

# Proposal for a Policy for assessing whether a bank should be managed through resolution





## The Debt Office's tasks in financial stability

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The Swedish National Debt Office – together with the Ministry of Finance, Finansinspektionen and the Riksbank – shall work to ensure the stability of the financial system. This is an important responsibility as a severe disruption in the system could result in significant costs to the Swedish economy in the form of declining production and heightened unemployment. The Debt Office's main tasks within financial stability are to manage non-viable banks through resolution, or to disburse compensation from the deposit guarantee if a bank is declared bankrupt. The Debt Office may also, under certain circumstances, provide precautionary government support to viable banks.

Resolution is the procedure for managing systemically important banks that are no longer viable. In resolution, the central government, through the Debt Office, takes control – but not ownership – of a non-viable bank in order to reconstruct or wind it down in an orderly manner. Resolution aims primarily to avoid severe disruptions in the financial system and to enable banks to continue to provide essential services and functions to the real economy – without use of taxpayer funds. During the resolution process, all or part of the bank's operations are kept open so that depositors and other customers have access to their accounts and other services.

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## Preface

The Debt Office is the resolution authority for credit institutions and certain investment firms (henceforth, 'banks').<sup>1</sup> As such, the Debt Office shall plan to be able to manage banks that fail. If Finansinspektionen assesses that a bank is failing or is likely to fail, the Debt Office may decide that the bank should be managed through a procedure called resolution. The Debt Office decides to place a bank in resolution if so necessary with regard to public interest. The assessment of public interest is performed based on a number of resolution objectives. These are to ensure the continuity of functions that are of importance to the financial system (known as critical functions), to avoid significant adverse effects on financial stability, and to protect public funds, depositors and investors, as well as client funds and client assets.<sup>2</sup>

In order to enable managing a bank in crisis through resolution cost-effectively for society, and for the Debt Office to be prepared for such management, the authority engages in extensive resolution planning. Within *planning* (that is, before a crisis has emerged), the Debt Office assesses which banks should be managed in resolution in the event of their failure; that is, whether their failure could compromise one or multiple resolution objective(s). Banks also need to plan and prepare to enable implementing resolution.

In an *actual crisis*, when the bank has failed or is likely to fail, the Debt Office reassesses whether or not the bank should be put into resolution. While the assessment in planning and actual crisis is based on the same fundamental premises, depending on the prevailing circumstances, the outcome may ultimately differ.

This policy describes the Debt Office's approach for assessing how the failure of a bank could affect two of the resolution objectives – critical functions and financial stability. The policy consistently uses 'systemic importance' as a concise term for both resolution objectives. If the failure of a bank is considered capable of compromising one (or both) of the resolution objectives, that bank is designated as 'systemically important'.

The policy begins with a description of the legal basis and general considerations, which provide the basis for the Debt Office's analysis and assessment of which banks are systemically important. A general description is then provided of how the Debt Office performs the assessment of critical functions, and the functions for which it has set specific thresholds that guide the assessment. Finally, it is described how the Debt Office assesses the potential effects of a bank's failure on financial stability. That assessment includes both direct and indirect contagion

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<sup>1</sup> Section 9 of the Swedish National Debt Office's Ordinance containing instructions (2023:909).

<sup>2</sup> Chapter 1, section 6 of the Resolution Act (2015:1016).

effects and also includes indicative thresholds, in this case regarding the banks' funding markets.

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## Glossary

**Bank** Credit institutions and investment firms, or undertakings domiciled in Sweden that are a) financial institutions that are subsidiaries of an institution, of an EEA institution or of such a holding company as specified in b, c or d and that is subject to consolidated supervision, b) financial holding companies, c) mixed financial holding companies, and d) mixed-activity holding companies. See Chapter 1, section 1 and Chapter 2, section 1 of the Resolution Act.

**Banking Union** EU cooperation and legislation aimed at creating a structure for joint supervision and management of banks in crisis and a common depositor protection system. Euro area countries participate in the Banking Union, while other EU countries have the opportunity to participate in the cooperation.

**Payment account** An account held in the name of one or multiple payment service users and that is intended for the execution of payment transactions. See Chapter 1, section 4 of the Payment Services Act (2010:751).

**EBA** The European Banking Authority is an EU authority that devises common rules and supervises the banking sector in order to strengthen the stability and the protection of customers in Europe's financial system.

**Financial stability** The ability of the financial system to uphold its basic functions appropriately and without disruptions that involve serious costs to the public economy.

**Idiosyncratic crisis** The failure of an individual bank.

**Critical function** A service or a transaction that, if interrupted, would probably cause a severe disruption in the financial system. See Chapter 2, section 1 of the Resolution Act. Commission Delegated Regulation (EU) 2016/778 uses the term *critical function*.

**RA** The Resolution Act (2015:1016).

**O-SII** Other systemically important institutions. No later than 1 December each year, Finansinspektionen intends to establish and publish a list of identified other systemically important institutions.

**O-SII score** A quantitative scoring system that measures the national systemic relevance of banks. See Finansinspektionen's memorandum *Identification of and capital buffer surcharge for other systemically important institutions (O-SII)*, FI Ref. 15-8166.

**Third-party impact** The effects that sudden discontinuity of functions would have on third parties.

**Resolution** A procedure whereby the Debt Office takes control of a bank in crisis in order to avoid a severe disruption in the financial system and achieve one or more of the objectives of the resolution framework.

**Senior bonds** A type of corporate bond that has higher priority in the event of bankruptcy or liquidation than, for example, subordinated bonds.

**Large credit exposures** Exposures amounting to at least 10 per cent of the Tier 1 capital of the creditor bank. See Article 392 of Regulation (EU) 575/2013 of the European Parliament and of the Council.<sup>3</sup>

**Substitutability** Incentives for and capacity among other banks to satisfactorily replace the functions within a reasonable timeframe in order to avoid systemic problems for the real economy and financial markets.

**Systemic crisis** Disruptions in the financial system with the potential to have severe adverse impacts for the internal market and the real economy. All types of financial intermediaries, markets and infrastructure may potentially be systemically important to some degree.

**Small and medium-sized enterprise (SME)** A company with fewer than 250 employees and with an annual turnover not exceeding EUR 50 million and/or with an annual balance sheet total not exceeding EUR 43 million. See Commission Recommendation 2003/361/EC.<sup>4</sup>

**Third party** A party that is not affiliated with a particular bank or group.

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<sup>3</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

<sup>4</sup> Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises.

## Legal basis and general considerations

The Debt Office is the resolution authority for credit institutions and certain investment firms, which means that the authority is responsible for managing such undertakings in crisis. The Resolution Act (2015:1016) specifies which undertakings are subject to the resolution framework.<sup>5</sup> In this policy, 'bank' is henceforth used as a collective term for such undertakings. If it is considered that a bank's failure will cause a severe disruption in the financial system, it shall be managed in a specific way through a procedure known as resolution. Resolution aims to avoid serious disruptions in the financial system and to enable banks to continue to provide essential services and functions to the real economy – without using taxpayer funds.

In order to maintain a high level of crisis preparedness and to ensure that failing banks can be managed in an orderly manner, the Debt Office engages in extensive planning, particularly with regard to the banks that, in the event of their failure, should be managed through resolution. A core aspect of the Debt Office's planning is therefore to assess which banks should be managed in resolution, and which should instead be wound up through bankruptcy or liquidation. Guiding criteria for this assessment – both in planning and in actual crisis – are the 'resolution objectives'.<sup>6</sup> The objectives of resolution are to:

- i. ensure the continuity of critical functions;
- ii. avoid significant adverse effects on financial stability;
- iii. protect public funds<sup>7</sup>;
- iv. protect depositors under the Deposit Guarantee Act (1995:1571) and investors under the Investor Protection Act (1999:158), and
- v. protect client funds and client assets.

A bank that, in the event of a crisis, should be managed in resolution is designated as systemically important by the Debt Office. The assessment that the authority performs in its planning and that is described in this policy is thus called a *systemic importance assessment* henceforth. The Debt Office's assessment of which banks are to be managed in resolution is based on an assessment of all resolution objectives. The resolution objectives are thus assessed individually. However, for the purposes of the systemic importance assessment, it is predominantly the first two resolution objectives that are central, as illustrated in

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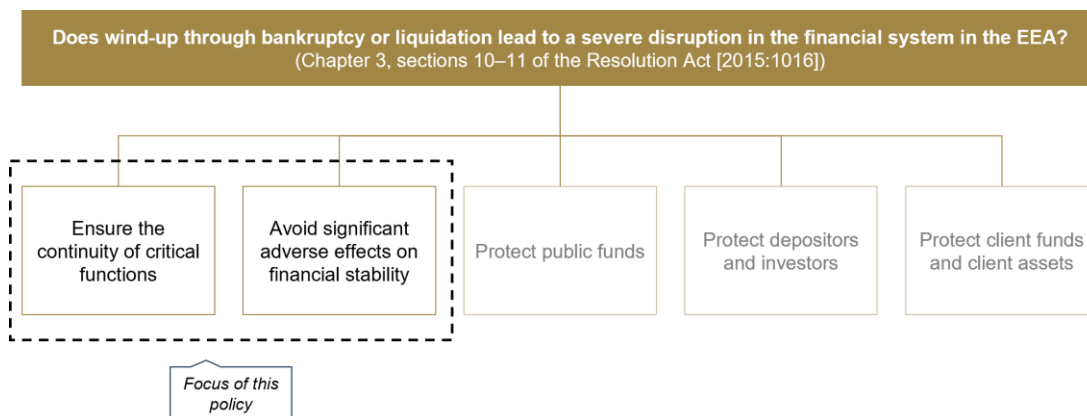
<sup>5</sup> Chapter 1, section 1 of RA.

<sup>6</sup> Chapter 1, section 6 of RA.

<sup>7</sup> The Deposit Insurance Fund is financed by the banks and is thus not considered to be public funds.

Figure 1. In analytical terms, these are more demanding than the other objectives. The Debt Office thus has a more comprehensive approach to support the authority's assessment of whether a bank's failure could lead to any of these objectives being compromised.<sup>8</sup>

Figure 1 Overview of the five resolution objectives



Source: The Debt Office

## Legal basis and premises for the assessment

The resolution framework contains many different provisions aimed at assessing a bank's relevance to the financial system. The regulations are focused on the planning stage, an actual crisis situation and the various requirements the Debt Office can impose on the banks.<sup>9</sup>

**In an actual crisis, the Debt Office's assessment of a bank's potential systemic importance is based on an assessment of 'public interest'.**<sup>10</sup> This includes a need for resolution measures to be proportionate and necessary to achieve one or more of the resolution objectives. The circumstances in an actual crisis may differ from the assumptions made in the planning stage. The Debt Office is thus not bound by the assessment it made in the planning stage.

**In the planning stage, the Debt Office assesses whether a failure (bankruptcy, liquidation or resolution) could cause a severe disruption in the financial system.**<sup>11</sup> This assessment shall be reflected in a bank's resolution plan. The factors that the Debt Office shall take into account in the assessment are specified in Commission Delegated Regulation (EU) 2016/1075.<sup>12</sup> Therein, it is stated that

<sup>8</sup> In the preparatory works for RA, it is also stated that it is these objectives that would likely prompt resolution to be commenced. See Govt. Bill 2015/16:5 pages 347 and 359.

<sup>9</sup> See, for example, RGR 2021/26, [The Debt Office's decision memorandum for MREL policy](#).

<sup>10</sup> Chapter 8, section 5 of RA.

<sup>11</sup> Chapter 3, sections 10 and 11 of RA.

<sup>12</sup> Article 24 of Commission Delegated Regulation (EU) 2016/1075 of 23 March 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the content of recovery plans, resolution plans and group resolution plans, the minimum criteria that the competent authority is to

wind-up through bankruptcy or liquidation can only be considered credible, with due consideration of the resolution objectives, if such winding up does not cause a material adverse impact on financial market functioning and confidence, other institutions and financial infrastructures or the real economy.<sup>13</sup>

**The resolution objectives are thus the starting point for the assessments to be made by the Debt Office both in planning and in an actual crisis.** A bank is considered to be systemically important if it performs functions that are critical to the financial system, could significantly and adversely impact financial stability if it fails or could compromise any of the other resolution objectives. This applies both in planning and in an actual crisis.

**The assessment of whether or not a bank is considered to be systemically important shall be performed for all banks covered by the Resolution Act, regardless of their size and risk of failure.** The Debt Office assesses all banks on the basis of their respective footprint in the Swedish banking sector. As a starting point, the Debt Office performs enhanced systemic importance assessments of banks that have an O-SII score above 20.<sup>14</sup> However, banks with an O-SII score below 20 can be considered systemically important if their failure would risk compromising any of the resolution objectives (in the same way as for banks with a score above 20). The Debt Office decides on a resolution plan for all banks covered by the Resolution Act. The resolution plan sets out the authority's assessment of whether the bank should be managed in resolution in the event of its failure. This policy describes how the Debt Office makes the assessment expressed in the resolution plan.

**The assessment is made under the assumption of both idiosyncratic crisis and systemic crisis.** The systemic importance assessment shall take account of the effects of a bank's failure both in an idiosyncratic (i.e. a bank-specific) crisis and a systemic crisis.<sup>15</sup> The Debt Office therefore analyses the probable effects of placing a bank in bankruptcy or liquidation under both of these scenarios. The Debt Office uses a scenario in line with the European Banking Authority (EBA's) stress tests in its assessment of systemic importance in a systemic crisis.<sup>16</sup>

**The resolution objectives critical functions and financial stability partly overlap.** Maintaining critical functions and financial stability is ultimately about evaluating

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assess as regards recovery plans and group recovery plans, the conditions for group financial support, the requirements for independent valuers, the contractual recognition of write-down and conversion powers, the procedures and contents of notification requirements and of notice of suspension and the operational functioning of the resolution colleges.

<sup>13</sup> The real economy includes production, distribution and consumption of goods and services in a society.

<sup>14</sup> O-SII is a measure for assessing the banks' footprints, based on numerous parameters, in the financial system in Sweden. According to this measure, an O-SII score of 20 corresponds to a market share of 0.2 per cent of the Swedish banking sector. See Finansinspektionen (Ref. 22-1264) *Identification of capital buffer surcharge for other systemically important institutions (O-SII)*.

<sup>15</sup> Sections 3 and 5 of the Resolution Ordinance (2015:1034).

<sup>16</sup> See EBA, [EU-wide stress testing](#).

the economic effects of a failure and whether it could be assumed to cause a severe disruption in the financial system and, ultimately, also the real economy.

**Critical functions are derived from the various services banks provide**, such as payment services or loans, to their customers and the potential effects of discontinuing operations. In the first instance, the effects are assessed for those directly affected by discontinuity of the service (i.e. the parties that use the bank's services). The assessment shall also include indirect effects in the form of impact on either the collective ability of the financial system to provide the function concerned (through markets, etc.), or impact on other markets and services that are interconnected with the function.

**The assessment of impact on financial stability primarily focuses on the contagion effects a failure could have on other banks and actors in the financial system.** Such effects may be direct – for example, exposures to the failing bank, or indirect – for example, confidence-related or reputational issues for banks other than the one that is failing.

Since the assessment of critical functions shall not only include the direct impact on the bank's customers, but also take account of effects on other banks and financial markets, there is some overlap between the two assessments. The Debt Office's systemic importance assessment analyses, as a starting point, the banks' services for customers (for example, payment services and lending) on the basis of the resolution objective of maintaining critical functions. The funding used by the bank to provide its services (e.g. bond issuance and deposits) is instead analysed on the basis of the resolution objective of avoiding significant adverse effects on financial stability.<sup>17</sup>

**The Debt Office makes an overall assessment guided by the thresholds.** With a view to undertaking transparent, objective and predictable assessments, the Debt Office chooses to apply certain indicators with related thresholds to guide the assessment of each resolution objective.

The table below summarizes the functions or funding market within each resolution objective for which the Debt Office applies indicative thresholds.

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<sup>17</sup> However, the Debt Office may also choose to assess a certain type of funding, or functions that – if discontinued – could primarily affect financial stability, based on the resolution objective critical functions, if it were important for other reasons, for example in ensuring operational arrangements and continuity of services in resolution (see EBA/GL/2022/01).

**Table 1 Summary of indicative thresholds within the Debt Office’s systemic importance assessment**

Resolution objective	Function or funding market	Indicative threshold <sup>1</sup>
Critical functions	Payment accounts for private individuals	80 000–120 000 active salary account customers <sup>2</sup>
	Payment services for SMEs	40 000–60 000 SMEs with payment accounts
	Lending to private individuals for housing purposes	4–6 per cent market share
	Lending to SMEs	4–6 per cent market share
Financial stability	Senior unsecured bonds and certificates	80–120 billion SEK
	Covered bonds	80–120 billion SEK
	Deposits	80–120 billion SEK

<sup>1</sup> Banks within a range are subject to an enhanced systemic importance assessment.

<sup>2</sup> Active salary account customers are private individuals that have received salary or equivalent social benefits of at least SEK 5,000 per month and executed at least five transactions per month over a three-month period.

Source: The Debt Office

The systemic importance assessment is however not strictly based on these thresholds; rather, other circumstances – including those that may be relevant in an actual crisis – may be considered in the final assessment if necessary. The final assessment by the Debt Office may therefore deviate from the thresholds.

The Debt Office follows a regular cycle in its work on systemic importance assessments. It may therefore be the case that a bank will not be subject to an enhanced assessment in the same year as the bank falls within a threshold range.

## Facts

### **Resolution authorities in other countries use thresholds when assessing whether banks should be managed through resolution**

Resolution authorities in other countries also use thresholds to assess whether or not a failing bank should be managed through resolution (even though the term ‘systemically important bank’ is not always used or does not have the same meaning as in this policy). In the United States, banks with more than USD 250 billion (approximately SEK 2,430 billion) in total assets need to prepare resolution plans.<sup>18</sup>

In its planning, the Banking Union’s main resolution authority, the Single Resolution Board (SRB), proceeds on the basis of a threshold that stipulates that banks with total assets exceeding EUR 30 billion (approximately SEK 332 billion) are

<sup>18</sup> Overview of Resolution Under Title II of the Dodd-Frank Act, April 2024, FDIC.

systemically important.<sup>19</sup> The Bank of England – the UK resolution authority – considers that banks with total assets exceeding GBP 25–40 billion (approximately SEK 321–513 billion) are generally expected to be managed in resolution.<sup>20</sup> The Bank of England also considers that banks with more than 40,000–80,000 payment accounts<sup>21</sup> should be managed in resolution.

The Norwegian resolution authority – Finanstilsynet – considers that banks with guaranteed deposits exceeding 25 per cent of the value of the Norwegian Deposit Insurance Fund, or with non-guaranteed deposits of more than NOK 5 billion (approximately SEK 4.9 billion), should be managed in resolution.<sup>22</sup> In Denmark, all banks that provide *Nemkonto* accounts<sup>23</sup> are systemically important.<sup>24</sup>

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<sup>19</sup> SRB uses the same criteria as the ECB in assessing systemic importance. Other criteria, particularly with regard to economic importance and cross-border operations, may result in a bank being considered significant. [What makes a bank significant?](#), ECB.

<sup>20</sup> See Bank of England, <https://www.bankofengland.co.uk/paper/2025/ps/amendments-to-the-boes-approach-to-setting-a-mrel>.

<sup>21</sup> The Bank of England includes payment accounts that have been used at least nine times in the last three months. <https://www.bankofengland.co.uk/paper/2023/the-bank-of-englands-approach-to-resolution>.

<sup>22</sup> [Utvidelse av antall foretak som får vedtak om MREL – Finanstilsynet.no](#).

<sup>23</sup> A *Nemkonto* account is a bank account in which the payee can receive payments from public authorities.

<sup>24</sup> [Analysis-no-18-consistent-recovery-and-resolution-of-small-and-large-banks-in-europe.pdf](#), Danmarks Nationalbank.

# Assessment of the resolution objective critical functions

## Overview

A critical function is defined in the Resolution Act as a service or a transaction that, if discontinued, would likely cause a severe disruption in the financial system.<sup>25</sup>

The resolution objective critical functions therefore aims to ensure, through resolution, the continuity of such functions even if a bank fails.<sup>26</sup>

Commission Delegated Regulation (EU) 2016/778<sup>27</sup> clarifies that a function<sup>28</sup> shall be considered critical if it:

- a) is provided to third parties not affiliated to the bank or group, and
- b) the sudden disruption of that function would likely have a material negative impact on the third parties, give rise to contagion or undermine the general confidence of market participants due to the systemic relevance of the function for the third parties and the systemic relevance of the bank or group in providing the function.<sup>29</sup>

Besides **impact on third parties**, the Regulation also prescribes that account shall be taken of the **substitutability of** the function in the assessment of critical functions.

In order to assess the impact on third parties, the Debt Office takes account of the scope of the operations and the bank's relevance in the economy (for example through market share), which customers are affected and the potential disruption that could impact the market (through e.g. confidence effects) or related markets.<sup>30</sup> As described above, this assessment thus includes both effects on financial markets and the real economy.

The assessment of substitutability is intended to analyse whether the discontinued functions can be replaced by other market participants so as to avoid a severe

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<sup>25</sup> Chapter 2, section 1 of RA.

<sup>26</sup> Thus, the entire bank's business operations need not necessarily be maintained in resolution; rather, it may suffice to maintain the functions that are considered critical.

<sup>27</sup> Commission Delegated Regulation (EU) 2016/778 of 2 February 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to the circumstances and conditions under which the payment of extraordinary ex post contributions may be partially or entirely deferred, and on the criteria for the determination of the activities, services and operations with regard to critical functions, and for the determination of the business lines and associated services with regard to core business lines.

<sup>28</sup> The regulation uses the term *critical function*.

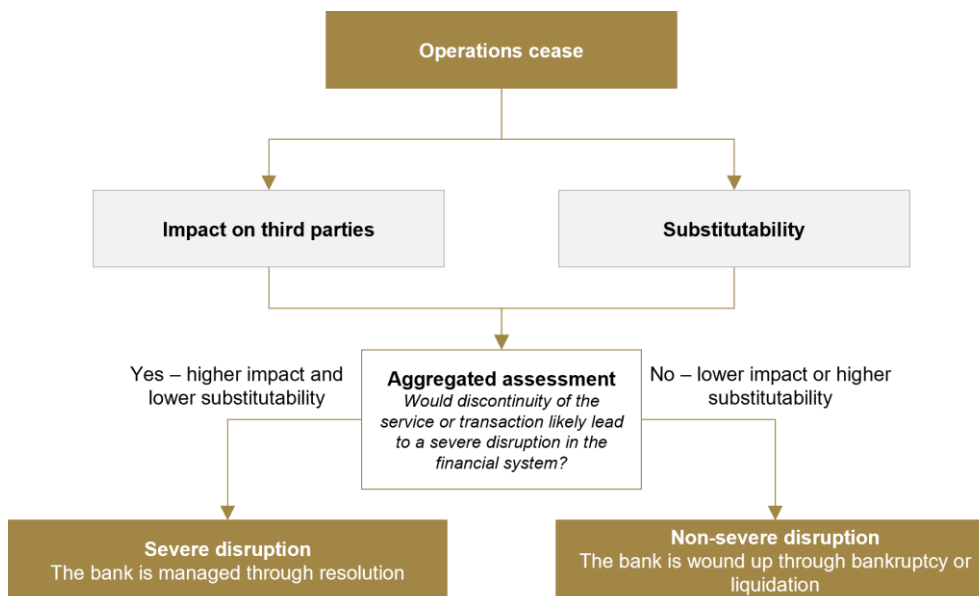
<sup>29</sup> Article 6 of Commission Delegated Regulation 2016/778.

<sup>30</sup> Article 6.2 of Commission Delegated Regulation 2016/778.

disruption.<sup>31</sup> In this case, the Debt Office takes account of aspects such as the structure of the market, incentives and ability of other entities to take over the functions, and whether the functions can be replaced within a reasonable timeframe to prevent a severe disruption.

Figure 2 provides a general illustration of how the Debt Office’s assessment of the resolution objective critical functions is performed.

**Figure 2 Overview – Assessment of the resolution objective critical functions**



Source: The Debt Office

In an aggregated assessment of critical functions, the overall impact on third parties must be material, while *at the same time* substitutability is not considered able to sufficiently counteract this impact. The impact on third parties increases, all else equal, the more customers that are affected, or if it can be assumed that the market at large will suffer a severe disruption. Substitutability is likely to be lower if there are few market participants with the capacity or incentive to take over the functions, or if it is considered that taking over the functions would take an excessive amount of time.

**The bank’s business operations determine which functions are analysed.**

In order to establish which functions could potentially be considered critical, the Debt Office proceeds on the basis of the bank’s business operations and breaks them down into different categories. As a starting point, this breakdown follows the functions set out in Commission Implementing Regulation (EU) 2025/2303 (the Reporting Regulation).<sup>32</sup> Operations that are very small compared to other banks are not usually subject to deeper analysis.

<sup>31</sup> Article 6.3 of Commission Delegated Regulation 2016/778.

<sup>32</sup> See Annex 1 to Commission Implementing Regulation (EU) 2025/2303 of 14 November 2025 laying down implementing technical standards with regard to procedures, standard

## Approach for specific functions

The Debt Office applies a specific approach for assessing whether a bank performs critical functions in relation to the following functions:

- payment accounts for private individuals
- payment services for small and medium-sized enterprises (SMEs)
- lending to private individuals for housing purposes
- lending to small and medium-sized enterprises

As large banks are engaged in multiple critical functions, the authority has primarily developed specific approaches for assessing functions at other banks.<sup>33</sup> These functions correspond to the banks' basic services and are thus the most important services to evaluate in order to assess whether or not a bank performs critical functions. For this specific approach, the Debt Office has established thresholds for when it considers that discontinuity would likely lead to a severe disruption in the financial system. In line with the description in the section *Legal basis and premises for the assessment*, the authority's assessment is performed with account taken of the fact that failure can occur under two different scenarios – idiosyncratic crisis and systemic crisis.

The Debt Office assesses all functions of the banks, even though the authority has not developed a specific approach for all of them. In total, the Reporting Regulation contains 23 functions broken down into five operational areas. Insofar that the bank performs one or more of these functions, for which there is/are no specific approach(es), the assessment is made on the basis of a general approach that includes the legal basis and premises described above.

Examples of the functions set out in the Reporting Regulation are consumer loans<sup>34</sup>, cash services and various capital market services. In the consumer loan market, substitutability is usually high, which reduces the likelihood of a bank performing critical functions in that area. Cash services are also characterised by high substitutability in the form of card payments and other digital payment options. At the same time, cash services are important to maintain from a contingency perspective, for example. To this end, however, there are regulations other than the resolution regulations.<sup>35</sup>

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forms and templates for the provision of information for the purposes of resolution plans for credit institutions and investment firms pursuant to Directive 2014/59/EU of the European Parliament and of the Council, and repealing Commission Implementing Regulation (EU) 2018/1624.

<sup>33</sup> Large enterprises are mainly customers of the large banks. Payment services for and lending to large enterprises are covered by the general approach for critical functions.

<sup>34</sup> In the Reporting Regulation, these loans are referred to as *other lending* to households.

<sup>35</sup> See, for example, the Payment Services Act and Govt. Bill 2025/26:199.

In the following is described the Debt Office's specific approach for assessing the four functions listed above.

## Payment accounts for private individuals

### Description of the function

Payment accounts play a key role in personal finances. Access to a payment account is often essential for full participation in society, as it enables receiving a salary or equivalent benefits, paying bills and buying vital goods. The importance of being able to execute transactions through payment accounts is amplified in Sweden by a very high proportion of cashless transactions.<sup>36</sup>

### Impact on third parties

**Idiosyncratic crisis:** A private individual who executes all day-to-day transactions through a specific bank would risk suffering severe adverse impacts if the bank's payment account operations suddenly cease. Above all, it could impede receiving salary or equivalent benefits and the individual's ability to make important everyday purchases and payments. If a sufficient number of customers are affected, the Debt Office therefore considers that the impact on third parties could be significant and cause a severe disruption.

Since payment account operations involve accepting client funds as deposits, discontinuity of this function could also lead to a certain loss of confidence among the general public. Ultimately, this could cause bank runs elsewhere, especially if the reason for the failure risks impacting the other banks. However, the risk of such bank runs is mitigated by the protection provided by the deposit guarantee scheme.<sup>37</sup>

**Systemic crisis:** The Debt Office considers that the impact on third parties is not significantly different in a systemic crisis than in an idiosyncratic crisis.

### Substitutability

**Idiosyncratic crisis:** Other banks have strong incentives and sound capacity to replace payment accounts in the Swedish market. For a start, banks may not refuse a consumer who legally resides in the European Economic Area (EEA)<sup>38</sup> to open a payment account that the institution provides to other consumers.<sup>39</sup> Moreover, deposits are an important source of funding for many banks and are an

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<sup>36</sup> [Payments Report 2025 | Sveriges Riksbank](#).

<sup>37</sup> Deposits are analysed in their entirety on the basis of the resolution objective financial stability.

<sup>38</sup> EU, Iceland, Liechtenstein and Norway.

<sup>39</sup> Chapter 4 a, section 1 of the Payment Services Act.

entry-level product<sup>40</sup>, which can increase incentives for taking over payment account services.

Banks shall review a consumer's application for a payment account promptly and shall process a complete application no later than within ten business days.<sup>41</sup> In many cases, it ought to be considerably faster for a private individual to open a payment account and access online banking. In order to restore the ability to make payments, affected customers may also have to wait for compensation from the deposit guarantee scheme. As a general rule, compensation under the guarantee scheme shall be made available to depositors within seven working days.<sup>42</sup>

For customers who use a payment account for regular transactions, a disruption of seven to ten business days may substantially impede or even prevent important everyday purchases and payments. If a sufficient number of customers are affected, the Debt Office therefore considers that this timeframe is insufficient to avoid a severe disruption.

**Systemic crisis:** The Debt Office considers that substitutability is not significantly different in a systemic crisis than in an idiosyncratic crisis.

## Indicators and threshold

### Main indicator

In order to assess whether a bank performs a critical function, the Debt Office has defined a main indicator (active salary account customers). The main indicator is intended to estimate the number of customers who manage most of their everyday finances through a specific bank. Managing everyday finances refers to receiving salary or social benefits, and executing various types of transactions, such as payments. The main indicator is therefore based on two criteria, with private customers who meet both criteria being included in the main indicator:

- **The remuneration criterion:** The customer has received salary or equivalent social benefits<sup>43</sup> of at least SEK 5,000 per month over a three-month period.
- **The transaction criterion:** The customer has executed at least five transactions<sup>44</sup> per month over a three-month period.

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<sup>40</sup> An entry-level product is a product or service that can enable selling more products or services to the customer.

<sup>41</sup> Chapter 4 a, section 3 of the Payment Services Act.

<sup>42</sup> Section 9 the Deposit Guarantee Scheme Act.

<sup>43</sup> 'Equivalent benefits' refers to pension disbursements, unemployment benefits, compensation from the Swedish Social Insurance Agency, disbursements from the Swedish Board of Student Finance and equivalent periodic remuneration. Transfers from private individuals are not considered to be remuneration in this respect.

<sup>44</sup> 'Transactions' refers to outgoing transfers, payments to external recipients and cash withdrawals.

The Debt Office takes account of the progression of the main indicator over time, including forecasts, where relevant.

### Threshold

The Debt Office applies a threshold in the form of a range for when payment account operations for private individuals can constitute a critical function. The Debt Office considers that the function is not critical if a bank's main indicator is below 80,000 customers. Banks with a main indicator exceeding 120,000 customers are deemed to perform a critical function.

### Supplementary indicators

For banks with a main indicator between 80,000 and 120,000 customers, the Debt Office undertakes an enhanced assessment that takes account of the following supplementary indicators:

- **Number of customers who are of legal age who use instant account-to-account phone payments.** This indicator can supplement the main indicator, as the service is usually linked to the bank through which the customer manages their everyday finances.<sup>45</sup>
- **The bank's market position and strategic focus.** The bank's market position and strategic focus can illuminate the extent to which the bank is likely to be its customers' main bank.
- **Geographic concentration.** Where relevant, the Debt Office may take account of the bank's geographical concentration; that is, whether the bank is of particular importance to people in a specific geographic area.

## Payment services for SMEs

### Description of the function

The Swedish payment system consists of a network of participants, including banks, financial market infrastructures and pure payment service providers. The Debt Office's assessment in this area of activity focuses on the services offered by the banks. Small and medium-sized enterprises (SMEs) make up a significant share of the Swedish economy. More than 99 per cent of Swedish companies are SMEs, and 96 percentage points of these are 'micro-enterprises'.<sup>46</sup> For many SMEs, continuous access to payment services is essential for their operations.

### Impact on third parties

**Idiosyncratic crisis:** Discontinuity of payment service operations risks immediately preventing the affected company from accepting and executing payments, which could lead to adverse impacts for its employees, suppliers and the company itself.

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<sup>45</sup> The indicator only takes account of customers who are of legal age in order to exclude those who do not have overall responsibility for the household's everyday finances.

<sup>46</sup> According to data from Statistics Sweden's business register as at 5 April 2026. 'Micro-enterprises' refers to companies with fewer than ten employees.

In addition, companies with deposits that exceed the compensation cap of the deposit guarantee scheme risk losing the excess amount. If a bank conducts large-scale payment service operations, discontinuity of such operations could cause severe adverse impacts for both the bank's customers and other parties. The adverse effects are generally expected to increase with the size of the affected client companies.

Since payment service operations frequently involve accepting client funds as deposits, discontinuity of this function could also lead to a certain loss of confidence among the general public. Ultimately, this could cause bank runs elsewhere, especially if the reason for the failure also risks affecting the other banks. However, the risk of such bank runs is mitigated by the protection provided by the deposit guarantee scheme.

**Systemic crisis:** Although the risk of bank runs is elevated in a systemic crisis, the Debt Office considers that the impact on third parties is not significantly different than in an idiosyncratic crisis.

### Substitutability

**Idiosyncratic crisis:** There are numerous entities that offer payment services for SMEs in Sweden, and their basic offerings are largely similar. Thus, there is sound capacity for substitution of basic payment services in the event of an idiosyncratic crisis. Moreover, deposits are an important source of funding for many banks and are an entry-level product, which can increase incentives for taking over payment account services.

A key factor affecting substitutability is that banks may not establish a business relationship without having performed sufficient customer due diligence.<sup>47</sup> The time required to perform customer due diligence varies, depending on aspects such as the scope and complexity of the customer's business. Once customer due diligence has been completed, the customer can often open a payment account immediately.

In order to restore the ability to make payments, affected customers may also have to wait for compensation from the deposit guarantee scheme. As a general rule, compensation under the guarantee scheme shall be made available to depositors within seven working days.

Given that it takes some time to perform customer due diligence and to obtain compensation from the deposit guarantee scheme, the Debt Office considers that the timeframe is not short enough to avoid a severe disruption in the financial system, if the bank's operations are sufficiently extensive.

**Systemic crisis:** The Debt Office considers that substitutability is not significantly different in a systemic crisis than in an idiosyncratic crisis.

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<sup>47</sup> Chapter 3, section 1 of the Money Laundering and Terrorist Financing (Prevention) Act (2017:630).

## Indicators and threshold

### Main indicator

In order to assess whether a bank performs a critical function, the Debt Office has defined a main indicator. The likely effects of discontinuity not only increase in line with the number of corporate customers of a bank, but also depends on the size and transaction level of those corporate customers. In an analysis of the banks' operations, the Debt Office has found that the number of SMEs with payment accounts at a bank is largely consistent with the volume of transactions executed and the size breakdown of companies in the SME segment. The Debt Office has therefore defined the main indicator as the number of SMEs with payment accounts at the bank.

The Debt Office takes account of the progression of the main indicator over time, including forecasts, where relevant.

### Threshold

The Debt Office applies a threshold in the form of a range for when payment services for SMEs can constitute a critical function. The Debt Office considers that the function is not critical if a bank's main indicator is below 40,000 customers. Banks with a main indicator exceeding 60,000 customers are deemed to perform a critical function.

### Supplementary indicators

For banks with a main indicator between 40,000 and 60,000 customers, the Debt Office performs an enhanced assessment that takes account of the following supplementary indicators:

- **Value of executed transactions.** Impact on third parties is considered to increase with the nominal value of the transactions executed by the bank's SME customers.
- **Breadth and complexity of payment service offerings.** It is considered that a broader and more complex payment service offering means that it will take longer to replace the services.
- **Concentration.** Where relevant, the Debt Office may take account of the bank's industry or geographic concentration, as this could increase the impact on third parties and reduce substitutability.

## Lending to private individuals for housing purposes

### Description of the function

Lending to private individuals to purchase a home (mortgages) is an important function for very many people and for the economy at large. Almost two-thirds of

Swedish households own their home and a large proportion need mortgages to finance their home purchase.<sup>48</sup>

## Impact on third parties

A bank that fails and that is declared bankrupt or enters into liquidation cannot issue new mortgages. Customers wishing to take out a mortgage, which includes those with mortgage pre-approvals from the bank, would therefore need to approach another lender. Insofar that it is a matter of a major participant in the mortgage market, supply of credit to the household sector could be adversely affected.

The bank's existing borrowers are less directly affected by a failure because, as a premise, they can retain their loans, which usually have long contractual terms, and the terms and conditions of the loan contracts also remain valid after the bank has been declared bankrupt. This also applies if the bankruptcy trustee sells the mortgage portfolio to another entity. Existing borrowers are able to transfer their mortgages to another entity in the market on their own initiative. The Debt Office considers that a significant share of the bank's existing mortgage borrowers may wish to transfer their mortgages in such a scenario, especially in the event of a protracted selling process.

**Idiosyncratic crisis:** It is considered that the discontinuity of a large market participant's mortgage operations could lead to disruptions in credit supply, because mortgage customers seeking a mortgage cannot obtain one to a sufficient extent. This could also lead to adverse confidence effects for other banks, particularly those with mortgage operations. This could be manifested in, for example, poorer funding conditions for the banks concerned.

**Systemic crisis:** In a systemic crisis, it is considered that the discontinuity of a medium-sized bank's mortgage operations could also cause adverse confidence effects for other banks with similar operations. It is not considered that the discontinuity of a smaller market participant's mortgage operations would result in equivalent adverse contagion effects, neither in an idiosyncratic crisis nor a systemic crisis.

## Substitutability

The mortgage market consists of numerous participants, including large banks, mortgage banks, savings banks and mortgage credit institutions.<sup>49</sup> As a rule, mortgage lending is associated with good profitability and low complexity.

**Idiosyncratic crisis:** In an idiosyncratic crisis, there are strong incentives for other entities to take over both new and existing mortgage customers from the failing bank. New loans that would otherwise have been granted by the failing bank will be

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<sup>48</sup> See Statistics Sweden, [Household's housing 2024](#).

<sup>49</sup> The breakdown follows Finansinspektionen's categorisation of firms in the Bank Barometer FI Ref. 25-644. 'Mortgage banks' are entities whose core business consists of providing secured loans.

spread to other banks (as customers need to seek out other lenders). Under stable economic conditions, the market ought to be able to manage such a redistribution over a relatively short period of time, given that it is a medium-sized or smaller entity. In the event of a failure of a large market participant, the Debt Office considers that it would likely be more difficult for other market participants to absorb all new lending over a shorter timeframe.

**Systemic crisis:** Both incentives and ability to take over mortgage customers are weakened in a systemic crisis. Poorer macroeconomic conditions, with resulting heightened loan losses on the banks' collective loan portfolios, would generally make banks more cautious in their lending due to reduced risk appetite, and because of their wish to preserve capital. It can thus be assumed that substitutability would be significantly poorer in a systemic crisis, both in relation to new lending and taking over the existing mortgage stock. This reduces the likelihood of being able to replace the operations within a reasonable timeframe to prevent a severe disruption.

## Indicators and threshold

### Main indicator

In order to assess whether a bank performs a critical function, the Debt Office has defined a main indicator, which is the bank's market share of the mortgage market.<sup>50</sup>

The Debt Office also takes account of the progression of the main indicator over time, including forecasts, where relevant.

### Threshold

The Debt Office applies a threshold in the form of a range for when mortgages can constitute a critical function. Banks with a market share of below 4 per cent are not deemed to perform a critical function. Banks with a market share exceeding 6 per cent are deemed to perform a critical function.

### Supplementary indicators

For banks with a market share between 4 and 6 per cent, the Debt Office undertakes an enhanced assessment of the possibility for one or several other mortgage market participants to take over the bank's new lending in the first instance, but also the existing loan portfolio (the stock). This includes an estimate of how the bank's market share of new lending would have developed, both in an idiosyncratic crisis and in a systemic crisis, had the bank not failed.

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<sup>50</sup> The definition refers to the bank's share of total lending to households for housing purposes in Sweden as at 31 December, calculated using the banks' resolution planning reporting and Statistics Sweden's statistical database.

For groups engaged in Swedish mortgage operations both in parent companies and subsidiaries, or both in a branch and a subsidiary, the Debt Office may choose to analyse the mortgage operations collectively within the group.

## Lending to SMEs

### Description of the function

Lending to small and medium-sized enterprises (SMEs) is central to the Swedish economy. Bank lending is an important financing source for smaller companies as they often lack access to the capital market. Lending is mainly used for working capital that supports operating activities and investment.

### Impact on third parties

A bank that fails and that is declared bankrupt or enters into liquidation cannot issue new loans or refinance maturing loans to SMEs. In that case, the bank's corporate customers may face liquidity problems if they no longer have access to short-term borrowing options (for example, unutilised overdraft facilities). They will therefore need to approach another lender to obtain new loans.

For companies with existing loans with the bank, the terms of the loan agreements remain valid, and the bankruptcy trustee is not entitled to terminate the loans and call for their early repayment. However, corporate loans have a relatively short maturity on average.<sup>51</sup> This may lead to refinancing difficulties for some companies if the bankruptcy trustee fails to transfer the operations within a reasonable period of time (and thus maintain continuity in the operations) or if the companies are unable to obtain equivalent services from other banks.

**Idiosyncratic crisis:** The discontinuity of a market participant's lending to SMEs could cause disruptions in credit supply. This is the case in particular if companies lose access to short-term financing (overdrafts, etc.), which could lead to liquidity shortages, higher financing costs and, in some cases, compromise their going concern.

Corporate customers with maturing loans cannot refinance these at the failing bank. Failure to replace such loans by other market participants could lead to reduced investment, liquidity problems and, in some cases, bankruptcies, with adverse impacts for the real economy. If a bank has a large market share in a specific geographic area or industry, failure could have particularly adverse impacts.

Failure of a large or medium-sized market participant could also lead to adverse confidence effects for other banks, particularly banks operating in SME lending. For example, this could be manifested in poorer funding conditions for the banks concerned.

**Systemic crisis:** Discontinuity of lending to SMEs could have greater adverse impacts for these companies in a systemic crisis than in an idiosyncratic crisis. The weaker macroeconomic conditions in such a situation would probably have an even more adverse impact on turnover and profitability than in an idiosyncratic

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<sup>51</sup> Approximately half of the loans (in terms of volume) fall due within one year. Data for year-end 2024, Statistics Sweden.

crisis. As market turmoil is higher in a systemic crisis, adverse confidence effects would probably be stronger as well.

## Substitutability

There are numerous participants in the SME lending market. However, corporate lending is generally associated with greater complexity and lower standardisation than, for example, mortgages. For most SMEs, lending often requires solid knowledge of local conditions and industry-specific expertise, which may be difficult for other entities to replace quickly. Besides, such operations are capital-intensive, which affects the ability of other entities to absorb the failing bank's business.

**Idiosyncratic crisis:** Incentives for other entities to take over the operations are relatively good in an idiosyncratic crisis (but not as strong as for mortgages). Unutilised overdrafts, new lending and refinancing of maturing loans, which would otherwise have been arranged with the bank, will be spread among multiple banks (as the companies would need to seek out other lenders). In practice, however, there are numerous limitations. Credit assessments of companies are resource-intensive and are largely based on longstanding customer relationships, understanding of the companies' operations and local knowledge – conditions that other entities cannot immediately recreate.

Substitutability is affected both by the size of the failing bank and its loan types (unutilised overdrafts, new lending or refinancing). If a large market participant fails, it may be difficult to replace the operations (including all types of loans) within a reasonable timeframe to avoid a severe disruption. If a medium-sized entity fails, the overall effect on credit supply will not be as great. Therefore, for a market participant of that size, it is in particular the volume of unutilised overdrafts that may cause inability to replace the operations within a reasonable timeframe to prevent a severe disruption.

**Systemic crisis:** Poorer macroeconomic conditions and probable heightened loan losses usually make banks more cautious in their lending in order to preserve capital. It will thus be more difficult and time consuming for companies to obtain new overdrafts and loans in such a scenario. It can thus be considered that substitutability is significantly poorer in a systemic crisis.

## Indicators and threshold

### Main indicator

In order to assess whether a bank performs a critical function, the Debt Office has defined a main indicator, which is the bank's market share in lending to SMEs.<sup>52</sup>

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<sup>52</sup> The definition refers to the bank's share of total lending to SMEs in Sweden as at 31 December, based on data from the banks' resolution planning reporting, Statistics Sweden's credit database (KRITA) and financial market statistics.

The Debt Office also takes account of the progression of the main indicator over time, including forecasts, where relevant.

### Threshold

The Debt Office applies a threshold in the form of a range for when lending to SMEs can constitute a critical function. Banks with a market share of below 4 per cent are not deemed to perform a critical function. Banks with a market share exceeding 6 per cent are deemed to perform a critical function.

### Supplementary indicators

For banks with a market share of between 4 and 6 per cent, an enhanced assessment is performed that takes account of the following indicators:

- **Total volume of granted but unutilised overdrafts.** A large volume of unutilised overdrafts means that companies lack access to their credit lines to a greater extent. There is thus a risk of several companies failing to meet their liquidity needs in the event of the bank failing.
- **Average remaining time to maturity of the lending.**<sup>53</sup> If average remaining time to maturity for loans is short, corporate customers will be affected sooner should the bank fail.
- **Concentration.** Industry or geographic concentration would likely increase the impact on third parties and reduce substitutability.

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Lending to sole business proprietors is included in the financial market statistics, in the item "business-operating households". This lending includes both loans obtained by business-operating households for personal use, and loans used for business purposes. The Debt Office therefore estimates the share of the loans allocated for personal use (including for housing purposes), and for business purposes.

For groups engaged in Swedish lending operations for SMEs both in parent companies and subsidiaries, or both in a branch and a subsidiary, the Debt Office may choose to analyse the operations collectively within the group.

<sup>53</sup> Maturities are often significantly longer for loans secured by real estate compared to maturities for unsecured loans.

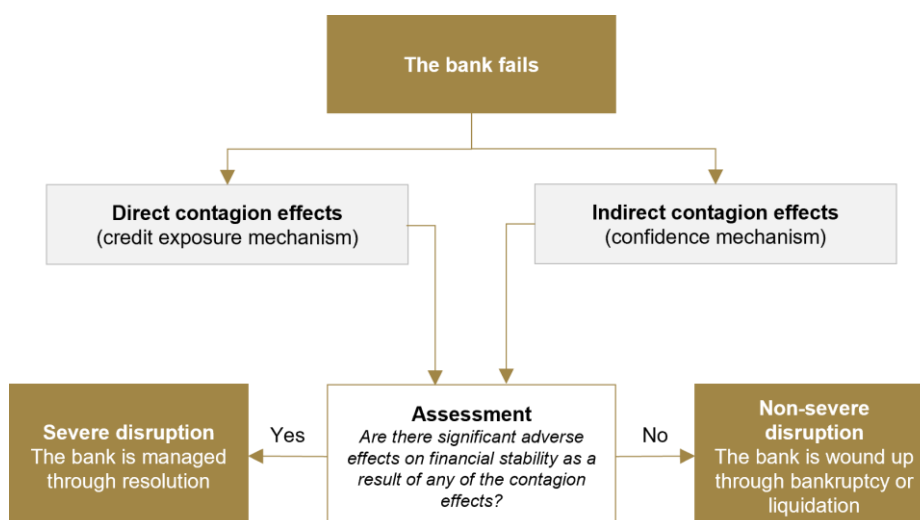
# Assessment of the resolution objective financial stability

## Overview

Financial stability refers to the ability of the financial system to uphold its basic functions appropriately and without disturbances that incur serious costs to the public economy.<sup>54</sup> The resolution objective financial stability therefore aims to avoid significant adverse effects on financial stability that would otherwise arise if a bank fails.<sup>55</sup>

The Debt Office's approach for assessing the impacts on financial stability of a bank's failure primarily focuses on two types of contagion effects – direct and indirect. Figure 3 provides a general illustration of how the Debt Office's assessment of the resolution objective financial stability is performed.

Figure 3 Overview – Assessment of the resolution objective financial stability



Source: The Debt Office

*Direct contagion* effects primarily refer to effects that arise as a result of other banks having exposures to the failing bank. *Indirect* contagion effects refer instead to market participants or other stakeholders (such as depositors) sufficiently losing confidence in banks with similar business models or risk profiles to the failing bank – even if such banks are viable.

Below is a description of the Debt Office's approach for assessing how a bank's failure can result in adverse direct or indirect contagion effects, and hence give rise to significant adverse effects on financial stability.

<sup>54</sup> Swedish Government Official Report (SOU) 2014:52 p. 238.

<sup>55</sup> Chapter 1, section 6, paragraph 2 of RA.

## Direct contagion effects

Direct contagion effects mainly refer to contagion effects caused by other banks having different types of exposure to the failing<sup>56</sup> bank. Often, but not always, the exposures consist of holdings of the failing bank's debt instruments. These exposures risk resulting in losses for other banks and thus give rise to direct contagion effects in the financial system should a bank fail. If exposures to the failing bank are sufficiently large and affect a sufficient number of banks, they can cause significant adverse effects on financial stability.

## Indicators and threshold

### Main indicator

In order to assess the significance of a bank's direct contagion effects, the Debt Office has defined a main indicator, which is large credit exposures of other banks to the failing bank. The authority takes account of the number of banks with such exposures and their aggregate O-SII score to assess the potential extent of the direct contagion effects. The definition of 'large exposures' is exposures amounting to at least 10 per cent of the Tier 1 capital of the creditor bank.<sup>57</sup>

### Threshold

The Debt Office does not currently apply a specific threshold for when large credit exposures could have significant adverse effects on financial stability.

### Supplementary indicators

When the Debt Office analyses exposures to the failing bank, the **number of smaller credit exposures to the failing bank** is also analysed. The supplementary indicator is defined as the number of exposures that amount to less than 10 per cent of the exposed banks' Tier 1 capital (and are thus not defined as *large*). The indicator supplements the analysis by depicting the total number of exposures of other banks to the failing bank.

## Indirect contagion effects

In the event of a bank failing, there is a risk of investors or depositors losing confidence in other banks also, particularly those with business models or risk profiles that are the same as or similar to that of the failing bank – even if such banks are viable.

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<sup>56</sup> In the planning stage, a *failing bank* refers to the bank for which the systemic importance assessment is performed. In this section, the term '*failing*' is used to clearly distinguish that bank from those that are creditors.

<sup>57</sup> The Debt Office focuses primarily on net exposures, which take account of banks' credit risk mitigation methods such as third-party guarantees, credit insurance and collateral in real estate. These may differ significantly from gross exposures. However, the Debt Office considers that net exposures are significantly closer to loss given default (LGD); that is, the amount that the exposed banks would lose if the bank fails. Since the exposed banks can incur accounting losses due to falling market values, the authority also takes gross exposures into account.

When the Debt Office assesses the indirect contagion effects of a bank's failure, the three funding markets primarily used by Swedish banks are analysed:

- senior unsecured bonds and certificates
- covered bonds
- deposits

The banks' funding markets are important to assess because adverse contagion effects can arise and be amplified rapidly in these markets. Liquidity crises are a recurring source (and symptom) of financial unease and may result in funding for banks' operations becoming significantly more expensive or no longer available. If this happens, there can be significant adverse effects on financial stability.

Banks are subject to various liquidity coverage regulations to help them to withstand stress, for example due to lack of availability of a particular funding market for a short time. While these regulations can increase resilience in the event of various disturbances, they are not designed to remedy the disturbances that may arise if a bank fails, especially not in a systemic crisis.

## Senior unsecured bonds and certificates

### The market for senior unsecured bonds and certificates

The market for senior unsecured bonds and certificates is important for banks' funding and complements their other two primary funding sources – covered bonds and deposits. By issuing senior unsecured bonds and certificates, banks can access funding through European and global capital markets.

The large banks issue long-term senior preferred and senior non-preferred bonds on global capital markets, chiefly in foreign currencies but also in Swedish kronor. Although this market is important to them, their issuances represent only a minor proportion of global volumes and do not provide them with a significant global market share.

Some medium-sized banks issue senior unsecured bonds in Swedish kronor and euros. Although the euro market is important for some of them, their issuances are marginal in relation to the total size of the European market. However, there are fewer comparable issuers on the Swedish market, especially since non-financial corporations are rarely able to attain the same credit rating as the banks.

The large banks also use short-term market funding to a great extent, mainly in the form of commercial paper and certificates of deposit in foreign currency, which are issued on global capital markets.

**Idiosyncratic crisis:** In an idiosyncratic crisis, it is likely that investors would quickly attempt to determine whether other Swedish banks have risk exposures similar to the failing bank. If this is the case, or if there is great uncertainty about the exposures, this could cause significant indirect contagion effects. The funding

situation of other banks could deteriorate rapidly which, in turn, could lead to higher funding costs or restricted market access. The short-term certificate market is particularly vulnerable, as it can be assumed that heightened risks could rapidly limit the banks' funding possibilities due to the short maturities.

**Systemic crisis:** The contagion channels in a systemic crisis are essentially the same as in an idiosyncratic crisis, although it can be assumed that market turmoil would be significantly greater. There is a risk that foreign investors would wind up their holdings in Swedish banks' senior unsecured bonds and certificates even faster than in an idiosyncratic crisis, especially if the crisis is of domestic origin.

## Indicators and threshold

### Main indicator

In order to assess a bank's indirect contagion effects on the senior capital market, the Debt Office has defined a main indicator, which is the outstanding volume of senior unsecured bonds and certificates.<sup>58</sup>

The Debt Office also takes account of the progression of the main indicator over time, including forecasts, where relevant.

### Threshold

The Debt Office applies a threshold in the form of a range for assessing the level at which a failing bank's outstanding volume of senior unsecured bonds and certificates could cause significant adverse effects on financial stability. Banks with a volume of senior unsecured bonds and certificates below SEK 80 billion are not considered to cause significant adverse effects on financial stability in the event of their failure. Banks with a volume exceeding SEK 120 billion are considered able to cause significant adverse effects on financial stability.<sup>59</sup>

For a bank that falls within the range, the Debt Office performs an enhanced assessment of the probable contagion effects should that bank fail. This assessment includes, for example, the bank's size and business model.

The market turmoil and indirect contagion effects are, all else equal, higher in a systemic crisis than in an idiosyncratic crisis. The Debt Office assumes that, in a systemic crisis, it is probable that the government and the stability-preserving authorities (i.e. the Riksbank, Finansinspektionen and the Debt Office) would take various measures to ensure the stability of the banking system, including supplying

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<sup>58</sup> The global capital market operates in different currencies, but the contagion effects between these currencies are essentially immediate, and the Debt Office therefore does not distinguish between different currencies in the main indicator.

<sup>59</sup> Banks that are regarded by investors as Sovereigns, Supranationals and Agencies (SSAs) have a very different investor base than commercial banks. For banks that are regarded as SSAs, the Debt Office therefore considers that the criteria for indirect contagion effects are not met.

liquidity to viable banks. For this reason, the same threshold applies in a systemic crisis as in an idiosyncratic crisis.

## Covered bonds

### The covered bond market

The covered bond market is an important source of funding for banks that issue mortgages but also (albeit to a limited extent) commercial real estate loans.

The market is an integral part of the Swedish financial system. A substantial share of the banks' liquidity buffers consists of other banks' covered bonds, which clearly interconnects the banks and requires the market to remain liquid in order for the buffers to function as intended. Besides, the large banks act as market makers and may, at times, have very large covered bond holdings. Furthermore, the market is relatively homogeneous in scope – funding similar assets within the same geographic region and essentially in the same currency – which further reinforces interconnectedness between participants.

**Idiosyncratic crisis:** Investors in covered bonds have special preferential rights in the cover pool (i.e. mortgages) if the bank is declared bankrupt. The fact that the bonds are secured makes them a very safe asset. In uneasy capital markets, the covered bond market is generally more resilient than, for example, the senior unsecured bond market.

The Debt Office considers, however, that the failure of a large covered bond issuer would lead to heightened risk aversion among investors, which could cause significant adverse effects for other banks that raise funding through covered bonds.

**Systemic crisis:** The covered bond market is central to the Swedish financial system and it is of great importance that it functions well. It can be assumed that a failure in a systemic crisis could lead to extensive market disturbances, resulting in poorer funding possibilities for other banks. Such a market disturbance would also cause a decline in the market value of banks' holdings of other banks' covered bonds in their liquidity portfolios.

### Indicators and threshold

#### Main indicator

In order to assess a bank's indirect contagion effects in the covered bond market, the Debt Office has defined a main indicator, which is the outstanding volume of covered bonds.

The Debt Office takes account of the progression of the main indicator over time, including forecasts, where relevant.

## Threshold

The Debt Office applies a threshold in the form of a range for assessing the level at which a failing bank's outstanding volume of covered bonds could cause significant adverse effects on financial stability. Banks with a volume of covered bonds below SEK 80 billion are not considered to cause significant adverse effects on financial stability. Banks with a volume of covered bonds exceeding SEK 120 billion are considered able to cause significant adverse effects on financial stability.

For a bank that falls within the range, the Debt Office performs an enhanced assessment of the probable contagion effects should that bank fail. This assessment includes, for example, the bank's size and business model.

The market turmoil and indirect contagion effects are, all else equal, higher in a systemic crisis than in an idiosyncratic crisis. However, the Debt Office assumes that, in a systemic crisis, it is probable that the government and the stability-preserving authorities (i.e. the Riksbank, Finansinspektionen and the Debt Office) would take various measures to ensure the stability of the banking system, including supplying liquidity to viable banks. For this reason, the same threshold applies in a systemic crisis as in an idiosyncratic crisis.

## Deposits

### The deposits market

Deposits – that is, money deposited in the bank by customers – are a key funding source for most Swedish banks. Historically, unease in the deposits market has been a source of financial instability. Deposits are relatively fluid and depositors can simply and swiftly transfer deposits from one bank to another. A bank's failure could thus give rise to indirect contagion effects for other banks also that (largely) obtain their funding through deposits.

An additional contagion effect that may arise if a bank with a large volume of deposits is declared bankrupt, is the extraordinary contributions that can then be imposed in order to restore the deposit insurance fund to its target level. Extraordinary contributions to the deposit guarantee scheme are described in more detail in the last section under *indicators and threshold*.

**Idiosyncratic crisis:** In the event of a failure of an individual bank, the deposit guarantee scheme has a mitigating effect on the indirect contagion effects. However, such a failure could still lead to depositors being more inclined to withdraw funds from banks with a similar business model and risk profile, regardless of the risk of them actually failing. The risk of large withdrawals has increased in line with digitalisation and the development of deposit platforms.<sup>60</sup> This also applies to guaranteed deposits, as depositors may wish to ensure immediate and uninterrupted access to their funds.

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<sup>60</sup> [Increased deposits via deposit platforms](#), Finansinspektionen.

**Systemic crisis:** In a systemic crisis, it can be assumed that depositors' risk aversion would be higher than in an idiosyncratic crisis. The failure of even a small bank in such a situation would risk triggering or amplifying outflows at other banks which – in the absence of possibilities to raise liquidity by other means – could lead to further failures.

## Indicators and threshold

### Main indicator

In order to assess a bank's indirect contagion effects in the deposits market, the Debt Office has defined a main indicator, which is the outstanding volume of deposits from the general public.

The Debt Office also takes account of the progression of the main indicator over time, including forecasts, where relevant.

### Threshold

The Debt Office applies a threshold in the form of a range for assessing the level at which a failing bank's volume of deposits from the general public could cause significant adverse effects on financial stability. Banks with total deposits from the general public below SEK 80 billion are not considered to cause significant adverse effects on financial stability. Banks with total deposits from the general public exceeding SEK 120 billion are considered able to cause significant adverse effects on financial stability.

For a bank that falls within the range, the Debt Office performs an enhanced assessment of the probable contagion effects should that bank fail. This assessment includes, for example, the bank's size and business model.

The assessment of the indirect contagion effects for institutions within the range also includes an analysis of the extraordinary contributions that could arise in the event of a failure, if the deposit guarantee is called – as is the case when a bank is declared bankrupt.

The market turmoil and indirect contagion effects are, all else equal, higher in a systemic crisis than in an idiosyncratic crisis. The Debt Office assumes that, in a systemic crisis, it is probable that the government and the stability-preserving authorities (the Riksbank, Finansinspektionen and the Debt Office) will take various measures to ensure the stability of the banking system, including supplying liquidity to viable banks. For this reason, the same threshold applies in a systemic crisis as in an idiosyncratic crisis.

### Extraordinary contributions to the deposit guarantee scheme

If a failing bank is declared bankrupt, the deposit guarantee is activated.

Compensation from the deposit guarantee scheme is financed by the deposit guarantee fund. In order to restore the fund's capital to its statutory target level (0.8 per cent of the banking system's guaranteed deposits; that is, the deposits covered by the deposit guarantee scheme), the Debt Office – which is the deposit

guarantee authority – shall impose extraordinary contributions on remaining, affiliated banks.<sup>61</sup>

If a sufficiently large bank fails and is declared bankrupt, the extraordinary contributions can become substantial and adversely affect the profitability and capital of remaining banks. If the statutory target level is not reached, the contributions of affiliated banks shall be adjusted so that the target level is restored within six years. Although extraordinary contributions do not necessarily lead to the immediate failure of other banks, they can weaken their profitability and capital position, thereby adversely affecting overall credit supply capabilities of the banking system. This is the case in particular in a systemic crisis.

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<sup>61</sup> Section 15a of the Deposit Guarantee Scheme Act. According to the Deposit Guarantee Scheme Act, the assets of the deposit guarantee fund shall amount to a set target level to ensure that funds are available at the time of disbursements. The target level is 0.8 per cent of the institutions' total deposits covered by the guarantee. Contributions continue to be charged each year even if the target level of 0.8 per cent is reached.

**The Swedish National Debt Office works to ensure that the central government's finances are managed effectively and that the financial system is stable. The Debt Office thus plays an important role in both the financial market and the Swedish economy.**



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