

SELF-REGULATION IN
THE SWEDISH
SECURITIES MARKET

AN INTRODUCTION TO SELF-REGULATION IN THE SWEDISH SECURITIES MARKET

The Swedish securities market has a long tradition of extensive self-regulation as an alternative or a complement to legislation. This self-regulation follows the international model whereby the corporate sector and other stakeholders in the market design and decide on the rules that govern the securities market and what constitutes good practice.

Self-regulation is an important instrument for preventing overly detailed legislation. Its main advantage is that the market's greatest expertise and practical experience participates in the construction of the rules, which gives them a legitimacy within the corporate sector that ensures a high level of compliance and means that stricter demands can be placed on companies. Another great advantage of self-regulation is that it is flexible and can be updated and adapted quickly when changes are needed. Self-regulation also makes it easier to control costs. Self-regulation has thus shown itself to work well, and has acquired a strong reputation. As a result, legislators have delegated a degree of authority

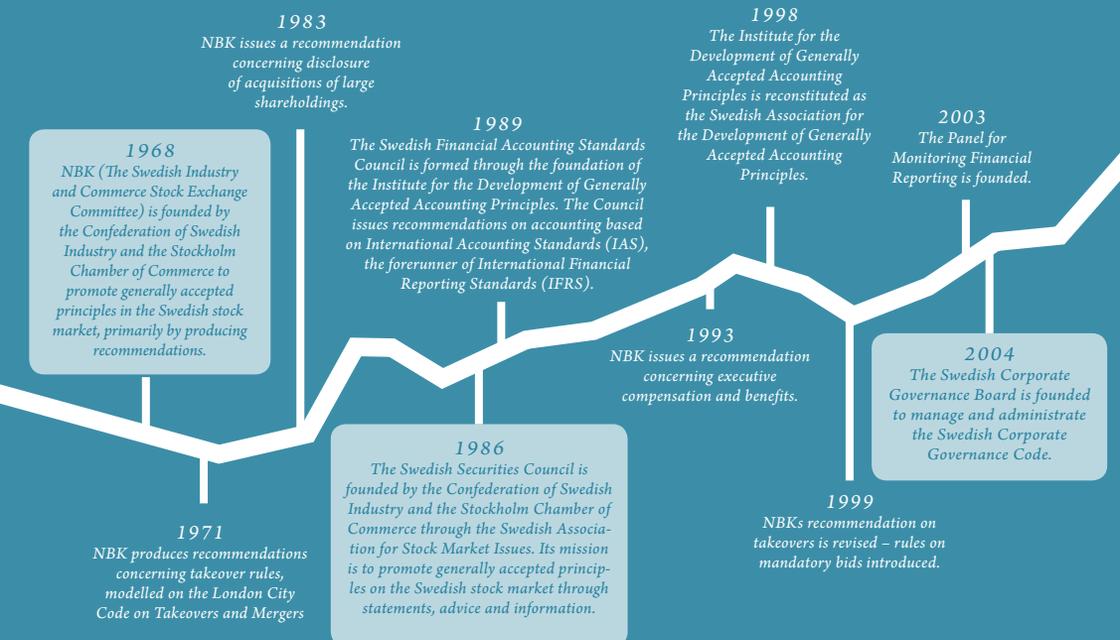
and norm-setting to the self-regulation system.

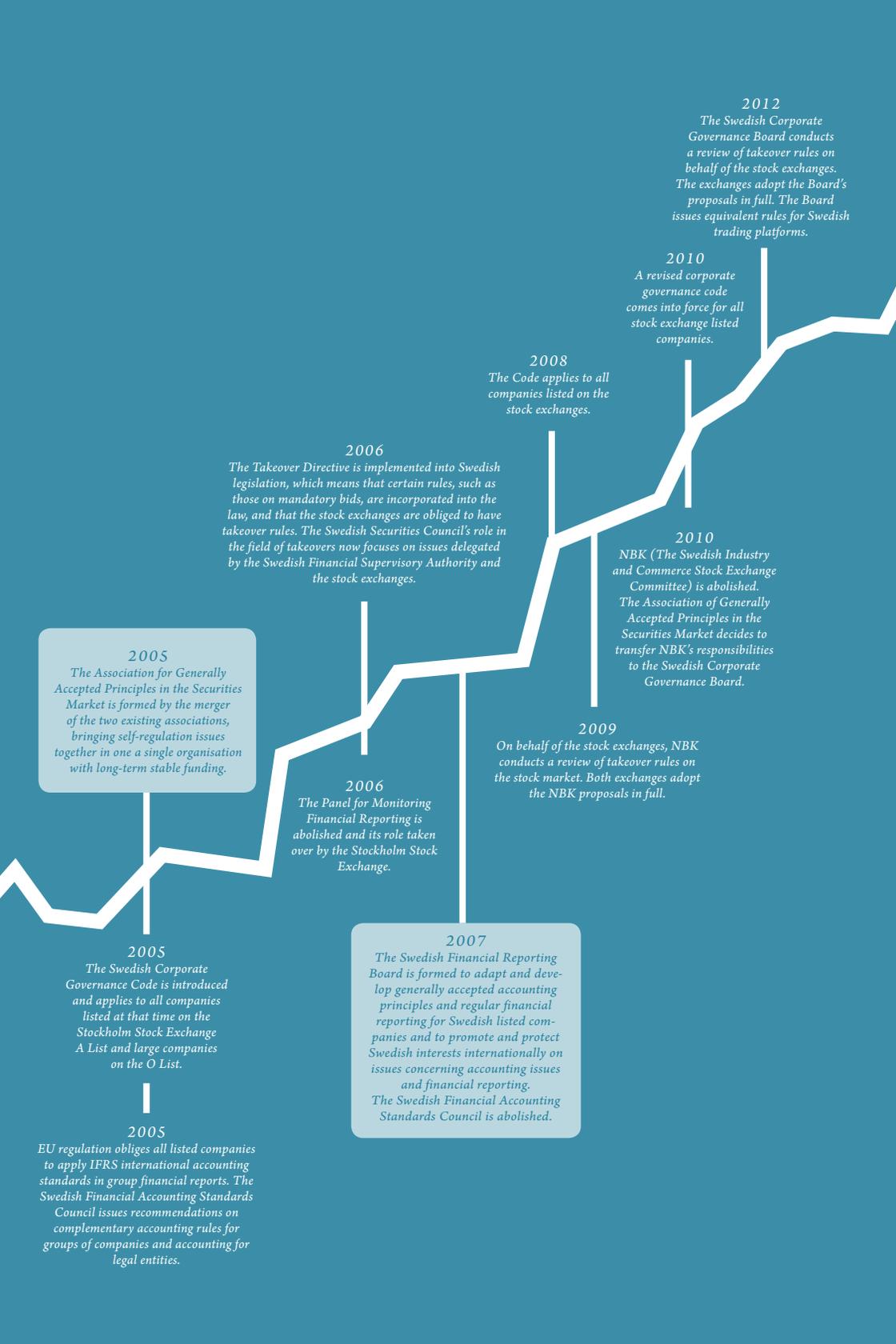
The purpose of self-regulation is to create and maintain confidence in the Swedish securities market among Swedish and foreign market actors, as well as ensuring a healthy and efficient securities market with good conditions for listed companies, investors and other stakeholders.

Increasingly extensive and detailed EU regulation, with a growing number of mandatory rules, poses challenges to Swedish self-regulation and demands new solutions to either provide alternatives to EU regulation or to provide a way of implementing EU rules in this area.

This brochure describes self-regulation in the Swedish securities market, which since 2005 has been organised and monitored by the Association for Generally Accepted Principles in the Securities Market.

THE DEVELOPMENT OF SELF-REGULATION IN THE SWEDISH SECURITIES MARKET





2005

The Association for Generally Accepted Principles in the Securities Market is formed by the merger of the two existing associations, bringing self-regulation issues together in one a single organisation with long-term stable funding.

2005

The Swedish Corporate Governance Code is introduced and applies to all companies listed at that time on the Stockholm Stock Exchange A List and large companies on the O List.

2005

EU regulation obliges all listed companies to apply IFRS international accounting standards in group financial reports. The Swedish Financial Accounting Standards Council issues recommendations on complementary accounting rules for groups of companies and accounting for legal entities.

2006

The Takeover Directive is implemented into Swedish legislation, which means that certain rules, such as those on mandatory bids, are incorporated into the law, and that the stock exchanges are obliged to have takeover rules. The Swedish Securities Council's role in the field of takeovers now focuses on issues delegated by the Swedish Financial Supervisory Authority and the stock exchanges.

2006

The Panel for Monitoring Financial Reporting is abolished and its role taken over by the Stockholm Stock Exchange.

2007

The Swedish Financial Reporting Board is formed to adapt and develop generally accepted accounting principles and regular financial reporting for Swedish listed companies and to promote and protect Swedish interests internationally on issues concerning accounting issues and financial reporting. The Swedish Financial Accounting Standards Council is abolished.

2008

The Code applies to all companies listed on the stock exchanges.

2009

On behalf of the stock exchanges, NBK conducts a review of takeover rules on the stock market. Both exchanges adopt the NBK proposals in full.

2010

NBK (The Swedish Industry and Commerce Stock Exchange Committee) is abolished. The Association of Generally Accepted Principles in the Securities Market decides to transfer NBK's responsibilities to the Swedish Corporate Governance Board.

2010

A revised corporate governance code comes into force for all stock exchange listed companies.

2012

The Swedish Corporate Governance Board conducts a review of takeover rules on behalf of the stock exchanges. The exchanges adopt the Board's proposals in full. The Board issues equivalent rules for Swedish trading platforms.

SELF-REGULATION IN THE SWEDISH SECURITIES MARKET

The corporate sector has much to gain by contributing to high ethical standards in the securities market. The confidence of the general public, investors, politicians and companies is crucial to a healthy, well-functioning market.

By allowing the corporate sector and other stakeholders in the securities market to formulate and decide upon its regulation, either as a complement or alternative to legislation, expertise with immense knowledge and practical experience of the conditions to be

regulated can be fully utilised. The fact that the actors themselves have been involved in the development of the regulation increases commitment to the observance of the rules. Regulation that is devised in this way can be implemented quickly and efficiently, and, where necessary, it can be changed and adapted as required.

For these reasons, a tradition of self-regulation based on international example has long characterised the Swedish securities market. Modern



What are the key features of self-regulation?

- Creates and maintains confidence among Swedish and foreign market actors and ensures a healthy and efficient securities market.
- Provides an alternative or a complement to EU legislation.
- Participation of the market's leading experts ensures a very high level of competence.
- Broad legitimacy and acceptance in the corporate sector, which leads to high levels of compliance.
- Allows flexibility for development and change.

Swedish self-regulation within securities has worked well since the late 1960s. Even though some aspects of self-regulation have recently been replaced by or included in European legislation, new ways to use self-regulation have developed within this European framework. For example, state agency responsibilities within the field of securities have been delegated to one of the self-regulation bodies by the Swedish Financial Supervisory Authority¹, reflecting the standing of Swedish self-regulation.

Experience of Swedish self-regulation is positive. Self-regulation places as high or higher demands on companies than equivalent legislation. To all intents and purposes, actors in the Swedish securities market follow the rules that apply.

The aim of this brochure is to inform about self-regulation in the Swedish securities market and its self-regulation bodies.



THE ASSOCIATION FOR GENERALLY ACCEPTED PRINCIPLES IN THE SECURITIES MARKET²

In order to meet demands for efficiency and clarity, as well as to ensure long term organisational stability and financing, corporate self-regulation has been gathered in a single, common organisation, the Association for Generally Accepted Principles in the Securities Market. The aim of the association is to promote the observance and development of generally accepted principles in the securities market. One of the main tasks of the Association is to appoint the members of the various self-regulation bodies.

The principals of the Association are the Swedish Association of Listed Companies; FAR, (the Institute for the Accountancy Profession in Sweden); the Swedish Investment Fund Association; the Institutional Owners Association for Regulatory Issues in the Stock Market; Nasdaq OMX Stockholm; Insurance Sweden; the Swedish Bankers' Association; the Swedish Securities Dealers Association; and the Confederation of Swedish Enterprise.

The work of the Association is financed by fees from stock exchange listed companies

and the principals, as well as fees charged for statements on certain issues.

The Association operates through its service company Self-regulation in Sweden Service Ltd of which the self-regulation bodies are constituent parts. Norm-setting, however, remains the domain of the three self-regulation bodies:

- The Swedish Securities Council
- The Swedish Corporate Governance Board
- The Swedish Financial Reporting Board

A secretariat with an administrative function serves the Association, its service company and the three self-regulation bodies.

More information on the Association can be found on the Association's website: www.godsedpavpmarknaden.se. For more information, please contact the Association by e-mail at info@godsedpavpmarknaden.se or by telephone on +46 8 50 88 22 78.

The following sections describe the three self-regulation bodies.

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Magnus Hall
Chairman of the Association



Anna-Carin Holmqvist-Larsson,
Head of Secretariat, Association

²Föreningen för god sed på värdepappersmarknaden

The Association for Generally Accepted Principles in the Securities Market

Secretariat

The Swedish Securities Council

The Swedish Corporate Governance Board

The Swedish Financial Reporting Board

The Principals of the Association

- The Swedish Association of Listed Companies
- FAR, (the Institute for the Accountancy Profession in Sweden)
- The Swedish Investment Fund Association
- The Institutional Owners Association for Regulatory Issues in the Stock Market
- Nasdaq OMX Stockholm
- Insurance Sweden
- The Swedish Bankers' Association
- The Swedish Securities Dealers Association
- The Confederation of Swedish Enterprise

THE SWEDISH SECURITIES COUNCIL³

The role of the Swedish Securities Council is to promote good practice in the Swedish stock market through statements, advice and information. The Council was founded in 1986 and is modelled to a certain extent on the London City Panel on Takeovers and Mergers.

Any action by a Swedish limited company which has issued shares listed on a regulated market in Sweden, (Nasdaq OMX Stockholm and NGM Equity), or by a shareholder of such a company may be subject to the Council's assessment if it is or may be of importance to a share in such a company.

The same applies to foreign limited companies which have issued shares listed on Nasdaq OMX Stockholm and NGM Equity, to the extent that such actions must comply with Swedish rules. Where the Council feels it is appropriate, it can also issue statements on relevant issues concerning companies which are traded on Swedish trading platforms.

The Swedish Financial Supervisory Authority has delegated to the Swedish Securities Council certain duties referred to in the Swedish Takeover Act. These include decisions on interpretation of and exemption to the rules on mandatory bids.

Nasdaq OMX Stockholm and NGM Equity have delegated to the Council the right to interpret and examine issues concerning exemptions to their respective rules on public takeover offers on the stock market.

The Council has issued around 700 statements, mostly at the request of companies or their advisers. A large number of these statements concern takeover bids, but the Council has also issued many statements on executive



management incentive programmes, issuing of shares, repurchasing of shares, amendments to articles of association and information to shareholders and the securities market.

All of the Swedish Securities Council's statements can be found on the Council's website:

www.aktiemarknadsnamnden.se, along with information on the composition of the Council and its secretariat and full contact details.

For more information, please contact the Council at:

info@aktiemarknadsnamnden.se, or on +46 8 50 88 22 70



What is the role of the Swedish Securities Council?

- Around 700 statements since it was founded in 1986.
- Accessible 24 hours a day, 365 days a year, issues dealt with promptly.
- Broad legitimacy and support; deep expertise.
- International legitimacy.
- Taken over some duties from the Swedish Financial Supervisory Authority.

THE SWEDISH CORPORATE GOVERNANCE BOARD⁴

Good corporate governance ensures that companies are run as efficiently as possible in the interests of their shareholders. This in turn promotes greater confidence in the companies within the capital markets and among the general public, and thus creates better conditions for the supply of venture capital.

The Swedish Corporate Governance Board was set up in 2005 with the mission to manage and administrate the Swedish Code of Corporate Governance and to generally promote good governance of listed companies in Sweden. The work of the Board includes:

- Compilation and analysis of experiences arising from practical application of the Code
- Collection of feedback from the companies that apply the Code and other key actors within the field of corporate governance, as well as participation in general debate on corporate governance

- Monitoring and influencing changes in legislation and other rules issued in the field of corporate governance
- Monitoring international developments within the field, as well as academic research on the subject, and evaluating the consequences for Swedish corporate governance.

Based on the above, the Board issues any amendments to the Code that are considered appropriate, and communicates and explains these to the market actors concerned.

The Swedish Code of Corporate Governance is based on the principle of comply or explain. This means that companies can choose not to comply with individual rules in the Code on condition that they report and explain all non-compliance and describe the solution they have chosen instead. The Code has been revised and updated when required and its application has been broadened, so that it now applies to all Swedish companies whose shares are traded on a regulated market in Sweden, (Nasdaq OMX Stockholm and NGM Equity).



What is good corporate governance?

Good corporate governance ensures that companies are run as efficiently as possible in the interests of their shareholders, with the aim of promoting greater confidence in the companies within the capital markets and among the general public, thus creating better conditions for the supply of venture capital.

⁴ Kollegiet för svensk bolagsstyrning



The latest version of the Code is always available from the Board's website: www.bolagsstyrningskollegiet.se.

The role of the Board is therefore to provide norms for corporate governance of Swedish listed companies. The Board does not, however, have a supervisory role when it comes to individual companies' application of the Code. That is the responsibility of the respective stock exchanges on which the companies' shares are listed. It is then up to the actors on the capital markets to determine to what extent a company's application or non-application of Code rules is satisfactory in an investor perspective. On request, the Swedish Securities Council can issue statements on how rules are to be interpreted.

As well as managing the Code, the Board works to build awareness and understanding of Swedish corporate

governance, not least in the international capital market. The Board participates actively in general debate within the field and provides information about the Code and Swedish corporate governance in a variety of arenas and forums. The Swedish Code of Corporate Governance also includes a general description of the Swedish corporate governance model.

The Board is also tasked with promoting generally accepted principles in the Swedish securities market by issuing rules within the field. The Board has issued rules on takeover bids in Swedish trading platforms, which were adopted by the Swedish stock exchanges for their regulated markets.

The Board can be contacted through its website: www.bolagsstyrningskollegiet.se, by e-mail at info@bolagsstyrningskollegiet.se or by telephone on +46 8 50 88 22 71.

What is the role of the Swedish Corporate Governance Board?

- The Board manages and administrates the Swedish Code of Corporate Governance (the Code) and promotes good corporate governance.
- The Code is a collection of guidelines for good corporate governance that apply to all stock exchange listed companies.
- The Board also promotes accepted practices in the Swedish stock market, e.g. through its responsibility for takeover rules.

THE SWEDISH FINANCIAL REPORTING BOARD⁵

Financial reports that are produced according to common EU accounting standards contribute to the development of a suitably functioning, efficient and cost-effective capital market.

The Swedish Financial Reporting Board was set up in 2007 in order to:

- adapt and develop generally accepted accounting principles and regular financial reporting for companies whose securities are listed on a regulated market in Sweden,
- promote and protect Swedish interests internationally on issues concerning accounting issues and financial reporting for these companies, and
- ensure that these companies and interested parties receive up to date information and provide them with opportunities to influence amendments and interpretation of financial reporting issues.

What is the role of the Swedish Financial Reporting Board?

- Works proactively to influence international standard setting.
- International networking to safeguard and promote Swedish interests on accounting and financial reporting issues.
- Strong legitimacy as a result of its open transparent work to identify and collect opinions.

The Board is assisted by a Technical Expert Panel. A predecessor, in the form of a self-regulation body for accounting standards, was founded as early as 1989.

The Board works proactively to influence international standards. It participates, for example, in meetings of the European Financial Reporting Advisory Group's Consultative Forum of Standard Setters, (EFRAG CFSS), for national financial accounting standards bodies. These meetings are also attended by representatives of the European Commission, ESMA and IASB. This body also prepares the EU's positions in preparation for meetings with the Accounting Standards Advisory Forum (ASAF), at which the IASB has quarterly meetings with key global standard setters.

On issues that are considered of great importance for listed companies, the Board participates in IASB working groups. The Board also issues statements on proposals contained in consultation documents, such as draft proposals on new or revised accounting standards and interpretation statements from IASB and IFRIC.



The opinions and arguments put forward by the Board are the results of discussions with organised representatives of the Swedish corporate sector. The Board has also engaged finance analysts to add further weight to the arguments from the perspective of end users.

Since all listed companies in Europe are obliged to prepare their consolidated accounts in accordance with the accounting standards and interpretation statements approved by the EU and published by IASB and IFRIC, the recommendations and statements of the Board are limited to particular Swedish conditions and information requirements concerning consolidated accounts.

The board has published two recommendations for listed companies, (RFR 1, Supplementary Accounting Rules for Groups; and RFR 2, Accounting for Legal Entities), and assumed responsibility for six statements concerning particular Swedish conditions. These recommendations and statements are continually updated through amendments. As the EU approves



new recommendations, amendments will continue to be incorporated into the Board's recommendations. New statements may be issued as a result of questions of a general nature from listed companies.

All of the Board's standards and other published materials are available on the Board's website: www.radetforfinansiellrapportering.se, along with information on the composition of the board and full contact details. The Board can be contacted by e-mail at: info@radetforfinansiellrapportering.se or by telephone on +46 8 50 88 22 79.

