organizational structure: definitions of duties and responsibilities, including clear delegation of authority (e.g., clear loan approval limits), decision-making policies

[133] In assessing independence, supervisors give due regard to the control systems designed to avoid conflicts of interest in the performance measurement of staff in the compliance, control and internal audit functions. For example, the remuneration of such staff should be determined independently of the business lines that they oversee.

	and processes, separation of critical functions (e.g., business origination, payments, reconciliation, risk management, accounting, audit, and compliance); (b) accounting policies and processes: reconciliation of accounts, control lists, information for management; (c) checks and balances (or "four eyes principle"): segregation of duties, cross-checking, dual control of assets, double signatures; and (d) safeguarding assets and investments: including physical control and computer access.
Description and findings re EC1	The BFBA (SFS 2004:297, Chapter 6, Section 2) establishes that an institution shall ensure that it possesses satisfactory internal controls. According to Section 4b of the same chapter, the board should ensure the fulfilment of the abovementioned requirement. FI's regulation regarding governance, risk management and control (FFFS 2014:1) details the control functions that banks must have in place. Chapter 2, Section 1(5) stipulate that an undertaking shall ensure that it has current and appropriate internal control mechanisms comprising control functions, IT systems and procedures to ensure compliance with decisions and procedures at all levels of the undertaking. Chapter 7, Section 3, establishes activities related to a properly controlled operating environment, that internal control must address. In particular, the risk control function is required to: 1. verify that all material current or potential risks are identified and managed and that each business unit monitors all of its material risks in an efficient manner; 2. monitor and control the risk management and identify its deficiencies; 3. control and analyze the undertaking's material risks and how they unfold, and identify new risks that may arise as a result of changed circumstances, and risks deriving from the degree of complexity of the undertaking's legal structure; 4. ensure that risk information is regularly submitted to the board and regularly, no less than once a quarter, risk management report its opinion both in writing and verbally to the board; 5. when the undertaking submits proposals or makes decisions that entail a potential substantial increase in its risks, assess whether they are consistent with the decided risk appetite of the undertaking; 6. provide all relevant information that may constitute a basis for decisions regarding amendments to risk strategy and risk and assess the proposed risk strategy and provide a recommendation before a decision is made; 7. verify that relevant internal rules, processes and procedures 8. are appropriate and efficient, and propose amendments thereto if needed;

	9. identify, verify and report risks of errors in the undertaking's assumptions and opinions that form the basis of the financial reporting of the undertaking; and 10. prior to the undertaking deciding on new, or materially altered, products, services, markets, procedures and IT systems, and in substantial changes to the operations and organization of the undertaking, evaluate the risks therein and evaluate how they could perceivably affect the overall risk of the undertaking. Chapter 1, Section 10 establishes that an undertaking shall ensure that it has procedures for distinguishing between duties and preventing conflicts of interest. The undertaking shall also ensure that no person single-handedly processes a transaction throughout the entire processing chain.
EC2	The supervisor determines that there is an appropriate balance in the skills and resources of the back office, control functions and operational management relative to the business origination units. The supervisor also determines that the staff of the back office and control functions have sufficient expertise and authority within the organization (and, where appropriate, in the case of control functions, sufficient access to the bank's Board) to be an effective check and balance to the business origination units.
Description and findings re EC2	FI's Regulations and General Guidelines regarding governance, risk management and control at credit institutions (FFFS 2014:1) Chapter 6 Section 3 stipulates that a control function (defined as a function for risk management, compliance or internal audit) shall have the resources required and access to the information needed to discharge its tasks. Such a function shall have staff with the required knowledge and powers for discharging their duties. The control functions are assessed within the SREP process. In the SREP process, the supervised entity is required to send in an organizational scheme, which FI uses to assess whether reporting lines and staff volumes can be deemed appropriate. Risk control, compliance and internal audit functions are assessed by supervisors in the context of the "Framework for internal control, including independent control functions" in SREP. Those functions receive a single grade and are part of the final governance assessment. In FI´s ongoing supervision, regular meetings are held with the control functions of category 1 and 2 banks. The frequency varies between quarterly and semi-annually. In preparation thereto, supervisors study the internal reports from the control functions. In onsite investigations, FI may perform interviews with staff in different functions to assess whether they have sufficient expertise and authority and whether they have the appropriate tools to perform their duties, but due to the constraints mainly perform the assessment by analyzing banks internal documents. Supervisors do not engage with back-office personnel, nor assess their expertise or authority. The assessors found evidence that FI analyzed the control function and suggested improvements.

EC3	The supervisor determines that banks have an adequately staffed, permanent and independent compliance function[134] that assists senior management in effectively managing the compliance risks faced by the bank. The supervisor determines that staff within the compliance function are suitably trained, have relevant experience and have sufficient authority within the bank to perform their role effectively. The supervisor determines that the bank's Board exercises oversight of the management of the compliance function.
Description and findings re EC3	FI's regulations regarding governance, risk management and control at credit institutions (FFFS 2014:1) Chapter 8 Section 2 stipulates that the compliance function shall be directly subordinate to the managing director. Chapter 6 Section 1 states that the control functions (defined as risk control, compliance and internal audit) shall, in organizational terms, be separate from each other. However, small undertakings with less complex operations, may combine control and compliance. Chapter 8 Section 3 stipulates the responsibilities of the compliance function. Chapter 6 Section 3 stipulates that a control function shall have the resources required and access to the information needed to discharge its tasks. Such a function shall have staff with the required knowledge and powers for discharging their duties. As mentioned in EC 2, compliance function supervisory analysis is taken into account in the final governance assessment within the SREP. The assessors found evidence that FI analyzed the compliance function and suggested improvements, for instance with respect to the reporting to the board, resourcing, and granularity of assessment.
EC4	The supervisor determines that banks have an independent, permanent and effective internal audit function[135] charged with: (a) assessing whether existing policies, processes and internal controls (including risk management, compliance and corporate governance processes) are effective, appropriate and remain sufficient for the bank's business; and (b) ensuring that policies and processes are complied with.
Description and findings re EC4	FI's regulations regarding governance, risk management and control (FFFS 2014:1) Chapter 9 stipulates the tasks, reporting lines and required competencies of the internal audit function. Section 1 stipulates that the internal audit function shall be directly subordinate to the board of directors of the undertaking. Section 2 stipulates that the staff of the internal audit function may not participate in the work of other functions, in the operating activities or in the work on preparing and selecting risk models or other risk management tools. Section 5, item 2 stipulates that the internal audit function shall review

[134] The term "compliance function" does not necessarily denote an organizational unit. Compliance staff may reside in operating business units or local subsidiaries and report up to operating business line management or local management, provided such staff also have a reporting line through to the head of compliance who should be independent from business lines.

[135] The term "internal audit function" does not necessarily denote an organizational unit. Some countries allow small banks to implement a system of independent reviews, e.g., conducted by external experts, of key internal controls as an alternative.

	and regularly evaluate whether the undertaking's organization, governance processes, IT systems, models and procedures are appropriate and efficient. Section 5 detail the tasks of the internal audit function. As mentioned in EC 2, internal audit function supervisory analysis is taken into account in the final governance assessment within the SREP. In FI´s ongoing supervision, regular meetings are held with the control functions of category 1 and 2 banks. The frequency varies between quarterly and semi-annually.
EC5	The supervisor determines that the internal audit function: (a) has sufficient resources, and staff that are suitably trained and have relevant experience to understand and evaluate the business they are auditing; (b) has appropriate independence with reporting lines to the bank's Board or to an audit committee of the Board, and has status within the bank to ensure that senior management reacts to and acts upon its recommendations; (c) is kept informed in a timely manner of any material changes made to the bank's risk management strategy, policies or processes; (d) has full access to and communication with any member of staff as well as full access to records, files or data of the bank and its affiliates, whenever relevant to the performance of its duties; (e) employs a methodology that identifies the material risks run by the bank; (f) prepares an audit plan, which is reviewed regularly, based on its own risk assessment and allocates its resources accordingly; and (g) has the authority to assess any outsourced functions.
Description and findings re EC5	FI's regulations regarding governance, risk management and control (FFFS 2014:1) Chapter 6, Section 3 stipulates that a control function, which includes the internal audit function, shall have the resources required and access to the information needed to discharge its tasks. Such a function shall have staff with the required knowledge and powers for discharging their duties. Chapter 9 Section 1 states that the internal audit function shall be directly subordinate to the board of directors. Section 2 stipulates that the staff of the internal audit function may not participate in the work of other functions, in the operating activities or in the work on preparing and selecting risk models or other risk management tools. Section 3 states that the internal audit function shall comprise people knowledgeable about, *inter alia*, the undertaking's operations, procedures, IT systems, accounting and valuation of assets, and the risks to which the undertaking is exposed, the laws, statutes and other regulations applicable to the operations, and internal audit standards. Section 5 present the functions that should be performed by internal audit and stipulates that the internal audit function shall work according to a current and risk-based audit plan adopted by the board of directors. Chapter 10, Section 5 states that when entering into an outsourcing agreement, an undertaking shall i.a. ensure

	that auditors have access to information regarding the outsourced operations and access to the premises of the service provider. Supervisors analyze board meetings, verify if internal audit plans are frequently changed and if the assessments follow the plans. In quarterly meetings, supervisors criticize internal audit plans for largest banks, and eventually, suggest changes to the plans. Supervisors also compare internal audit with SREP findings and evaluate if the material findings are pointed out.
Assessment of Principle 26	Compliant
Comments	FI's regulation regarding governance, risk management and control (FFFS 2014:1) provide a comprehensive set of requirements and supervisory expectations for control functions, which comprise control, compliance and internal audit functions. More specifically, it provides details on what the control function should focus on, how governance and resources should be established to reinforce independence. The control functions are assessed within the SREP process. Risk control, compliance and internal audit functions are assessed by supervisors in the context of the "Framework for internal control, including independent control functions" in SREP. The framework explains how the control function should be analyzed and what documents should be part of the analysis. Those functions receive a single grade and are part of the final governance assessment within the SREP. In FI´s ongoing supervision, regular meetings are held with the control functions of category 1 and 2 banks. The frequency varies between quarterly and semi-annually. Assessors saw evidence of supervisory reviews on internal control frameworks, and subsequent supervisory actions to address identified weaknesses. Supervisors do not engage with back-office personnel, nor assess their expertise or authority. FI's engagement with all areas under the control functions is desired in particular because of FI's reliance on control functions in its own supervisory process.
Principle 27	**Financial reporting and external audit**. The supervisor determines that banks and banking groups maintain adequate and reliable records, prepare financial statements in accordance with accounting policies and practices that are widely accepted internationally and annually publish information that fairly reflects their financial condition and performance and bears an independent external auditor's opinion. The supervisor also determines that banks and parent companies of banking groups have adequate governance and oversight of the external audit function.
Essential criteria	
EC1	The supervisor[136] holds the bank's Board and management responsible for ensuring that financial statements are prepared in accordance with accounting policies and practices

[136] In this Essential Criterion, the supervisor is not necessarily limited to the banking supervisor. The responsibility for ensuring that financial statements are prepared in accordance with accounting policies and practices may also be vested with securities and market supervisors.

	that are widely accepted internationally and that these are supported by recordkeeping systems in order to produce adequate and reliable data.
Description and findings re EC1	Listed banking groups are required to apply International Financial Reporting Standards (IFRS) according to international financial reporting standards as adopted by the European Commission in accordance with Article 3 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards (IAS Regulation). IFRS 9 was fully implemented in Sweden in 2018. According to FI's regulations and general guideline regarding annual accounts for credit institutions and securities companies (FFFS 2008:25, Chapter 7, Section 2) non-listed banking groups are also required to apply the IAS Regulation in their consolidated financial statements. FFFS 2008:25 Chapter 2, Section 1, stipulates that banks shall in their annual financial statement apply IFRS approved by the EU if nothing else is required by law (e.g., the Annual Accounts Act for Credit Institutions and Securities Companies) or by FFFS 2008:25. There are differences between IFRS and Swedish local accounting standards, but the differences exist only in the financial statements of a solo legal entity (the consolidated financial statements for institutions are always prepared applying IFRS). For internationally active institutions the principles are the same. All subsidiaries and other operations, both Swedish and foreign, must report items according to IFRS to the parent, when preparing the consolidated financial statements. The main differences between IFRS and the Annual Accounts Act for Credit Institutions and Securities Companies and FI's regulations and general guideline regarding annual accounts for credit institutions and securities companies (FFFS 2008:25) are the following: 1) Intangible assets with indefinite useful lives (e.g., goodwill) are not amortized according to IFRS, instead they are tested for impairment. The Annual Accounts Act for Credit Institutions and Securities Companies (SFS 1995:1559) requires intangible assets (including goodwill) to be amortized in subsequent periods in the financial statements. 2) IFRS 9 requires changes in own credit risk on financial liabilities designated under the fair value option to be presented in other comprehensive income. According to the Annual Accounts Act for Credit Institutions and Securities Companies (SFS 1995:1559) these changes must be presented in the statement of profit or loss. This is an issue of presentation, the effect on total equity is the same. 3) Annual Accounts Act for Credit Institutions and Securities Companies (SFS 1995:1559) contains requirements of specific format for presentation of the balance sheet and profit or loss account. There are some additional differences due to tax reasons:

	1) Leases: an institution may elect not to apply IFRS 16 Leases and instead apply RFR 2 Accounting for Legal Entities. 2) Defined benefit plans: An institution may elect not to apply IAS 19 Employee Benefits on their defined benefit pension plans and instead apply RFR 2 Accounting for Legal Entities. 3) Development expenditures: An institution may elect not apply IAS 38 Intangible Assets regarding development expenditures in the development phase of an intangible asset, these expenditures must be capitalized in the statement of financial position according to IFRS. Instead, according to RFR 2 Accounting for Legal Entities, these expenditures may be recognized in the statement of profit or loss, due to tax purposes. The list above is not exhaustive, and there are more differences due to tax reasons, but the above are those which are more relevant to banks. The assessors found evidence that these differences are not significantly material. Under the Companies Act (SFS 2005:551, Chapter 8, Section 4) the board is responsible for the company's organization, management of its affairs and assessing its financial position on a regular basis. It is also responsible for ensuring that the company's organization is structured so that accounting, management of funds and the company's finances in general are monitored in a satisfactory manner. Therefore, it is the duty of the board to ensure that an institution's financial record-keeping systems and the data they produce are reliable.
EC2	The supervisor holds the bank's Board and management responsible for ensuring that the financial statements issued annually to the public bear an independent external auditor's opinion as a result of an audit conducted in accordance with internationally accepted auditing practices and standards.
Description and findings re EC2	A bank must have at least one auditor, elected by the shareholders according to the Companies Act (SFS 2005:551, Chapter 9, Section1) who should, after each financial year submit an audit's report to the shareholders' meeting. That report should be sent to the board no less than three weeks before the annual general meeting. Pursuant to the Auditing Act (SFS 1999:1079 Section 5) the auditor should examine the company's annual report and accounts as well as the management's administration. Similar requirements are found in the Companies Act (SFS 2005:551, Chapter 9). International auditing standards (ISA) are applied in audits of Swedish banks. These standards give more detailed instructions regarding the scope of the external audit. The external auditor's opinion is published together with the financial statements issued annually. The annual financial statement (which include disclosures in accordance with the requirement in the disclosure standards in IFRS) for a credit institution must be audited by an external chartered auditor according to Banking and Financing Business Act (SFS 2004:297, Chapter 10, Section 9).

	FI has the ultimate responsibility for the supervision regarding the disclosures in the listed banks financial statements according to the Securities Market Act (SFS 2007:528, Chapter 23, Section 1) and has the power to intervene against infringements. However, the day-to-day supervision has been delegated to the Council for Swedish Financial Reporting Supervision according to Chapter 6 section 3 and section 1 § paragraph 46 of the Regulation (2007:572) on securities markets. In their supervision, the Council should among other things, take into consideration the ESMA enforcement priorities. For non-listed companies, FI is responsible for the supervision regarding disclosures and performs it on a best-effort basis.
EC3	The supervisor determines that banks use valuation practices consistent with accounting standards widely accepted internationally. The supervisor also determines that the framework, structure and processes for fair value estimation are subject to independent verification and validation, and that banks document any significant differences between the valuations used for financial reporting purposes and for regulatory purposes.
Description and findings re EC3	The valuation practices are the same (see EC 1 for exceptions) as in IFRS in the financial statements for banks and compliant with IFRS in the consolidated financial accounts. The valuation rules in IFRS are consistent, realistic and neutral, consider current values where relevant and show profits net of appropriate provisions (i.e., see IASB Framework and IAS 1.15, 1.17 b, 1.28 and 1.45). For prudential purposes, Article 105 of the CRR requires that credit institutions establish and maintain systems and controls sufficient to provide prudent and reliable valuation estimates. Article 105 also requires institutions to perform independent verification and validation and to establish and maintain procedures for considering valuation adjustments. Pursuant to article 436 of the CRR, banks are obliged to disclose differences between the valuations used for financial reporting purposes and for regulatory purposes. This include inter alia; a reconciliation between the consolidated financial statements prepared in accordance with the applicable accounting framework and the consolidated financial statements prepared in accordance with the prudential framework a breakdown of assets and liabilities prepared according to the different purposes as well as a reconciliation identifying the main sources of differences between the carrying value amounts in the financial statements under the regulatory scope of consolidation and the exposure amount used for regulatory purposes. Information regarding supervisory process please refer to EC 3 of CP 10.
EC4	Laws or regulations set, or the supervisor has the power to establish the scope of external audits of banks and the standards to be followed in performing such audits. These require the use of a risk- and materiality-based approach in planning and performing the external audit.
Description and findings re EC4	The EU's Audit Regulation (537/2014) establishes the scope of the external audit of public-interest entities according to a risk and materiality-based approach. Article 10 requires that the audit report include, inter alia, in support of the audit opinion, the following:

	• a description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud; • a summary of the auditor's response to those risks; and • where relevant, key observations arising with respect to those risks. • The focus on the internal audit is on events that could impact financial statements; and • The FI has no powers under EU or Swedish law to establish the scope of external audits of credit institutions.
EC5	Supervisory guidelines or local auditing standards determine that audits cover areas such as the loan portfolio, loan loss provisions, nonperforming assets, asset valuations, trading and other securities activities, derivatives, asset securitizations, consolidation of and other involvement with off-balance sheet vehicles and the adequacy of internal controls over financial reporting.
Description and findings re EC5	RevR100 "Revision av finansiella företag" ("Audit of financial companies") is a recommendation that regulates a minimum scope of the external audit of banks and other financial institutions. RevR100 includes recommendations for application of certain paragraphs in ISA 250 Consideration of Laws and Regulations in an Audit of Financial Statements, ISA 315 Identifying and assessing the risks of material misstatement through understanding the entity and its environment, IAS 320 Materiality in planning and performing an audit and ISA 570 Going Concern, audit of internal control and the Auditors reporting to the management and communication with FI. It is the external auditor who is responsible for establishing risk assessment and determining focus areas depending on risk and materiality. However, the risk assessment must be prepared on the basis of the framework specified in RevR100. The FI has no powers under EU or Swedish law to establish the scope of external audits of credit institutions.
EC6	The supervisor has the power to reject and rescind the appointment of an external auditor who is deemed to have inadequate expertise or independence, or is not subject to or does not adhere to established professional standards.
Description and findings re EC6	In 2016, Sweden implemented changes to the Swedish Companies Act (SFS 2005:551) as a result of harmonization with relevant EU legislation in the area of auditing. The Companies Act, Chapter 9, Section 22a of the Companies Act states that an auditor who has been appointed by the annual meeting in a publicly traded company may be dismissed by a general court if the auditor is unsuitable for the assignment. An application for dismissal can be made by a shareholder minority (≥5%), the board, and the FI. The possibility for FI to apply for dismissal of an accountant is thus limited to companies whose shares are traded on a regulated market. So far, no such applications have been filed with the court. Thus, the supervisor has no direct power to reject and rescind the appointment of an external auditor.

EC7	The supervisor determines that banks rotate their external auditors (either the firm or individuals within the firm) from time to time.
Description and findings re EC7	Pursuant to the audit regulation (537/2014) Article 17 paragraph 1, neither the initial engagement of a particular statutory auditor or audit firm, nor this in combination with any renewed engagements therewith shall exceed a maximum duration of 10 years. FI has mandate to intervene according to the Act (SFS 2016:429) on supervision of companies of general interest in the field of auditing if the bank does not rotate the auditor in accordance with applicable law. Assessor have found evidence that external auditors rotate according to the provisions in the regulation.
EC8	The supervisor meets periodically with external audit firms to discuss issues of common interest relating to bank operations.
Description and findings re EC8	FI comply with the EBA guideline on communication between competent authorities supervising credit institutions and the statutory auditor(s) and the audit firm(s) carrying out the statutory audit of credit institutions. These meetings are held at least once a year for category 2 banks and twice a year for category 1 banks.
EC9	The supervisor requires the external auditor, directly or through the bank, to report to the supervisor matters of material significance, for example failure to comply with the licensing criteria or breaches of banking or other laws, significant deficiencies and control weaknesses in the bank's financial reporting process or other matters that they believe are likely to be of material significance to the functions of the supervisor. Laws or regulations provide that auditor who make any such reports in good faith cannot be held liable for breach of a duty of confidentiality.
Description and findings re EC9	An auditor or a special examiner shall immediately report to the FI according to Banking and Financing Business Act (SFS 2004:297, Chapter 13, Section 10), if in the event he or she, upon performance of his or her duty in a credit institution, learns of circumstances which: 1. may constitute a material violation of the statutes governing the institution's operations; 2. may negatively affect the institution's continued operations; or 3. may result in the auditor recommending that the balance sheet or profit and loss statement not be adopted or in a notation being filed. The auditor and examiner shall have a corresponding reporting obligation in the event he or she becomes aware of circumstances as referred to in the first item upon the performance of engagements in the credit institution's parent undertaking or subsidiary or in an undertaking which has a similar connection to the institution.
Additional criteria	
AC1	The supervisor has the power to access external auditors' working papers, where necessary.

Description and findings re AC1	No. The Swedish Inspectorate of Auditors (SIA) is the authority that has the power to access external auditors' working paper Accountants Act (SFS 2001:883, Section 28) and to practice periodic reviews.
Assessment of Principle 27	Largely Compliant
Comments	IFRS 9 was fully implemented in Sweden in 2018. Both listed and non-listed banking groups are required to apply IFRS according to IAS regulation. There are differences between IFRS and Swedish local accounting standards, but the differences exist only in the financial statements of a solo legal entity and are not significantly material. The main differences relate to amortization of intangible assets with indefinite useful lives (e.g., goodwill); recognition of changes in own credit risk on financial liabilities designated under the fair value option; some particularities with respect to the format for presentation of the balance sheet and profit or loss account. The following are examples (not exhaustive) of standards/IFRS rules that a solo legal entity need not apply in the financial statements due to tax purposes; leases, defined benefit plan and development expenditures recognition. The annual financial statement for a credit institution must be audited by an external chartered auditor according to Banking and Financing Business Act (SFS 2004:297, Chapter 10, Section 9). FI has the ultimate responsibility for the supervision regarding the disclosures in the listed banks financial statements according to the Securities Market Act (SFS 2007:528, Chapter 23, Section 1) and has the power to intervene against infringements. However, the day-to-day supervision has been delegated to the Council for Swedish Financial Reporting Supervision according to Chapter 6 section 3 and section 1 § paragraph 46 Regulation (2007:572) on securities markets. In their supervision, the Council should, among other things, take into consideration the ESMA enforcement priorities. For non-listed companies, FI is responsible for the supervision regarding disclosures and performs it on a best-effort basis. FI does not have the direct power to reject and rescind the appointment of an external auditor; nor to access external auditors' working paper. There is a possibility for FI to apply for the assignment dismissal of an external auditor at the general court if the auditor is unsuitable; however, this possibility is limited to companies whose shares are traded on a regulated market. So far, no such applications have been filed with the court. FI does not have the power to establish the scope of external audits nor to determine its coverage. They are established in regulations and guidelines. FI interacts with external auditors on a frequent basis and as mentioned in CPs 9, 18 and 23, use their work as an input for the supervisory process.
Principle 28	**Disclosure and transparency**. The supervisor determines that banks and banking groups regularly publish information on a consolidated and, where appropriate, solo basis that is

	easily accessible and fairly reflects their financial condition, performance, risk exposures, risk management strategies and corporate governance policies and processes.
Essential criteria	
EC1	Laws, regulations or the supervisor require periodic public disclosures[137] of information by banks on a consolidated and, where appropriate, solo basis that adequately reflect the bank's true financial condition and performance, and adhere to standards promoting comparability, relevance, reliability and timeliness of the information disclosed.
Description and findings re EC1	Banks and banking groups disclose information required by IAS regulation and FI's regulations and general guideline concerning the annual reports of banks (FFFS 2008:25). IFRS requires banks to reflect its true financial condition (IAS 1.15). The requirements imposed in IFRS promote the comparability (IAS 1.38), relevance (IAS 1.17 b) and reliability of the information disclosed (IAS 1.17 b). The application of IFRSs, with additional disclosure, when necessary, is presumed to result in financial statements that achieve a fair presentation (IAS 1.15). Banks are also required to disclose information according to the prudential regulation, under the Pillar 3. The EU has made allowance for proportionality when implementing the disclosure standards under Pillar 3, and the requirements differ among large institutions, small and non-complex institutions and other institutions. Disclosure requirements are found in part eight of the CRR (article 431-455). Article 433a lays down the requirement for a large institution, which implements the disclosure requirements under the Basel framework. Small and non-complex institutions have a simplified regulation for disclosure pursuant to article 433b. Institutions that are not consider as a large institution and nor a small and non-complex institution shall disclose the information prescribed for other institutions in article 433c, which is also simplification of the disclosure requirements of the Basel framework. According to the RCAP EU assessment Pillar 3 disclosure was found compliant.
EC2	The supervisor determines that the required disclosures include both qualitative and quantitative information on a bank's financial performance, financial position, risk management strategies and practices, risk exposures, aggregate exposures to related parties, transactions with related parties, accounting policies, and basic business, management, governance and remuneration. The scope and content of information provided and the level of disaggregation and detail is commensurate with the risk profile and systemic importance of the bank.
Description and findings re EC2	Banks and banking groups shall in the financial statements and the consolidated financial statement disclose the information required under IFRS and FI's regulations and general guidelines regarding annual accounts for credit institutions and securities companies (FFFS 2008:25). Further additional disclosures are required under the Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559). The required disclosure under IFRS and this Act include both qualitative and quantitative information on a credit institution's:

[137] For the purposes of this Essential Criterion, the disclosure requirement may be found in applicable accounting, stock exchange listing, or other similar rules, instead of or in addition to directives issued by the supervisor.

	o financial performance (IAS 1.10 b and e, 1.13, 1.112-138, o financial positions (IAS 1.10 a and e, 1.13, 1.112-138) o risk management strategies and practices (IFRS 7.31-32A, Annual Accounting Act (1995:1554), Chapter 6, section 1, paragraph 1 - 3) o risk exposures (IFRS 7.33-42, Annual Accounting Act (1995:1554) Chapter 6, section 1, paragraph 3) o exposures to related parties (IAS 24), Annual Accounting Act (1995:1554) Chapter 5, section 16 and 18. o transactions with related parties (IAS 24), Annual Accounting Act (1995:1554) Chapter 5, section 23 and 24. o remuneration (IAS 24) Annual Accounting Act (1995:1554) Chapter 5, section 39 - 44. o accounting policies (IAS 1. 117-124 and IAS 8) o basic business (IAS 1.138 b, IFRS 8) For the disclosure requirements mentioned, the scope and content provided, and the level of disaggregation and detail are the same for all credit institutions regardless of the size and the complexity of a its operations. However, the complexity of the banks business differs, and less complex banks therefore has less burdensome disclosure requirements. Disclosures about capital adequacy and risk management are also required in the pillar 3 reports according to the Credit Institutions and Securities Companies Special Supervision Act (SFS 2014:968, Chapter 6, Section 2), and Part Eight of the CRR, which is further specified in the EBA guidelines on disclosure (EBA/GL/2016/11). Disclosures on exposures and transactions with related parties and accounting policies are only required in the financial statements, with the exception of accounting policies for past-due and impaired (Article 442a of the CRR) and securitization transactions (Article 449j). Therefore, banks are not required to disclose related-party exposures or transactions as part of Pillar 3 disclosures.
EC3	Laws, regulations or the supervisor require banks to disclose all material entities in the group structure.
Description and findings re EC3	Laws, regulations and the supervisor require disclosures regarding affiliates and subsidiaries. These disclosure requirements are regulated in IFRS 12 Disclosure of interests in other entities, Annual Accounts Act for Credit Institutions and Securities Companies (SFS 1995:1559). In addition, article 436b of the CRR requires the disclosure of an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are: (i) fully consolidated; (ii) proportionally consolidated; (iii) deducted from own funds; or (iv) neither consolidated nor deducted.
EC4	The supervisor or another government agency effectively reviews and enforces compliance with disclosure standards.
Description and findings re EC4	The annual financial statement (which include disclosures in accordance with the requirement in the disclosure standards in IFRS) for a credit institution must be audited by

	an external chartered auditor according to BFBA (SFS 2004:297, Chapter 10, Section 9). FI has the ultimate responsibility for the supervision regarding the disclosures in the listed banks financial statements according to the Securities Market Act (SFS 2007:528, Chapter 23, Section 1). However, the supervision has been delegated to the Council for Swedish Financial Reporting Supervision according to Chapter 6 section 3 and section 1 § paragraph 46 Regulation (2007:572) on securities markets. The supervision is, among other things, made in accordance with the ESMA enforcement priorities. External auditors do not assess Pillar 3 disclosures. FI broadly reviews and enforces disclosures through the ongoing supervision, including risk meetings with the banks and meetings with their external auditors. FI has requested Pillar 3 adjustments following a thematic inspection on CCR, but Pillar 3 disclosure is not an area where FI has focused on. For non-listed companies, FI is responsible for the supervision regarding both financial statements and Pillar 3 disclosures and performs it on a best-effort basis.
EC5	The supervisor or other relevant bodies regularly publishes information on the banking system in aggregate to facilitate public understanding of the banking system and the exercise of market discipline. Such information includes aggregate data on balance sheet indicators and statistical parameters that reflect the principal aspects of banks' operations (balance sheet structure, capital ratios, income earning capacity, and risk profiles).
Description and findings re EC5	FI publishes a semi-annual report on the Swedish banking sector, Bankbarometern (the 'Bank Barometer'). It divides banks by business model (large banks, retail banks, savings banks, consumer credit companies, and securities banks) and reports statistics by business model group on i.a. lending, NII margin, financing, ROE, costs, and problem loans. FI publishes a semi-annual Stability Report, which contains FI's assessment of the stability of the Swedish financial system, including the banking sector. It summarizes FI's view the current state of the financial sector and the financial markets, and discusses risks to financial stability. The Riksbank also publishes its own Stability Report. FI also publishes an annual Mortgage Market Report, with statistics on residential mortgage lending. It is based on the annual Residential Mortgage Inspection, a thematic review, where the eight largest mortgage lenders in the Swedish market submit data on approximately 20,000 new loans, as well as portfolio data on existing loans.
Additional criteria	
AC1	The disclosure requirements imposed promote disclosure of information that will help in understanding a bank's risk exposures during a financial reporting period, for example on average exposures or turnover during the reporting period.
Description and findings re AC1	Disclosures are more often provided using end-of-period values. While the CRR refers to some average values or over-the-period values, there was no evidence to show that these inputs are used in the risk assessment. FI uses intra-period information, in particular for market and liquidity risk, but this information is mostly gathered from financial reporting.
Assessment of Principle 28	Largely Compliant
Comments	Banks and banking groups disclose financial information required by IAS regulation and FI's regulations and general guideline concerning the annual reports of banks (FFFS 2008:25). Banks are also required to disclose information according to the prudential

	regulation, under the Pillar 3. In CRR, the EU has made allowance for proportionality and, therefore, the requirements differ among large institutions, small and non-complex institutions and other institutions. According to the RCAP EU assessment Pillar 3 disclosure was found compliant. FI has the ultimate responsibility for the supervision regarding the disclosures in the listed banks financial statements according to the Securities Market Act (SFS 2007:528, Chapter 23, Section 1). However, the supervision has been delegated to the Council for Swedish Financial Reporting Supervision. FI has requested Pillar 3 adjustments following inspections on different themes, but disclosure is not an area where FI's supervision has focused on. For non-listed companies, FI is responsible for the supervision regarding disclosures and performs it on a best-effort basis. For this reason, it might be worthy have an external auditor looking at the Pilar 3 disclosure. Banks are not required to disclose related-party exposures or transactions as part of the Pillar 3 disclosures (only in the financial statements). Pillar 3 disclosures are more often provided using end-of-period values. FI uses intra-period information, in particular for market and liquidity risk, but this information is mostly gathered from financial reporting.
Principle 29	**Abuse of financial services**. The supervisor determines that banks have adequate policies and processes, including strict customer due diligence (CDD) rules to promote high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities.[138]
Essential criteria	
EC1	Laws or regulations establish the duties, responsibilities and powers of the supervisor related to the supervision of banks' internal controls and enforcement of the relevant laws and regulations regarding criminal activities.
Description and findings re EC1	Chapter 13, Section 2, of the Banking and Financing Business Act (BFBA) grants FI with the powers to exercises supervision over credit institutions and branches of foreign credit institution in Sweden with the aim of ensuring that business is conducted in accordance with all statutes governing the operations of the institution as well as the institution's articles of association, by-laws or regulations and internal instructions based on statutes that govern the operations of the institution. There are also specific provisions within the Banking and Financing Business Act (Chapter 15) which grants FIs with the power and responsibilities for the enforcement of the relevant laws and regulations regarding criminal activities in the banking sector.

[138] The Committee is aware that, in some jurisdictions, other authorities, such as a financial intelligence unit (FIU), rather than a banking supervisor, may have primary responsibility for assessing compliance with laws and regulations regarding criminal activities in banks, such as fraud, money laundering and the financing of terrorism. Thus, in the context of this Principle, "the supervisor" might refer to such other authorities, in particular in Essential Criteria 7, 8 and 10. In such jurisdictions, the banking supervisor cooperates with such authorities to achieve adherence with the criteria mentioned in this Principle.

| | AML Laws and Regulations
Sweden has transposed the 4th and 5th EU AML Directives mainly through the Act on Measures against Money Laundering and Terrorism Financing (2017:630), which is the main legislation on AML/CFT in Sweden ("the Swedish AML/CFT Act") and banks are required to comply with this legislation and any secondary legislation deriving from it. FI has also issued more detailed regulation (regulations regarding measures against money laundering and terrorist financing FFFS 2017:11) in line with the regulatory powers granted under the Swedish AML/CFT Act. The regulations cover areas such as risk assessment and procedures, measures for verifying identity, monitoring and reporting, and internal control, and is applicable to all financial obliged entities, including banks. In addition to national legislation, FI is also responsible for supervising compliance with directly applicable EU regulations, such as the Regulation (EU) 2015/847 on information accompanying transfers of funds (the Wire Transfer Regulation) and any binding Regulatory Technical Standards issued by the European Supervisory Authorities (EBA, ESMA and EIOPA).

The Swedish AML/CFT Act and the regulation grant powers to FI to ensure compliance with the AML/CFT laws and regulations and establishes the duties and responsibilities to supervise. As provided in Chapter 15 of the Banking and Financing Business Act, non-compliance with relevant AML/CFT regulation can lead to an intervention by FI. Specifically, depending on the breach and the specific circumstances of each case, interventions can range from issuing an order to take corrective measures, issuing of an adverse remark, a warning and ultimately revoking the banking license in its entirety. Both remarks and warnings can be combined with administrative sanctions fees of up to 10 % of the annual turnover on a group level, and the assessors were provided with examples of cases where fines have been imposed on institutions due to deficiencies in management of the risk of money laundering. FI also has the power to issue sanctions against the CEO and members of the board.

Supervision of Internal Controls

Chapter 6, Section 2, of the BFBA require institutions to identify, measure, control, internally report and verify the risks associated with their operations. This includes an obligation to ensure that operational and other risks do not, on aggregate, jeopardize the institution's ability to fulfil its obligations. FI has also issued two binding regulations in the areas of financial and operational risks. That is, Regulations and General Guidelines regarding governance, risk management and control at credit institutions (FFFS 2014:1) and Regulations and General Guidelines regarding the management of operational risks (2014:4). These regulations require banks to establish internal control functions and reporting systems and have implication on internal controls aimed at preventing illicit activities.

Besides the AML/CFT Act, FI also supervises banks based on the on the relevant guidelines (i.e., guidelines on governance, risk management and control at credit institutions (FFFS 2014:1) and General Guidelines on the management of operational risks |

	(2014:4)), and non-compliance with the Act and these regulations may result in a sanction as provided for under BFBA. The regulations that have been issued particularly set out specific requirements in relation to control and reporting, and banks are required to establish specific control and compliance functions. The assessors reviewed two cases where FI assessed a bank's governance and control with regards to AML. In both cases, FI identified significant findings and issued a warning combined with a fine of SEK 4.0 billion against one of the two banks and a remark combined with a fines of SEK 1 billion against the other.
EC2	The supervisor determines that banks have adequate policies and processes that promote high ethical and professional standards and prevent the bank from being used, intentionally or unintentionally, for criminal activities. This includes the prevention and detection of criminal activity, and reporting of such suspected activities to the appropriate authorities.
Description and findings re EC2	Banks in Sweden are required to identify, measure, control, internally report and verify the risks associated with its operations (Chapter 6, Section 2, of the BFBA). This requirement is applicable to all aspects of a bank's operations, including operational risks, and results in an obligation for banks to identify and address risks related to all criminal activities. The Swedish AML/CFT Act stipulates more detailed requirements in relation to AML/CFT issues and these are specified in FI regulation on measures against money laundering and terrorist financing (2017:11). Chapter 2, section 1 of the Swedish AML/CFT Act require banks to conduct a general risk assessment to identify threats and vulnerabilities in their business operations and to use the outcome of the assessment to inform the establishment of adequate policies and procedures to mitigate the ML/TF risks and to detect and prevent criminal activity. Banks are also required to have documented routines and guidelines regarding the measures for customer due diligence (CDD), monitoring and reporting as well as for the processing of personal data. Chapter 2, section 13, of the Swedish AML/CFT Act also requires banks to have established routines to ensure the appropriateness of employees, consultants and others who on a similar basis take part in its business if their substantial tasks include the prevention of the abuse of the business for money laundering or the financing of terrorism. Banks are also required to ensure that staff continuously receive relevant training and information in order to be able to meet the relevant AML/CFT requirements. Chapter 4 of the Swedish AML/CFT Act also require banks to monitor ongoing business relationships and assess individual transactions in order to discover suspicious activities and transactions. Where a bank has a reason to suspect money laundering or the financing of terrorism or that assets originated from a criminal act, then they should promptly report information on all relevant circumstances to the Swedish Financial Intelligence Unit (FIU). FI has also issued general guidelines on handling ethical issues at institutions under the supervision of the supervisory authority (FFFS 1998:22). The guidelines require institutions under the supervision of FI to conduct business in a manner that the public's confidence

	in the institution and the financial market is maintained and that the business may be deemed to be sound. FI is responsible for assessing (supervising) whether banks are in compliance with the relevant laws and regulations, and has procedures in place for the ongoing assessment of banks to ensure that they are not being used for criminal activities. As part its supervisory process, FI collects information annually from the banking sector using a mandatory self-assessment questionnaire "the AML/CFT periodic reporting requirement."
EC3	In addition to reporting to the financial intelligence unit or other designated authorities, banks report to the banking supervisor suspicious activities and incidents of fraud when such activities/incidents are material to the safety, soundness or reputation of the bank.[139]
Description and findings re EC3	FI has also issued guidelines on reporting events of material significance (FFFS 2021:2). According to these guidelines, a bank is required to report immediately to FI any events that can result in such changes in the financial situation of the bank that could result in that the bank no longer being able to fulfil its obligations to the customers. For example, those that could result in significant economic loss for a large number of clients or a significant loss of reputation for the bank. The guideline cover events such as suspicious activities and incidents of fraud, which could lead to loss of reputation and/or economic loss for a bank and consequently could threaten the safety and soundness of the bank. As part of the AML/CFT periodic reporting requirement, all banks are also required to submit information on suspicious transactions to FI including those that have resulted in reports to the FIU, and FI receives incident reports on, amongst others, suspicious activities and incidents of fraud from the banks. The assessor reviewed reports submitted by banks on incidents of fraud (both internal and external). The reports are submitted as part of the operational loss reporting to FI.
EC4	If the supervisor becomes aware of any additional suspicious transactions, it informs the financial intelligence unit and, if applicable, other designated authority of such transactions. In addition, the supervisor, directly or indirectly, shares information related to suspected or actual criminal activities with relevant authorities.
Description and findings re EC4	According to Chapter 4, section 4 of the AML/CFT Act, where FI as part of inspection or otherwise has discovered a circumstance which can be assumed to have a connection with, or constitute, money laundering or terrorist financing, it is required to promptly notify the Swedish Police/FIU. To ensure compliance with this requirement, FI has a specific procedure for such events. In 2020 FI also signed a cooperation agreement with the Swedish FIU, which is organized under the Swedish Police Authority. The agreement establishes a standing working group for cooperation where FI and the FIU are able to exchange information and coordinate

[139] Consistent with international standards, banks are to report suspicious activities involving cases of potential money laundering and the financing of terrorism to the relevant national center, established either as an independent governmental authority or within an existing authority or authorities that serves as an FIU.

	activities on a regular basis. This enable both authorities to share confidential information and financial intelligence. Further, as a designated authority under the Act on Information Sharing and Cooperation to Combat Organized Crime (2016:774), FI is mandated to enter into similar arrangements with other law enforcement agencies and certain other authorities, where deemed necessary and has done so on a number of occasions.
EC5	The supervisor determines that banks establish CDD policies and processes that are well documented and communicated to all relevant staff. The supervisor also determines that such policies and processes are integrated into the bank's overall risk management and there are appropriate steps to identify, assess, monitor, manage and mitigate risks of money laundering and the financing of terrorism with respect to customers, countries and regions, as well as to products, services, transactions and delivery channels on an ongoing basis. The CDD management program, on a group-wide basis, has as its essential elements: (a) a customer acceptance policy that identifies business relationships that the bank will not accept based on identified risks; (b) a customer identification, verification and due diligence program on an ongoing basis; this encompasses verification of beneficial ownership, understanding the purpose and nature of the business relationship, and risk-based reviews to ensure that records are updated and relevant; (c) policies and processes to monitor and recognize unusual or potentially suspicious transactions; (d) enhanced due diligence on high-risk accounts (e.g., escalation to the bank's senior management level of decisions on entering into business relationships with these accounts or maintaining such relationships when an existing relationship becomes high-risk); (e) enhanced due diligence on politically exposed persons (including, among other things, escalation to the bank's senior management level of decisions on entering into business relationships with these persons); and (f) clear rules on what records must be kept on CDD and individual transactions and their retention period. Such records have at least a five-year retention period.
Description and findings re EC5	Under the Swedish AML/CFT Act (Chapter 2, section 8) banks in Sweden are required to have documented routines and guidelines for customer due diligence (CDD), transaction monitoring and reporting as well as for the processing of personal data. The requirement is that the scope and content of the routines and guidelines should take into account the size and nature of the bank and the ML/TF risks that have been identified in its general risk assessment. Banks are also required to carry out a general risk assessment, where particular attention should be given to the kind of products and services being offered, customers and channels of distribution and geographic risk factors are present.

	In relation to a banking group, the ultimate parent entity is responsible for establishing and making sure that common routines and guidelines are applied throughout the entire group (Chapter 2, sections 9-10 of the AML/CFT Act). Where the banking group has subsidiaries or branches outside the EEA, the ultimate parent entity must ensure that those subsidiaries or branches apply the regulations applicable in Sweden in countries where local legislation is less stringent than those applicable in Sweden (Chapter 2, section 11 of the ACM/CFT Act). Where this is not possible due to local legislation, the parent entity should take measures to effectively mitigate the increased risk for money laundering and the financing of terrorism which will therefore arise (Chapter 2, section 12). <u>CDD Management Program</u> Chapter 3 of the Swedish AML/CFT Act sets out detailed guidance to banks on mandatory Customer Due Diligence (CDD). Section 1 provides that banks may not establish or maintain a business relationship or carry out an individual transaction where it lacks sufficient knowledge of the customer to enable it to: (i) handle the risk of ML/TF which can be associated with the customer relationship, and (ii) monitor and assess the customer's activities and transactions in accordance with the monitoring and reporting obligation. Section 2 also provides that banks may not establish a business relationship if it suspects that their products or services will be used for ML/TF. <u>Customer Identification</u> Chapter 3 Section 7 of the AML/CFT Act requires banks to identify and verify a customer's identity prior to establishing the business relationship. If the customer is a legal person, the bank is also obliged to identify and verify the identity of the natural person who acts as a representative for the legal person and the authority to represent the customer. In addition, if the customer is a legal entity, the bank needs to determine whether the customer has a beneficial owner and, if so, identify and verify the identity of that beneficial owner (Chapter 3, section 8). This should at least include a search in the Beneficial Ownership Register CDD measures must be conducted on an on-going basis and, besides verifying the identity of the customer and beneficial owners, banks should also gather information on the purpose and nature of the business relationship (Chapter 3, sections 12-13 of the AML/CFT Act). <u>Monitoring of unusual or potentially suspicious transactions</u> Chapter 4 of the Swedish AML/CFT Act contains requirements on how banks should monitor ongoing business relationships and transactions in order to identify suspicious activities and transactions. The approach and scope of the monitoring should take into account the risks identified in the general risk assessment, the risk of money laundering and the financing of terrorism associated with the customer relationship and other relevant information. If deviations or suspicious activities or transactions are observed, the bank is required to determine, through the application of enhanced CDD measures and other necessary measures, whether there is reasonable cause to suspect ML/TF or criminal

	activity. Where a bank believes that there is reasonable cause to suspect money laundering, terrorist financing or criminal activity, the bank is required to promptly report a SAR/STR to the Swedish Police/FIU. Enhanced due diligence on high-risk accounts and politically exposed persons The level and intrusiveness of the CDD-measures should be adjusted according to the customer's risk profile, where customers may be subjected to either simplified or enhanced due diligence measures depending on the risk associated with the customer in question (Chapter 3, sections 14-32). To determine the level of risk, a bank is required to, among other factors, take into consideration whether the customer is a politically exposed person or is established in a jurisdiction designated by the European Commission as a high risk third country (Chapter 3, sections 10-11). In such cases, approval from senior management must be obtained (Chapter 3, sections 17-19). Record-Keeping Chapter 5, Section 3-4 of the Swedish AML/CFT Act requires banks to keep records of CDD documentation and information of transactions for five years. If necessary to prevent, detect, or investigate money laundering or terrorist financing, a bank may preserve documents and information for a period longer than five years. The aggregate time may not, however, exceed 10 years. This obligation to keep documents and information is further clarified in Chapter 5 (section 1-2) of FI's regulation (FFFS 2017:11) which require banks to keep such documents and information in a safe manner, electronically or on paper, and to make sure that the documents and information are easy to access and identify. Assessment of compliance with the requirements FI assesses the level of compliance with the above requirements through on-going supervision and by conducting offsite and onsite inspections. Specifically, as part of the on-going supervision, AML staff within FI goes through internal audit and compliance reports from large and medium sized banks. Where red flags are identified then this will result in follow up with the bank, if the non-compliance is more severe, then an inspection might be initiated. From the schedule of AML inspections undertaken over the last five years, the assessors noted a number of them involved the review of banks' policies and procedures for CDD, risk classification of customers.[140] In one case FI carried out an investigation in one of the large Swedish banks which covered; general risk assessment, customer risk classification, policies and procedures, guidelines for customer due diligence, monitoring and reporting, and CDD measures focusing on politically Exposed Person (PEP) customers and private banking customers. The investigation identified major deficiencies and FI took corrective measures against the institution.

[140] A lot of activity (at least in 2020) was directed at the fall-out from the Danske-type issues

	Based on information provided, FI has undertaken 21 inspection of individual institutions in the last 5 years (11 since 2018), with the areas covered being: general risk assessment and Know Your Customer (KYC), policies and procedures for CDD, transaction monitoring, governance and control, risks classification, etc.
EC6	The supervisor determines that banks have in addition to normal due diligence, specific policies and processes regarding correspondent banking. Such policies and processes include: (a) gathering sufficient information about their respondent banks to understand fully the nature of their business and customer base, and how they are supervised; and (b) not establishing or continuing correspondent relationships with those that do not have adequate controls against criminal activities or that are not effectively supervised by the relevant authorities, or with those banks that are considered to be shell banks.
Description and findings re EC6	Chapter 3, section 18 of the Swedish AML/CFT Act provides that when establishing correspondent relationships which include payments between a bank and a credit or financial institution from a country outside the EEA, the bank should in addition to regular or enhanced CDD-measures (as for in Chapter 3, sections 7-20 of the AML/CFT Act), at a minimum: 1. Obtain sufficient information on the counterparty in order to understand the business and, based on publicly available information, assess the other party's reputation and quality of supervision; 2. Assess the counterparty's controls to prevent ML/TF; 3. Document each institution's responsibility to take verification measures, and the measures which it takes; 4. Obtain approval from an authorized decision-maker before the correspondent relationship is entered into; and 5. Ascertain that the other party has verified the identity of customers who have direct access to accounts at the credit institution or the financial institution and regularly follow-up on such customers, and, upon request, can provide relevant customer information. (SFS 2021:903). According to Chapter 2, section 7 of the AML/CFT Act, banks in Sweden are explicitly prohibited from establishing or maintaining correspondent relationships with shell banks. Swedish banks are also required to ensure that such relationships are not established or maintained with institutions which allow their accounts to be used by shell banks. The last inspection by FI on AML/CFT compliance which included the area of correspondent banking was initiated in 2013, where four of the largest banks in Sweden were covered. These inspections were concluded in 2015. For two of the banks there was an intrusive follow-up process conducted in 2016/17. While there have not been any onsite inspections focusing particularly on the matter since then, FI has taken measures to

	cover this topic within the on-going supervision, including reviewing internal compliance and audit reports. Based on information collected through the periodic data reporting, FI noted that the number of correspondent banking relationships has steadily declined in recent years (ca 50 % over four years). In the absence of any red flag indicators in the ongoing supervision, FI has so far not seen a need for new onsite inspections but is currently conducting a thematic offsite review targeting the largest banks. According to information that FI has gathered from the banking sector through the AML/CFT periodic reporting (questionnaire), indications are that the number of correspondent banking relationships has decreased in the last four years. In 2017 the total number of correspondent banking relationships for the Swedish banking sector was 4114 relationships outside the EEA and 1947 relationships within the EEA. In 2020 the numbers were 1901 and 1007 respectively. Finansinspektionen considers that this is an indication of raised awareness in the Swedish banking sector of the risks and compliance costs with correspondent banking FI has only directed targeted supervision on the level of compliance in relation to 2 banks since 2015., which involved: (i) follow up consisting of new onsite inspection, analysis of customer files, and a review process, and (ii) follow up of one of the banks action plans in the on-going supervision.
EC7	The supervisor determines that banks have sufficient controls and systems to prevent, identify and report potential abuses of financial services, including money laundering and the financing of terrorism.
Description and findings re EC7	All banks are required to identify, measure, control, internally report and verify the risks associated with its operations as per Chapter 6, Section 2, of the Swedish Banking and Financing Business Act. This requirement is applicable to all aspects of a bank's operations, including operational risks, and provide the basis to require banks to identify and report risks related to criminal activities including those subject to specific regulation (such as AML/CFT). In relation to AML/CFT, the Swedish AML/CFT Act requires banks to identify, prevent and report suspicious ML/TF activities. Chapter 2, section 1 of the Act requires banks to assess how their products and services can be used for ML or TF and the level of the risk exposure. The banks are also required to address the identified risks by implementing adequate policies and procedures derived from the identified risks in order to mitigate the risks. Chapter 4, Section 1 of the same act require banks to monitor ongoing business relationships and evaluate individual transactions to identify activities and transactions which: 1. deviate from what the bank has reason to expect given its knowledge of the customer, 2. deviate from what the bank could reasonably expect given its knowledge of the customers, the products and services which are offered by the customer, the information provided by the customer and other circumstances, or

	3. without deviating from what the bank expects but can be assumed to be part of a scheme of ML/TF. Where deviations or suspicious activities or transactions are identified, the bank is expected to determine through enhanced CDD and other necessary measures, whether there is reason to suspect ML/TF or that assets otherwise originate from a criminal act. If a bank has reason to suspect ML/TF or that assets otherwise originate in a criminal act, then information on all indicative circumstances should be promptly reported to FIU (Section 3). Such as a report should be submitted even if transactions are not executed, and if before entering into a business relationship or conducting a transaction there arises a suspicion that the customer intends to use the banks' products or services for ML/TF. The Swedish AML/CFT Act, Chapter 2, section 14, states that banks should make sure that employees, consultants and others who on a similar basis take part in its business and whose substantial tasks include the prevention of the abuse of the business for ML/TF continuously receive relevant training and information in order to be able to meet the requirements placed on the obliged entity pursuant to the AML/CFT Act. Supervision Chapter 13, section 2 of the Banking and Financing Business Act (BFBA) provides that the supervisor shall verify that the operations of a bank are being conducted pursuant to any and all regulation governing their operations, including the AML/CFT Act and regulation issued on the basis of the Act. Sections 3 and 4 stipulates the supervisory authority may order a bank to provide any information and access to documents necessary for the supervision and, where the supervisory authority deems necessary, it may conduct an onsite inspection at the bank. The quality and effectiveness of the banks general risk assessments, policies and guidelines, CDD measures and transaction monitoring systems are addressed by FI in its on-going supervision and as part of offsite and onsite inspections and the assessors found evidence of this in an AML investigation that was carried out at a large Swedish bank.
EC8	The supervisor has adequate powers to take action against a bank that does not comply with its obligations related to relevant laws and regulations regarding criminal activities.
Description and findings re EC8	Chapter 15 (sections 1-9) of the Banking and Financing Business Act, FI's sanctioning measures include issuing an adverse remark, warnings, and withdrawals of authorizations. Remarks and warnings and usually are issued together with an administrative fine. FI also has the power to issue orders to the obliged entities to take corrective action and to combine these with conditional fines where necessary. FI also has the power to take action against the CEO and members of the board individually, where sanctions may include a ban from holding such a position in any credit institution for a certain period of time or an administrative fine. FI's array of measures is aligned with those set out in the fouth EU AML Directive. In relation to branches of foreign banks operating in Sweden, FI has the power to order the bank to make rectification in cases of identified breaches of Swedish AML/CFT laws or

	regulation. (Chapter 15, section 15a of the Banking and Financing Business Act). The order can be combined with a conditional fine where necessary. The assessors noted the sanctions in 2020 of 4 billion SEK and 1 billion SEK for two banks in relation to deficiencies in work to combat money laundering.
EC9	The supervisor determines that banks have: (a) requirements for internal audit and/or external experts[141] to independently evaluate the relevant risk management policies, processes and controls. The supervisor has access to their reports; (b) established policies and processes to designate compliance officers at the banks' management level, and appoint a relevant dedicated officer to whom potential abuses of the banks' financial services (including suspicious transactions) are reported; (c) adequate screening policies and processes to ensure high ethical and professional standards when hiring staff; or when entering into an agency or outsourcing relationship; and (d) ongoing training programs for their staff, including on CDD and methods to monitor and detect criminal and suspicious activities.
Description and findings re EC9	a) <u>Requirement for internal audit and/or expert</u> Chapter 6, section 2 of the Swedish AML/CFT Act provides that, when justified by the size and nature of business, a business operator (bank) shall introduce an independent audit function with responsibility for auditing the internal guidelines, controls and procedures which exist for the purpose of enabling the bank to fulfil its obligations pursuant to the AML/CFT Act and related regulations. Further, according to the Banking and Financing Business Act (Chapter 13, section 3) a credit institution and any foreign credit institutions, which have established branches in Sweden shall provide FI with information regarding their operations and related circumstances as FI requests. This grants FI with the right of access to the reports by the banks' internal audit function. b) <u>Policies and processes to designate compliance officers</u> Chapter 6, section 2 of the Swedish AML/CFT Act provides that, when justified by the size and nature of the business, a bank shall appoint: (i) a member of the management committee, the chief executive officer, or comparable executive to be responsible for the bank's execution of the measures needed to comply with the AML/CFT Act and the regulations issued pursuant to it (specially appointed executive), and (ii) an individual to monitor, on an ongoing basis, the bank's performance of its obligations under the

[141] These could be external auditors or other qualified parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions.

	AML/CFT Act and regulations issued pursuant to it (Money Laundering Reporting Officer, MLRO[142]). The obligations for the specially appointed executive and the MLRO are further specified in Chapter 6 of regulation regarding measures against money laundering and terrorist financing (FFFS 2017:11). For example, it is stated that the specially appointed executive shall carry out and update the general risk assessment and ensure that the bank has common internal procedures and guidelines and keeps them updated in accordance with the requirements of the Swedish AML/CFT Act (Chapter 2, sections 8–12). c) Adequate screening policies and processes Chapter 5, section 5, of the regulations and general guidelines regarding the management of operational risk (FFFS 2014:4), requires a bank to have procedures on how to manage operational risks with regard to its staff. In relation to AML/CFT specifically, Chapter 2, section 13, of the Swedish AML/CFT Act, require banks to have routines to ensure the suitability of employees, consultants and others who on a similar basis take part in the operations where they perform tasks which are important to prevent the operations from being used for money laundering or the financing of terrorism. Further, according to Chapter 2, section 4 of regulation (FFFS 2017:11) an undertaking's procedures for 'fit and proper' testing must ensure that employees, contractors and other persons involved in its activities in a similar capacity have a level of understanding of money laundering and terrorist financing commensurate with their duties and functions. The procedures should also include a description of how the undertaking in general ensures that a person is fit for the tasks he/she is expected to perform. d) Ongoing training programs for their staff Regarding training, it is stipulated in in Chapter 2, section 14, of the Swedish AML/CFT Act, that a bank should ensure that employees, consultants and others who on a similar basis take part in its business and whose substantial tasks include the prevention of the abuse of the business for money laundering or the financing of terrorism continuously receive relevant training and information in order to be able to meet the requirements placed on the obliged entity pursuant to the AML/CFT Act. According to Chapter 2, section 6, of regulation FFFS 2017:11, a bank is required to document the training provided, and to ensure that the documentation cover the content of the training, the names of the participants, and the date of the training. FI has not conducted any recent inspection on compliance with employee screening in credit institutions specifically. Instead, FI has followed up on compliance within the banking sector in its on-going supervision, including regular reviews of internal compliance and audit reports. This is also a specific topic in the periodic data reporting

[142] Sometimes referred to as Appointed officer for controlling and reporting obligations

	and the SREP process, where FI noted that all banks have responded that they have policies and procedures for fitness and propriety assessments in place. There has also been no inspection on employee training.
EC10	The supervisor determines that banks have and follow clear policies and processes for staff to report any problems related to the abuse of the banks' financial services to either local management or the relevant dedicated officer or to both. The supervisor also determines that banks have and utilize adequate management information systems to provide the banks' Boards, management and the dedicated officers with timely and appropriate information on such activities.
Description and findings re EC10	Chapter 6, section 4 of the AML/CFT Act requires business operators (banks) to provide suitable reporting systems for staff who wish to report a suspected infringement of the provision of the AML/CFT Act or regulations promulgated on the basis of the Act. There are also legal provisions in the Swedish AML/CFT Act as well as in the Swedish Whistleblowing Act that require banks to have clear policies and processes for staff to report potential abuse of the banks´ financial services, and for banks to allow such reporting to be made anonymously. The assessors were provided with the reports of inspections that was conducted in two large banks to assess their compliance with the rules for governance and control with regard to AML measures in some of the bank's subsidiaries. As part of the inspection, FI identified weaknesses in the banks governance and control processes including handling and reporting potential abuse of banks financial services internally. Both banks were sanctioned by FI in 2020.
EC11	Laws provide that a member of a bank's staff who reports suspicious activity in good faith either internally or directly to the relevant authority cannot be held liable.
Description and findings re EC11	According to the Swedish AML/CFT Act (Chapter 4, section 10) a natural or legal person who provides information pursuant to sections 3 or 6 (i.e., SAR/STR reporting or responding to requests from the FIU or the Security Service) may not be held liable for disregarding a duty of confidentiality where the person had a reason to expect that the information should be disclosed. The same applies to a member of the board or an employee who provides information on behalf of the natural or legal person. Chapter 6 (section 4a) of the AML/CFT Act requires banks to have routines and to take necessary measures to protect employees from threats, revenge or other hostile action resulting from their having reported suspected infringement of AML/CFT laws and directives. In addition, Sweden has also adopted the Swedish Whistleblowing Act (2016:749), which safeguards employees' right to report severe misconduct within the employer´s organizations. The act is applicable in all employer-employee relationships and thus it provides additional protection to the reporting staff.
EC12	The supervisor, directly or indirectly, cooperates with the relevant domestic and foreign financial sector supervisory authorities or shares with them information related to suspected or actual criminal activities where this information is for supervisory purposes.

Description and findings re EC12	FI is an integrated supervisor responsible for both prudential and AML/CFT supervision in Sweden and information from both types of supervision is normally used to inform the other. The main mechanism for cooperation with foreign supervisors besides FATF and EBA is the EBA AML/CFT Colleges and FI is currently the lead supervisor for five AML/CFT colleges for Swedish largest banks. It is also a permanent member of about 60 colleges led by foreign financial supervisory authorities. The colleges allow for exchange of institution specific information and facilitates coordination and planning of supervisory activities among its members. They can also act as a forum for sharing of information on actual and suspected criminal activities. Sweden is also a member of the Nordic-Baltic AML/CFT Working Group (the NBWG), which is a body for cooperation on AML/CFT bringing together financial supervisory authorities in the Nordic and Baltic region. The NBWG meets several times each year with the aim of facilitating exchange of information on AML/CFT, sharing of experiences and coordination of AML/CTF-supervision in the region. A similar arrangement has also been set up with the ECB.
EC13	Unless done by another authority, the supervisor has in-house resources with specialist expertise for addressing criminal activities. In this case, the supervisor regularly provides information on risks of money laundering and the financing of terrorism to the banks.
Description and findings re EC13	FI is the competent authority in regard to supervision of the financial sector in Sweden. It functions as an administrative authority with responsibilities for both prudential and AML/CFT-supervision. FI does not have the explicit responsibility to address criminal activities. The FIU, which is part of the Swedish Police Authority, gathers reports and intelligence on suspicious activities and transactions from banks and other sources. The information is analyzed and used to mitigate ML/TF and is also shared with the other law enforcement agencies. FI does not have dedicated in-house resources for addressing criminal activities. However, where it detects suspicious activities, it has an obligation to report it promptly to the FIU as per the requirement of the Swedish AML/CFT Act (Chapter 4, section 4). This may be done within the ongoing cooperation between and the Swedish FIU or can be filed as SAR-reports. FI also has within its AML/CFT department staff with expertise in addressing criminal activities. Specially, within its staff it has employees with professional background as a Judge in civil and criminal courts, Senior Public Prosecutor, Prosecutor and Forensic Accountant.
Assessment of Principle 29	Largely Compliant
Comments	Sweden has laws and regulations in place which established the duties, responsibilities and the power of the supervisor (FI) in relation to supervision and enforcement of the laws and regulations on criminal activities. Specifically, the law grants FI with the powers to, amongst others, take action against a bank that has failed to comply with the relevant

	laws and regulation on criminal activities, and there is specific evidence where FI has issued remarks and imposed significant fines on institutions due to deficiencies in internal governance and processes for combatting money laundering (ML). The law also provides that a person who provides information on suspicious activities or transactions or in respond to a request from the FIU or the security services may not be held liable for breaching the duty of confidentiality. To ensure banks comply with the relevant laws and regulations, FI has a process in place for determining the adequacy of banks policies and process aimed at preventing it from being used for criminal activities including money laundering and the financing of terrorism, and for reporting of such activities to the appropriate authorities. The assessors were able to confirm this through a review of a sample of investigations carried out by FI. The assessors also noted that, while there are general improvement in the quality of supervision of AML/CFT including the fact that supervision is now broadly more intrusive than in the past, there are certain areas which require further improvement, specifically when it comes to supervision of correspondent relationships and the banks screening and training of employees. There is also room to improve the risk classification tool to collect more granular information on banks geographic risk exposure and the volume and value of transactions and customers in order to be able to identify and assess AML/CFT risks in a better way.[143] FI has cooperation and information sharing arrangements on issues related to AML/CFT and other criminal activities with relevant domestic and foreign financial sector supervisory authorities and other agencies and is currently the lead supervisor for five AML/CFT colleges and a member of a large number of other colleges led by foreign financial supervisory authorities. It has also signed a cooperation agreement with the Swedish FIU, which is organized under the Swedish Police Authority, for exchange of information and coordination of activities on a regular basis. Information gathered through cooperation of this kind is of great importance when assessing ML/TF risk in the banking sector and form a key part of FI's risk identification process. To meet its mandate in relation to supervision of AML/CFT, FI has a number of specialist staff which include a number with specialist expertise and background in addressing criminal activities, i.e., with previous experience as a Judge in civil and criminal courts and as Public Prosecutors. In accordance with the provision of the Swedish law, banks on their part are also required to, amongst others: (i) report incident of fraud, where they are material, and suspicious activities; (ii) establish appropriate CDD policies and procedures; and (iii) implement appropriate controls systems, including by having an independent audit function, designated a compliance officer and adequate screening policies and processes when hiring staff or consultants

[143] More granular and comprehensive information can better facilitate a thorough understanding of the ML/TF risks present in Sweden and their potential impact on the supervised entities including banks.

	Specifically, the rating of largely compliant (LC) took into account the fact that: (i) the current tools focus on inherent risks, and could be improved in collecting more granular information to fully assess ML/TF risks for both the sector as a whole as well as for individual banks, (ii) the questionnaires used ask for useful information in the various categories, but would benefit from facilitating the collection of more detailed information, for example, on geographic exposure and the volume or value of transactions or customers, which would assist in coming to a more informed view on MF/TF risks and (iii) there is only limited information obtained on institution's control environment which further limits the assessment of residual risk. However, the assessors are aware that the questionnaire (AML periodic reporting) has been updated to address the identified gaps resulting in a more targeted and effective supervision of AML risks by FI going forward. The assessors also noted that correspondent banking relationships has not been a focus of the more recent AML/CFT inspections. The most recent inspections with such a focus were concluded in 2015, and followed up on 2016/17. Although it was noted that the number of correspondent banking relationships has since then decreased significantly. Specifically, based on information gathered by FI, the number of correspondent banking relationships has decreased from a total of 4114 relationships outside of the EEA and 1947 relations within the EEA in 2017 to 1901 and 1007 relationships respectively in 2020.[144] Though FI noted that there have not been any red flag indicators in relation to correspondent banking in either the on-going supervision or the recent survey, FI should consider addressing this area further. The same goes for supervising compliance with employee screening, where FI has directed its inspections to other sectors than credit institutions.

[144] FI also conducted a thematic survey on this topic in the spring/early summer of 2022 on the five largest.

SUMMARY COMPLIANCE WITH THE BASEL CORE PRINCIPLES

Core Principle	Grade	Comments
1. Responsibilities, objectives and powers	LC	FI has multiple mandates which in the absence of clear policy on how to balance between them could result in conflict. There is need for clarity to ensure that the prudential or financial stability objective always takes priority over the other objectives, consumer protection and promotion of sustainable development.
2. Independence, accountability, resourcing and legal protection for supervisors	MNC	FI is currently significantly under-resourced, which has impacted on some critical supervisory activities, e.g., supervision of IRB models, onsite inspections, review of quality of reported data, etc. FI is underfunded and rarely receives the full amount of the funds that it requests from the government resulting in the need for constant reprioritization of work, and delays in improving data analysis tools. Staff turnover at FI is significant (about 19 percent in 2021) and FI has also had challenges attracting and retaining senior model and cyber security experts. There is no direct or explicit legal protection afforded to FI or its staff against liability for actions and omissions in discharging their duties in good faith. The annuals letter of appropriation from the government, which outlines more specific objectives, assignments and reporting requirements for FI, could potentially compromise its effectiveness if the assignment were to become burdensome.
3. Cooperation and collaboration	LC	FI has entered into cooperation agreements and MOUS with a number of domestic and foreign regulators. FI's involvement in joint onsite inspections with other foreign supervisors is limited
4. Permissible activities	LC	Permissible activities are clearly identified within the law and deposit taking is restricted to institutions that are licensed and supervised by FI.

Core Principle	Grade	Comments
		The law does not explicitly restrict the use of derivatives of the word "bank." However, it is stated in the preparatory work of BFBA that the derivatives of the word "bank" are also restricted.[145]
5. Licensing criteria	LC	The law clearly identifies FI as the authority responsible for licensing of banks in Sweden and empowers FI to set the criteria for licensing of banks. FI also has the power to revoke a license. As senior management is not a legal body under Swedish Company Law, FI does not formally assess suitability all members of senior management, i.e., the scope of formal assessment is limited to board members and the managing director or their replacement. The requirement to closely monitor and follow-up on new entrants is not documented in the supervisory processes nor does FI, where applicable, impose prudential conditions or limitations on the newly licensed banks.[146]
6. Transfer of significant ownership	LC	The law clearly defines significant ownership and requires consent from FI prior to acquisition of shares which would result in significant ownership or an increase in significant ownership. Banks in Sweden are required to inform FI of the significant shareholders including the size of their holding on a yearly basis. There is, however, currently no specific legal obligation for credit institution to notify FI of any material information that may negatively affect suitability of a major shareholder.
7. Major acquisitions	LC	The law and regulation clearly defines the acquisition ad investments that banks need prior supervisory approval from FI. To facilitate the assessment of the proposal submitted by credit institutions for approval, FI has developed appropriate work procedures and templates. The law provides FI with the means to take action to mitigate the risks that nonbank activities may pose to a banking group. There is currently no Swedish law or regulation which clearly sets out specific criteria by which to judge individual proposals related to acquisition of investment that require prior approval. However, specific criteria are to be found in the preparatory work, which is a reliable source of law in Sweden.

[145] Preparatory work is considered a source of law in Sweden.

[146] That is, beside the requirement to start operating within one year of the time the license is granted.

Core Principle	Grade	Comments
8. Supervisory approach	LC	FI has a methodology for categorizing supervised banks based on their systemic importance to the Swedish financial system, which is used to inform the SREP cycle and other supervisory activities. FI has adopted a number of tools for assessment of banks, e.g., SREP, thematic reviews, deep dives, regular risk reviews, and KRIs covering a range of solvency, liquidity and balance sheets ratios. The process for assessing resolvability of institutions is still evolving though FI and the resolution authority has continued to refine their processes including collaboration on review of resolution and recovery plans. There is limited consideration of risk profile of an institution in determining the SREP cycle as the frequency of SREP is predominantly driven by the systemic importance of a bank.[147] Consistency in the approach to assessment of risks and formulation of supervisory outcome has, in some instances, been affected by lack of risk experts to support the lead supervisors. The need for enhanced supervisory attention on high-risk institutions including the smaller ones (category 3 and 4) has not been fully formalized.
9. Supervisory techniques and tools	MNC	FI has adopted a risk-based approach to supervision where focus of the SREP process is placed on large banks, which are deemed to pose the greatest risk to financial stability in Sweden. In addition, an annual examination program is decided based on risk-based priorities and the riskiness of the institutions (informed by KRIs, SREP and other supervisory information). The level of onsite inspection is generally inadequate given the limited time spent onsite, which ranges between 3 to 4 days and the fact that actual supervisory work does not involve detailed and extensive testing of effectiveness of banks' internal controls and risk management practices, and compliance with minimum standards. Supervision of banks' stress testing practices and IRB models do not involve: (i) detailed challenge of processes and assumptions, and (ii) deep-dive assessment of the methodologies including their implementation.

[147] The exception is the case of the recently introduced list of selected institution for intensified frequent risk assessment.

Core Principle	Grade	Comments
		There is also reliance on banks' internal quality controls and internal audit to ensure high-quality data and information. Supervisory manuals (procedures) are not adequately detailed to ensure consistency in the assessment of risks and to facilitate training of new banks supervisors, which is key given the high staff turnover.
10. Supervisory reporting	LC	FI does not carry out regular targeted onsite examination to assess how data reported by banks are validated. FI also does not have an explicit requirement for credit institutions senior management to certify the accuracy of the supervisory returns.
11. Corrective and sanctioning powers of supervisors	LC	As senior management is not a legal body under Swedish Company Law, FI does not have the power to remove all member of senior management but only the members of the board and managing director. There are instances where banks were not explicitly required to provide periodical progress report on their implementation of remedial actions.
12. Consolidated supervision	LC	There is limited participation by FI in joint onsite inspections with other supervisory authorities due to resource constraints. FI also does not formally evaluate the effectiveness of supervision conducted in the host countries in which Swedish banks have material operations since such assessments are done by the EBA on an annual basis.
13. Home-host relationships	C	FI is involved in 18 supervisory colleges (excluding AML colleges), chairing eight of them including the colleges for the three largest banks in Sweden. It is also a member of more than 50 AML colleges. The supervisory colleges are the primary channel for exchanging information and are governed by WCCA in accordance with the EU standards FI has also entered into a number of MOUs to facilitate the exchange of information including the Nordic MOU on supervision of significant branches and MOUs with supervisory authorities from the UK, US, and China.
14. Corporate governance	LC	"Senior management" is not a legal body under Swedish Company Law. Responsibilities relating to management activities are held by the board of directors or the managing directors according to FI's regulation. However, the definition of senior

Core Principle	Grade	Comments
		management in FI regulation does not entail management function responsibilities for others than the board of directors and the managing director. FI does not assess selection process or succession plans for the members of the management body.[148] Governance experts have been recently reallocated to other areas within banking supervision, which may make it difficult for FI to perform thematic governance reviews and investigations in the future.
15. Risk management process	MNC	FI does not test/verify the adequacy of banks' risk management processes and procedures due to limited onsite inspections. There are instances where FI has not been able to identify issues in a timely and comprehensive manner, i.e., there are cases whether FI is not able to go deep into the details in its assessments. Banks' internal stress testing is assessed under the SREP from a high-level perspective and the assessment do not fully take into consideration the expectation of BCBS stress testing principles. FI has not required any changes to banks' internal stress testing nor has it performed any deep-dive investigations or onsite engagement with banks on stress testing. The assessment methods ("handbook") are too high level, do not clarify how supervisors should assess particular items and do not make direct reference to the relevant provisions of EBA guidelines.[149]
16. Capital adequacy	MNC	In its implementation of CRR, Sweden does not make use of all the discretions available and, therefore, its approach is more aligned with the Basel framework. However, the criticism raised in the EU RCAP still hold, even though it is not considered material. Sweden has also adopted a conservative approach in terms of requiring additional capital (P2R and P2G add-ons). Evidence of supervisory measures other than additional capital is, however, limited.

[148] The joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders requires policy to include principles of selection, monitoring and succession planning.

[149] This could lead to a lack of consistency between different supervisors, less intrusiveness and assessments taking longer due to lack of more specific guidance.

Core Principle	Grade	Comments
		FI has not shown it has the capacity to evaluate banks' internal assessment processes nor to approve IRB models (or material changes to the models) in an effective and timely manner. Specifically, the review of performance of IRB models is, as a consequence of the ongoing IRB repair, currently focused on high level monitoring of model performance and governance, and detailed testing including as part of onsite examination is not carried out. There has been evidence of material issues in IRB models (that when corrected led to a 65% increase in credit risk RWA), that were captured during the EBA benchmarking exercise which although not fully formalized is used as part of the regular supervisory process.
17. Credit risk	LC	FI has made great progress since the last FSAP with respect to the regulatory framework for credit risk, i.e., it has issued regulations on management of credit risks and on consumer credit. There is no specific requirement that big, complex or especially risky exposures are to be decided by the bank's board or senior management. There is a lack of information to allow for monitoring of total indebtedness of consumers.[150] Credit risk handbook is not adequately detailed and does not make direct references to the EBA Guidelines on loan origination and monitoring. Due to lack of intrusiveness in its supervision, FI has been unable to fully evidence that there is a supervisory process to fully address the expectation of BCP in relation to supervision of credit risk.
18. Problem assets, provisions, and reserves	LC	FI reviews banks' policies and processes for grading and classifying assets as part of the regular SREP. Due to resource constraints, FI's supervisors do not regularly review credit files and therefore is not able to challenge the banks' classification of exposures and adequacy of provisions. FI assesses major changes in classification and remarks in statements by internal or external auditors to prioritize its work.

[150] The government has appointed a public inquiry to look at this issue and conclusion will be presented in May 2023.

Core Principle	Grade	Comments
		FI uses sampling of loans when assessing portfolio credit quality, the assessment by FI normally covers as a minimum the 25 largest exposures (from different perspectives) and focus on its evolution, not the classification itself.
19. Concentration risk and large exposure limits	LC	The CRR sets the large exposures regime and determines the limits to be observed by banks. The framework is broadly aligned with the Basel framework with some exceptions related to parent or subsidiaries, institutions within EEA and covered bonds. The potential consequences of these deviations are not clearly monitored by FI. However, the EBA/Rep/2022/16 analyzes European banks use of various exemptions from the limits for large exposures. The report quantifies the impact of a potential removal of individual exemptions. FI supervisors does not regularly review credit files and therefore FI does not routinely verify the definition of "group of connected counterparties" adopted by banks. FI has imposed P2R for concentration risk, which considers name, industry and geographic concentration. Banks' internal stress testing are assessed from a high-level perspective, therefore, not clearly taking into account significant concentration risks.
20. Transactions with related parties	LC	Swedish law has specific provisions on related parties that curtails conflict of interest and, since last FSAP, FI has included additional specific provisions on related parties in its credit risk regulation. However, there is still no clear and specific power for FI to: (i) impose limits on exposures to related parties; (ii) deduct such exposures from capital when assessing capital adequacy; or (iii) require collateralization of such exposures. There are also issues with reporting on aggregated related-party transactions to FI.
21. Country and transfer risks	NC	Country and transfer risks is considered an element within credit risk. The assessors found that the definition of country and transfer risk is in line with the BCP definition, even though it does not clearly list important socio-political changes and largely unpredictable events. In addition, the assessors were not provided with evidence to show that supervisors follow an ultimate risk approach.

Core Principle	Grade	Comments
		The supervisory processes do not cover the requirements related to country and transfer risk. ICAAP reports and SREP assessments have also been unable to evidence the supervisory approach.
22. Market risk	LC	Sweden has not implemented any banking law or supporting regulation that specifically addresses market risk from a risk management perspective. However, FI has found applicable parts of general national banking laws and supporting regulations and guidelines that mention market risk to be sufficient. The number of onsite inspections is inadequate and there is over reliance on reports analysis. For example, there have been only six onsite inspections related to market risk in the last five years. The assessors noted that FI relies on the second line of defense to monitor banks' internal trading limits, which in the absence of close monitoring could lead to material breaches other than prudential VaR breaches not being reported as fast as it should.
23. Interest rate risk in the banking book	LC	Sweden has not implemented any banking law or supporting regulation that specifically addresses IRRBB yet as Sweden is following the EU plan for regulation in this area. For example, the EBA Guidelines on management of interest rate risk arising from non-trading activities is applicable in Sweden. Sweden has implemented a P2R methodology for IRRBB based on a standardized stress test, based on which the P2R is determined. As part of quarterly risk reviews, banks are required to submit granular reports on their exposure to IRRBB. There has been no inspection aimed at IRRBB in the last five years, except for a CSRBB inspection in 2017/2018 in eight banks. The is also over-reliance on reports analysis.
24. Liquidity risk	LC	LCR and NSFR have been implemented as binding liquidity requirement in Sweden. The LCR requirement is not fully aligned with the Basel standard. As in the EU regulation, there is a deviation concerning covered bonds in the HQLA definition. FI has restricted the percentage of covered bonds to Swedish issuers to a maximum of 50 percent of the total liquidity reserve (and other issuers to 70 percent), however, this is still considered a deviation. The BCBS disclosure standards is based on daily observations when calculating average LCR values, while in EU as well as in Sweden it is based on the simple average of month-end

Core Principle	Grade	Comments
		observations over the 12 months preceding the end of each quarter. FI has introduced LCR of 100 percent for EU and USD and 75 percent for other significant currencies, including SEK, as P2R. FI has made a great progress in creating an automated Liquidity Risk Dashboard which provides a dynamic and graphical view of various Liquidity Key Risk Indicators.
25. Operational risk	LC	FI has focused on cyber risks, outsourcing and third-party risk during the last five years, in addition to business continuity plans. There is a lack of clarity in terms of the definition of significant agreements/outsourcing, and there is no requirement for undertakings to inform changes or terminations of contracts. Due to the lack of a database to collect information on outsourcing providers, FI is unable to identify common points of exposure to operational risk or to potential vulnerabilities.
26. Internal control and audit	C	FI's regulations and EBA guidelines provide a comprehensive set of requirements and supervisory expectations for the internal control framework of credit institutions, which is reinforced through the SREP process. FI does not engage with back-office personnel, nor assess their expertise or authority.
27. Financial reporting and external audit	LC	IFRS 9 was fully implemented in Sweden in 2018 and both listed and non-listed banking groups are required to apply IFRS. FI has the ultimate responsibility for the supervision regarding accounting including the disclosures in the listed banks financial statements, however, the supervision has been delegated to the Council for Swedish Financial Reporting Supervision. FI does not have direct powers to reject or rescind the appointment of an external auditor; nor to access external auditors' working paper. FI, however, has formal possibilities to initiate the removal of an external auditor by either reporting to the competent authority or by filing for removal through the district court.[151] FI does not have the power to establish the scope of external audits nor to determine its coverage. Scope and coverage are

[151] The competent authority is the Swedish Inspectorate of Auditors

Core Principle	Grade	Comments
		established in regulations and guidelines issued by relevant organizations.
28. Disclosure and transparency	LC	Disclosure standards are generally sound and promote transparency, reflecting the substance of the BCBS standards. FI has, in some instances, requested Pillar 3 adjustments following inspections related to other themes, but disclosure is not an area where FI's supervision has focused on. Banks do not disclose related-party exposures or transactions as part of the Pillar 3 disclosures. Disclosures are more often provided using end-of-period values. FI uses intra-period information, in particular for market and liquidity risk, but this information is mostly gathered from financial reporting.
29. Abuse of financial services	LC	There are laws and regulations in place which establishes duties, responsibilities and powers of FI in relation to supervision and enforcement of laws and regulation on criminal activities. There has been general improvement in the quality of supervision of AML/CFT and supervision is now broadly more intrusive than in the past. There is, however, room for improvement related to granularity of information and adequacy of the process for ensuring that supervision of ML/TF risks is well targeted. Correspondent banking relationships have not been a focus of the more recent AML/CFT inspections and FI has also not conducted specific inspection on compliance with employee screening in credit institutions.

RECOMMENDED ACTIONS AND AUTHORITIES' COMMENTS

A. Recommended Actions

Recommended Actions to Improve Compliance with the Basel Core Principles and the Effectiveness of Regulatory and Supervisory Frameworks	
Reference Principle	**Recommended Action**
Principle 1	• Explore if FI should consider further how it address any conflict between its multiple mandates if this was to arise and how to ensure that the mandate of ensuring safe and sound banks and banking system always takes priority over or is well complemented by the other objectives, i.e., consumer protection and sustainable development.
Principle 2	• MoF should consider further increase in funding to FI to ensure that it is adequately resourced to effectively supervise banks and the banking system. • The authorities should explore a range of solutions to reduce on the uncertainty created due to dependence on the state for financing. For example, a medium-term plan to increase financing supported by government's public commitment to fund the plan. • FI should further develop its strategy for attracting and retaining staff including those with specialized skills that is anchored on competitive salaries that is benchmarked to those in the private sector in Sweden. • FI should explore the use of independent external experts for some specific supervisory tasks, to address temporary staff shortage especially in highly specialized areas where there are challenges recruiting staff. • FI should consider conducting salary surveys to compare FI salary levels with those in the financial industry to help inform the staff retention strategy and assessment of additional financing that it would require. • MoF should further consider the need to establish explicit legal protection for FI and its staff in line with the expectation of BCPs.
Principle 3	• Increase FI's involvement in joint onsite inspections in Swedish banking groups with other foreign supervisors including the ECB once the issue of resource constraint has been adequately addressed.
Principle 5	• The FI should be granted the legal powers to assess fitness and propriety of all members of senior management and not just the board member and the managing director. • FI should develop and implemented a formal policy on close monitoring of newly license entities and this should be appropriately captured through, for example, clarification of drivers of SREP cycle and review of policy on onsite inspections of newly licensed banks.

Principle 6	• Create an explicit obligation for firms to notify FI as soon as they become aware of any material information that may negatively affect the suitability of a major shareholder or a party that has a controlling interest.
Principle 7	• To further consider the possibility of amending the laws or developing new regulations to provide precise criteria by which to judge individual proposals for major acquisitions or investment by a bank that are submitted to FI for approval. The aim should be to further clarify and embed the approach to assessment.
Principle 8	• Formalize an increased attention on high-risk institutions including those in categories 3 and 4. This include ensuring that, beside systemic importance, the SREP cycle is also informed by the risk profile of an institution. To facilitate this, FI could consider introducing a list of objective criteria to be used to identify institutions that would require a higher frequency of SREP. • Put in place measures to continually ensure consistency in the approach to assessment of risks and formulation of supervisory outcome, which could include more detailed guidance for supervisors, use of risk experts to support the lead examiners, etc. • The authorities should continue to enhance the process for assessment of resolvability of institutions while taking into account the relevant standard and guidelines including those issued by the EBA.[152] • FI should consider developing new and enhancing the existing risk monitoring tools and dashboards to further improve the tracking of risks, i.e., tools similar to one that has been established for liquidity risk could be developed for other risks.
Principle 9	• Enhance the intrusiveness of supervision through: (i) more comprehensive onsite inspection exercises; (ii) implementation of a robust process for ongoing assessment of the performance of IRB models (PDs and LGDs); and (iii) improvement in the supervision of banks' stress testing processes. • Ensure that the lead supervisors are supported by risk experts to facilitate in-depth reviews and detailed supervisory findings to help formulate corrective actions that addresses the root cause of issues at the banks. • Developed more detailed supervisory manual(s) to help ensure consistency in assessment of risks and formulation of supervisory actions for banks. • Consider developing and deploying additional risk monitoring tools and dashboard for facilitate the tracking of risks similar to one that has already been established for liquidity risk.
Principle 10	• Undertake regular risk-based onsite inspection exercises to assess: the quality of data reported by banks, adequacy of banks' reconciliation and

[152] EBA has issued guidelines on improving resolvability for institutions and resolution authorities.

	data quality assurance process, effectiveness of the three lines of defense in relation to regulatory reporting process, whether banks are in compliance with BCBS 239, etc. • FI should also consider introducing explicit requirement for credit institution senior management to certify the accuracy of the supervisory returns. That is, the senior management responsible that is responsible for the accuracy of supervisory returns. • The authorities should also explore the possibility of requiring the independent external auditors to provide an opinion on the accuracy of supervisory reporting.
Principle 11	• Require attestation by the internal audit function that supervisory recommendation have been satisfactorily addressed. This may be done from time to time to verify the implementation of certain important recommendations in case of significant corrective actions. • Explore the possibility of amending the law to grant FI with the power to remove all member of senior management and not just the managing director (and members of the board).
Principle 12	• Increase participation of FI supervisors in joint inspections with other supervisors of subsidiaries of Swedish banks. Besides enhancing supervisory outcome, this will also facilitate sharing of experience and knowledge on supervisory techniques between FI's supervisors and other supervisors of Swedish banking groups such as the ECB.
Principle 13	No recommendations
Principle 14	• Allocate more resources to governance supervision. • Perform more thematic reviews on governance. • Review FI's governance chapter of the handbook in order to align with new EBA guidelines (EBA/GL/2021/05). • Establish a formal pre-approve process for board members, since FI already performs an unofficial pre-approval process when assessing suitability.
Principle 15	• Increase intrusiveness of supervision by focusing on assessing the quality of implementation of regulation and of internal risk management processes and procedures. • Update regulation/guidelines on risk management to clarify reporting of exceptions and limit breaches inside the institutions and that reputational risk should be assessed by institutions. • Expand the dashboard to cover other specific risks (other than liquidity) to increase offsite monitoring power. • Elaborate risk reports for supervisors based on the dashboard monitoring. • Perform a comprehensive review of the handbook based on a two-step approach. That is: (i) introduce changes to increase precision in the methods so as to achieve consistency and facilitate supervisors'

	assessment; and (ii) enhance comprehensiveness and depth of the manual to increase the level of intrusiveness of supervision. • FI should also: (i) incorporate EBA guidelines on stress testing in a dedicated chapter of the handbook; and (ii) perform a thematic review/deep-dive investigation on banks' internal stress testing practices and adherence to EBA guidelines.
Principle 16	• Enhance IRB model review in line with EBA guidelines. • FI should, where possible, promote alignment with international standards during policy discussions in European forum. • FI should explore possible ways of addressing the risk of understatement of RWAs as a result of any identified weaknesses the regulatory approved models, especially in the interim while banks are redeveloping or making the required changes to the models.
Principle 17	• Include in regulation requirement that exposures that are especially risky or otherwise not in line with the mainstream of the bank's activities or major credit risk exposures exceeding a certain amount or percentage of the bank's capital are to be decided by the bank's Board or senior management. In the absence of regulation, it is important supervisors assess if banks processes are robust, otherwise self-regulation cannot be relied upon. • Incorporate reference to the EBA guidelines on loan origination and monitoring into FI's handbook more clearly. • Perform institution specific "light" deep dives, that are not so time consuming, but enhances the supervisory process, and that could be more frequent and include a larger sample of banks than the current deep-dives.
Principle 18	• Perform a one-off across the board thematic review of classification and provision followed by regular onsite inspection including credit file reviews. • Include a representative sample covering different credit modalities when assessing portfolio credit quality, which should be specified in the handbook. Further, onsite inspection on credit risk should include a review of loans.
Principle 19	• FI should perform a thematic review to assess the definition of "group of connected counterparties" or ensure that appropriate checks are included in regular onsite inspections.
Principle 20	• FI should be granted clear and specific power to impose limits for exposures to related parties, to deduct such exposures from capital when assessing capital adequacy, or to require collateralization of such exposures.
Principle 21	• FI should develop a supervisory process to address country and transfer risk.

Principle 22	• Once FRTB is implemented in Sweden, it would be important to perform a deep-dive investigation to assess compliance with the regulation and the boundary between the trading and banking book. • Enhance supervisory reporting of limit breaches and assess the adequacy of banks' internal reporting.
Principle 23	• Deep-dive inspection should be performed to enhance the assessment of compliance with principles of the Basel standard on IRRBB and to analyze the impact of changes in Swedish interest rate.
Principle 24	• Promote alignment with international standards during policy discussions in European forum. • Dashboard functionalities should be further enhanced to facilitate more effective offsite monitoring. • Standardized liquidity reports should be developed based on dashboard analysis and sent out to supervisors.
Principle 25	• Amend regulation or guidelines to clarify on the interpretation of significant agreements/outsourcing and to require undertakings to inform FI of changes to or terminations of outsourcing arrangements. • Create database on outsourcing providers for financial institutions.
Principle 26	• FI should engage with back-office personnel and assess their expertise or authority, in particular because of FI's excessive reliance on control functions in its own supervisory process.
Principle 27	• FI should be granted clear powers to reject and rescind the appointment of an external auditor.
Principle 28	• Rules should be amended to require banks to disclose related-party exposures or transactions as part of their Pillar 3 disclosures. • Increase disclosure of average ratios in addition to end-of period for certain ratios.
Principle 29	• FI should carry out detailed assessment on whether the areas of correspondent banking relationships and procedures for employee screening constitute a higher level of ML/TF risk. • Depending on the outcome of such assessment, FI should consider improving its supervisory oversight over correspondent banking relationship and banks' processes and procedures for screening of employees while taking into account its risk-based approach to supervision. • FI should further enhance the process aimed at deepening understanding of the ML and TF risks in the supervised entities.

B. Authorities' Response to the Assessment

The authorities welcome the IMF's acknowledgement of Sweden's continued progress in strengthening banking regulation and supervision since the last FSAP in 2016, and recognize the importance of ensuring that regulatory framework and supervisory capacity is continually enhanced to keep pace with the evolving financial landscape.

The authorities appreciate the IMF for the extensive work and productive engagement during the FSAP which resulting in this Detailed Assessment Report (DAR), and important analysis and valuable recommendations on how to further improve the effectiveness of banking supervision in Sweden.

The authorities broadly agree with the FSAP assessment and recommendations on how to address the identified gaps including, amongst others, the need to further optimize on existing supervisory processes and tools. The authorities take note of the IMF's assessment regarding the need to further increase the intrusiveness in the supervision and can confirm that, through the risk based approached used, FI continuously aim at achieving intrusive outcome regardless of which type of supervisory activity used. The authorities would also like to mention that measures have already been taken to reduce gaps identified, for example within IRB model supervision.