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GWA ARTICLES

Title: Securities Market Regulation in Sweden – an Overview

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The financial sector is one of the most important growth engines of the Swedish economy. It employs approximately 100,000 people, has high productivity, great innovative power and represents about 4 percent of Sweden's GNP. Internationally, Sweden is in the forefront in the development of financial services and products as well as of new technology.

Stockholm, the capital of Sweden, aspires to a position as a leading financial centre in the Baltic region and in Northern Europe. Stockholm is the domicile for the largest stock exchange in the Baltic region. Four of the six leading banks in the Nordic countries have their head offices in Stockholm.

The foreign presence at the Swedish financial markets is obvious. A majority of foreign companies that operates a securities business in the Nordic countries have placed their regional main office in Stockholm. Foreign operators and investors have a considerable share in the trade on the Swedish securities market.

Supervising and regulatory authority

Companies that operate a business in the financial sector are authorized and supervised by *Finansinspektionen* ("FI") the financial supervisory authority. At present, FI supervises approximately 3,700 entities incorporated in Sweden and 400 foreign financial institutions with an operation in Sweden: banks and other credit institutions,

securities companies, securities exchanges and clearing houses, fund management companies, as well as insurance companies and insurance brokers. FI is also responsible for monitoring the financial markets, for instance FI monitors the disclosure of information from the 300 companies publicly traded on a stock exchange or market-place in Sweden.

Legal Framework

The most central rules for the Swedish securities market are defined by *Lag om värdepappersmarknaden* (“LVM”) the Financial Markets Act (2007:528); and by *Lag om handel med finansiella instrument* (“LHFI”) the Financial Trading Act (1991:980). In addition to LVM and LHFI, for instance reporting duties, insider rules, take-over rules and money-laundering regulation are found in separate acts.

Legislation Applicable for Foreign Subjects

Generally speaking, the Swedish securities markets regulation applies equally for Swedish and foreign subjects. For instance, reporting duties, take-over rules and requirements to draw up a prospectus in cases of public offerings apply equally to Swedish and foreign investors.

However, Sweden acknowledges certain licences to operate a securities business granted by regulatory bodies in other EU countries. In such cases a securities business may be commenced in Sweden after a notification to FI, and the formal licensing procedure following LVM does not apply.

Regulation of Securities Businesses

LVM came into force 1 November 2007, and by its adoption Sweden comply with the European Directive on Markets in Financial Instruments (“MiFID”). LVM contains the fundamental rules for the organization of a securities business, e.g. capital requirements, and portfolio risk diversification rules. LVM also sets out the requirements for obtaining a license to conduct the securities business. Any company, which plans to

offer services on the securities market, needs a licence from FI, and the application procedure is prescribed in LVM.

LVM is also applicable to any undertaking with the aim of establishing regular trading in financial instruments. An undertaking may receive authorisation as a securities exchange or a marketplace (regulated market or a multilateral trading facility according to MiFID-terminology).

At present, two securities exchanges are authorised in Sweden - OMX Nordic Exchange Stockholm AB and Nordic Growth Market NGM AB. OMX Stockholm is the largest securities exchange in the Baltic region, and offers trade in shares, money-market instruments and derivatives.

Clearing operations may only be conducted on a commercial basis by the Central Bank of Sweden and by undertakings that have been licensed as clearing organizations pursuant to LVM.

Regulation on Trading

LHFI applies to all operators of a securities business, issuers of financial instruments and professional investors. LHFI contains rules as regards trading in financial instruments, disclosure of shareholdings, and the pledging of collateral. The act also contains the rules for drawing up prospectuses in connection to offers to the public to purchase financial instruments or when financial instruments are to be admitted to trading on a regulated market.

To the regulatory system as regards trading should be added guidance on good practice on the Swedish securities market found in recommendations issued by the Swedish Securities Council, the Swedish Industry and Commerce Stock Exchange Committee and the OMX Nordic Exchange Stockholm.

The Swedish Takeover Regulation

The takeover regulation consists of a combination of legislation and self-regulation, fulfilling the requirements of the EU Takeover Directive. The regulation mainly consists of the Takeover Act, and a statutory obligation in LVM for a stock exchange or marketplace to adopt takeover rules which comply with the Takeover Directive.

The Takeover Act sets forth certain duties for the offeror, who is obliged to make a mandatory offer for all the shares of a company when the offeror attains a 30% voting share in a company. Furthermore the Takeover Act restricts defensive action taken by the target company and sets out provisions regarding breakthrough. That is, certain provisions of the articles of association and certain contractual agreements regarding the shares of the target company are not applicable in relation to a takeover bid.

FI supervises compliance with the Takeover Act. It may also impose fines up to SKr 100 million (€11 million) in cases of non-compliance

Rules on Disclosure of Sales and Purchases of Shares

The Disclosure Act is based on the EU Transparency Directive. The Disclosure Act sets forth that sales and purchases of shares exceeding 5% of the share capital or votes in a listed company must be reported to the company itself and the FI no later than the day after the transaction.

Publicly traded companies are obligated to report to FI the identity of persons in the company and its subsidiaries who hold insider positions. A person holding an insider position must report shareholdings and other financial instruments in the company held by him or her and closely affiliated natural and legal persons.

Rules for Prospectuses

The rules governing prospectuses are set out in LHF. These rules stipulate that a prospectus whenever a financial instrument is to be offered to the public or is admitted

to trading on a stock exchange or marketplace. The rules are based on the EU Prospectus Directive.

All prospectuses must be in the Swedish language when the offer is made to the public in Sweden, or when the financial instrument is to be admitted to trading in Sweden.