

## Company & Commercial - Sweden

### Simplified rules for limited liability companies

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#### Background

At the end of 2009 roughly 300,000 limited liability companies were registered with the Swedish Companies Registry. Approximately 1,200 of these are public companies; the rest are private limited companies with small revenues and few employees. However, it does not necessarily follow that the largest companies in terms of size and revenue are public – IKEA, for example, is privately held, and a number of subsidiaries to international companies are private limited companies since their shares are not offered for sale to the general public.

In September 2007, as a first step in the legislative process, the government appointed a commission of inquiry tasked with proposing amendments to the Companies Act (2005/551) in order to simplify matters for limited liability companies. The commission has submitted an interim report regarding a reduction in the required minimum share capital and a final report entitled "Simplifications in the Companies Act".

The government proposal that followed the interim report was adopted on February 18 2010 and, from April 1 2010, will reduce the required minimum share capital in private limited companies from Skr100,000 to Skr50,000 (approximately €10,000 to €5,000). This figure is very low in historical terms for Sweden, where the minimum capital requirement has been regarded as a necessary entrance barrier to ensure that entrepreneurs are prepared to commit capital to a business plan and to reduce the risk of the limited liability form being used for unlawful purposes or purposes that are detrimental to creditors. The change can be partly attributed to the tendency in other European countries to reduce or even abolish the minimum requirement.

The administrative burden on small limited liability companies has been of political concern for a number of years. Thus, legislative changes are likely to continue to be made to ease this burden. The proposals for simplification made in the commission of inquiry's final report follow this trend, and although no government proposal has yet been presented, it is safe to assume that the vast majority – if not all – of the changes in the summary below will be implemented in near future.

#### Proposed changes

##### ***Simpler company formation***

For private limited companies, the mandatory information that must be stated in the articles of association under Chapter 3, Section 1 of the act will be restricted to the name of the company, the location of the company's registered office and the objects of the company. The other information required under the existing law will be covered by optional, new provisions that will apply in cases where the articles of association do not prescribe otherwise.

##### ***Abolition of share certificates***

The paper-based system of share certificates, dividend coupons and interim certificates will be abolished. This means that the share register will contain more information and that its contents will have greater legal importance. No central shareholders' register is proposed. Instead, under the proposal, the board of directors will continue to be obliged to keep a share register.

##### ***Simplifications concerning company organization***

The requirement in Chapter 8, Section 3 of the act for at least one alternate board member where the board of directors has fewer than three members will be altered to apply only where the board has a sole member.

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The requirement to adopt rules of procedure under Chapter 8, Section 6 of the act will be removed for private limited companies.

The requirement in Chapter 8, Section 7 of the act for written instructions on the allocation of work between company organs will be removed for private limited companies.

In a private limited company the term of office of a member of the board of directors under Chapter 8, Section 13 of the act will be indefinite, unless otherwise provided in the articles of association.

#### **Abolition of residency requirements**

The European Economic Area residency requirement for founders, members and alternate members of the board of directors, the managing director, the deputy managing director, company signatories and the liquidator will be abolished. However, the inquiry proposes retaining the requirement that the company must authorize an agent for service of process if it lacks an authorized representative who is domiciled in Sweden.

#### **Steps to facilitate ownership and generational changes**

Private limited companies will be given greater possibilities to acquire their own shares and to make loans to connected persons and loans for the acquisition of their shares.

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