

Finansinspektionen's Regulatory Code

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Regulations amending Finansinspektionen's regulations and general guidelines (FFFS 2019:21) regarding occupational pension undertakings;

FFFS 2021:3

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decided on 18 May 2021.

Finansinspektionen prescribes pursuant to Chapter 5, section 2 of the Occupational Pension Undertakings Ordinance (2019:809) in respect of Finansinspektionen's regulations and general guidelines (FFFS 2019:21) regarding occupational pension undertakings

in part that Chapter 4, sections 11, 12, 18, 19 and 22, and Chapter 7, sections 2, 13, 14, 17, 18, 25 and 36 shall have the following wording,

in part that three new sections, Chapter 7, sections 22a, 30a and 30b, and new headings immediately preceding Chapter 7, sections 22a, 30a and 30b shall be inserted with the following wording.

Chapter 4

Section 11 An occupational pension undertaking shall determine a discount interest rate curve in accordance with the method set out in sections 12–15. When the institution is applying this method, it shall use the following as a basis:

1. applicable market quotations for interest rate swaps referred to in section 16, adjusted in accordance with section 17,
2. the long-term forward interest rate for the calculation year is calculated using the method in sections 18–22,
3. the longest maturity for each currency referred to in section 23, and
4. the time of convergence for each currency referred to in section 23.

The institution shall determine a discount interest rate curve for each currency in which it has occupational pension obligations.

Section 12 The discount interest rate $z(t)$ at the duration t years shall be determined in accordance with the formula

$$z(t) = \left((1 + f(t-1, t)) \cdot (1 + z(t-1))^{t-1} \right)^{1/t} - 1$$

where $f(t-1, t)$ is the forward interest rate on the discount interest rate curve. This shall be determined in accordance with the formula

$$f(t-1, t) = (1 - w(t)) \cdot \tilde{f}(t-1, t) + w(t) \cdot UFR_y^B,$$

where

\tilde{f} is the corresponding forward interest rate consistent with applicable market quotations on interest rate swaps as per section 16, adjusted in accordance with section 17,

the weights $w(t)$ are determined in accordance with section 13, and

UFR_y^B is the limited long-term forward interest rate for the calculation year y in accordance with sections 18–22.

For maturities that do not correspond to a full year, an occupational pension undertaking shall interpolate the interest rate using an appropriate method.

Section 18 An occupational pension undertaking shall determine the long-term forward interest rate for each year for the currency Swedish kronor. If the institution is exposed to the currencies Norwegian kroner, Danish kroner, euro, pound sterling or US dollar, the long-term forward interest rate shall also be determined annually for these currencies. The long-term forward interest rate for Swedish kronor shall be used for other currencies.

The change in the long-term forward interest rate for each currency shall be limited to an increase or decrease of 15 basis points (bp), or remain unchanged in accordance with the following

$$UFR_y^B = \begin{cases} UFR_{y-1}^B + 15 \text{ bp} & \text{om } UFR_y \geq UFR_{y-1}^B + 15 \text{ bp} \\ UFR_{y-1}^B - 15 \text{ bp} & \text{om } UFR_y \leq UFR_{y-1}^B - 15 \text{ bp} \\ UFR_{y-1}^B & \text{annars,} \end{cases}$$

where

UFR_y^B is the limited long-term forward interest rate for year y ,

UFR_{y-1}^B is the limited long-term forward interest rate for year $y-1$, and

UFR_y is the long-term forward interest rate for year y before limitation of the annual change and is determined as the sum

$$UFR_y = E(R_y) + E(I_y),$$

where

$E(R_y)$ is the expected real interest rate and

$E(I_y)$ is the expected rate of inflation.

The expected real interest rate $E(R_y)$ is the same for all currencies and is determined in accordance with sections 19–21, while the expected rate of inflation $E(I_y)$ is determined separately for each current currency in accordance with section 22.

General guidelines

When applying section 18, the institution should use the limited long-term forward interest rate for Swedish kronor published by Finansinspektionen on its website.

Section 19 The expected real interest rate is a simple arithmetical average of annual real interest rates from the year 1961 up to and including the year before the recalculation of the long-term forward interest rate in accordance with the following formula:

$$E(R_y) = \frac{1}{n_y} \sum_{i=1}^{n_y} r_{1960+i}$$

where

n_y is the number of years from the end of 1960 and

r_{1960+i} is the annual real interest rate for the year 1960 + i .

Section 22 If the pertinent central bank has specified an inflation target, the expected rate of inflation $E(I_y)$ for the respective currency shall be based on the inflation target as follows:

<i>Inflation target</i>	<i>Expected inflation $E(I_y)$</i>
Lower than or equal to 1%	1%
Higher than 1% and lower than 3%	2%
Equal to or higher than 3% and lower than 4%	3%
Equal to or higher than 4%	4%

If a central bank specifies the inflation target as an interval, the mid-point of this interval shall be used.

If a central bank has not specified an inflation target, the expected inflation $E(I_y)$ shall be determined at 2 per cent.

Chapter 7

Section 2 The following definitions apply in this chapter:

1. *mortgage*: A loan granted against collateral in property that is intended for residential purposes in Sweden. In such a case, the collateral shall consist of

1. real property,
2. a site leasehold right, or
3. a lien on a tenant-owner right.

Mortgage also refers to other loans collateralised by a residential property pursuant to Article 129(1)(d) of 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 if the collateral is located in a state within the European Economic Area (EEA) other than Sweden. The same applies to mortgages pursuant to Article 129(1)(e) of the Regulation.

2. *external credit assessment institution*: a credit assessment institution that is registered or certified in accordance with Regulation (EC) No 1060/2009 of 16 September 2009 on credit rating agencies.

3. *infrastructure entity*: an entity or corporate group referred to in Article 1(55)(b) of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

4. *infrastructure assets*: physical assets, structures or facilities, systems and networks referred to in Article 1(55)(a) of Commission Delegated Regulation (EU) 2015/35.

5. *credit quality step*: quality steps in an objective scale of credit quality steps that is used in order to allocate an external credit assessment institution's credit assessments and is implemented through Commission Implementing Regulation (EU) 2018/633

of 24 April 2018 amending Implementing Regulation (EU) 2016/1800 laying down implementing technical standards with regard to the allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps in accordance with Directive 2009/138/EC of the European Parliament and of the Council.

6. *covered bonds*: bonds or other comparable debt instruments in accordance with the Covered Bonds (Issuance) Act (2003:1223) and Finansinspektionen's regulations and general guidelines (FFFS 2013:1) regarding covered bonds and exposures in the form of bonds referred to in Article 52(4) of Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

Section 13 An occupational pension undertaking shall calculate the capital requirement for interest rate risk by measuring how the values of rate-sensitive exposures in the form of technical provisions, assets, and financial liabilities are impacted by changes in market rates.

Under Chapter 1, section 6 of the Occupational Pension Ordinance (2019:809), the risk of negative market rates shall not be taken into account. If a reduction in the level of a certain market interest rate that an occupational pension undertaking uses to value its rate-sensitive exposures results in the interest rate level becoming negative, the reduction shall be regarded as a market rate of zero.

Section 14 When an occupational pension undertaking calculates the capital requirements for interest rate risk for the exposures referred to in section 13, first paragraph, the institution shall measure the exposures with altered market rates.

The capital requirement for interest rate risk is the largest increase in the difference between the technical provisions and the interest-sensitive assets after deductions for financial liabilities in conjunction with an increase or decrease in the market rates pursuant to the third and fourth paragraphs.

When market rates are lowered, the institution shall choose the largest increase that arises in conjunction with an absolute decrease or a relative decrease, respectively, according to the following table.

When market rates are raised, the institution shall choose the largest increase that arises in conjunction with an absolute increase or a relative increase, respectively, according to the following table.

In this provision concerning technical provisions, market rates shall mean market quotations in accordance with Chapter 4, section 11, first paragraph, point 1.

Maturity (years)	Absolute change (basis points)	Relative change
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≤1	± 50	± 41 %
2	± 53	± 38 %
3	± 56	± 36 %
4	± 60	± 33 %
5	± 62	± 32 %
6	± 64	± 30 %
7	± 65	± 28 %
8	± 66	± 27 %
9	± 67	± 26 %
10	± 68	± 25 %
12	± 69	± 23 %
15	± 70	± 22 %
≥ 20	± 70	± 20 %

For maturities that are not specified in the table, the change shall be calculated using linear interpolation.

Section 17 The capital requirements for different types of assets in accordance with section 16 shall be calculated as the value reduction that results from the asset value decreasing as per the following table:

Type A shares	30%
Type B shares	40%
Type C assets	45%

Section 18 An occupational pension undertaking shall calculate the capital requirement for property price risk as the value reduction that results from the market prices of the institution's investments in real estate and buildings falling by 25 per cent.

Spread risk for qualifying mortgages

Section 22a When an occupational pension undertaking is calculating the capital requirement for spread risk in accordance with section 19, the institution shall allocate an exposure in the form of interest-bearing assets that constitute qualifying mortgages in accordance with section 30a a risk weight calculated as per the second paragraph. This means that the exposure shall constitute the assets' market value multiplied by the risk weight.

The risk weight, Rw_h , for holding h of qualifying mortgages shall be calculated using the following formula:

$$Rw_h = 1 + \max[1 - 0.6 \cdot MV_h / Loan_h; 0],$$

where MV_h and $Loan_h$, respectively, are the market value and the loan for the property by which the loans are collateralised.

Section 25 An occupational pension undertaking shall calculate the capital requirement for foreign exchange risk for each currency to which the institution is exposed as the increase in the difference between the technical provisions and the currency-sensitive assets after deductions for financial liabilities resulting from the exchange rate increasing or decreasing by 10 per cent.

Specific information about qualifying mortgages

Investments in qualifying mortgages

Section 30a An occupational pension undertaking's investments in qualifying mortgages shall include investments that entail exposure exclusively to mortgages. A property that constitutes collateral for a mortgage shall be a property other than a property as referred to in Chapter 2, section 14 of the Income Tax Act (1999:1229). There shall also be an appropriate insurance for it. In addition, the institution shall

1. monitor and at least every third year analyse changes in the market value of the property that serves as collateral for the loans included in the investment,
2. following suspicions that the market values have fallen significantly, ensure that the values are reviewed by an external and independent valuer that has the requisite qualifications, knowledge and experience to perform a valuation, and
3. document which property constitutes collateral for the loans that are included in the investment, its market value, and the method the institution applies to monitor and analyse the market values in accordance with point 1.

Capital requirement for the risk of qualifying mortgages

Section 30b Capital requirements for the risk in qualifying mortgages shall be calculated like capital requirements for spread risk in accordance with sections 19–23 and apply credit quality step SOBL.

Section 36 An occupational pension undertaking shall calculate the capital requirement for morbidity risk as the increase in the technical provisions in accordance with Chapter 5 of the Occupational Pension Undertakings Act (2019:742) when the institution is simultaneously applying the stress factors set out in the table below:

The probability that a person will fall ill within one year increases	+40 %
The probability that a person will recover or die (settlement) within one year decreases	-15 %
The degree of invalidity increases	+15 %

If the institution applies a settlement function $\lambda(x,t)$, this shall increase such that $[1-\lambda(x,t)]$ is replaced by $0.85 \cdot [1-\lambda(x,t)]$ for all ages x and durations t . The degrees of invalidity doi shall be increased such that $(1-doi)$ are replaced by $0.85 \cdot (1-doi)$.

These regulations and general guidelines shall enter into force on 01 June 2021.

ERIK THEDEÉN

Ida Mohlander