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Sweden: Financial Sector Assessment Program Update—Detailed Assessment of Observance on IOSCO Principles and Objectives of Securities Regulation

This Detailed Assessment of Observance on IOSCO Principles and Objectives of Securities Regulation was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed in September, 2011. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Sweden or the Executive Board of the IMF.

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FINANCIAL SECTOR ASSESSMENT PROGRAM UPDATE

SWEDEN

IOSCO PRINCIPLES AND OBJECTIVES OF SECURITIES REGULATION

DETAILED ASSESSMENT OF OBSERVANCE

SEPTEMBER 2011

INTERNATIONAL MONETARY FUND
MONETARY AND CAPITAL MARKETS DEPARTMENT

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GLOSSARY

AMC	Asset Management Company
AML-CFT	Anti-money Laundering and Combating the Financing of Terrorism
AUM	Assets Under Management
CCP	Central Counterparty
CIS	Collective Investment Scheme
CLOB	Central Limit Order Book
CRA	Credit Rating Agency
CSD	Central Securities Depository
CPA	Swedish Consumer Protection Agency
DM	NASDAQ OMX Derivatives Markets
EEA	European Economic Area
EMCF	European Multilateral Clearing Facility NV
ESMA	European Securities and Markets Authority
EU	European Union
FATF	Financial Action Task Force
FI	Finansinspektionen
FSAP	Financial Sector Assessment Program
GAAP	Generally Accepted Accounting Principles
ICSD	International Central Securities Depository
IFA	Investment Funds Act (2004)
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
ISA	International Standards on Auditing
MiFID	Markets in Financial Instruments Directive
MMoU	Multilateral Memorandum of Understanding
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MTF	Multilateral Trading Facility
NDO	National Debt Office
NECB	National Economic Crime Bureau
NGM	Nordic Growth Market
OTC	Over the Counter
RB	Riksbanken
RM	Regulated Market
RS	Swedish Auditing Standards
SEC	US Securities and Exchange Commission
SMA	Securities Market Act (2007)
SRO	Self Regulatory Organization
SSC	Swedish Securities Council
STR	Suspicious Trade Reports
UCITS	Undertakings for Collective Investment in Transferable Securities
UCITS III and IV	Third and fourth UCITS Directives

EXECUTIVE SUMMARY

Compliance with International Organization of Securities Commissions (IOSCO) Principles is generally high, although some concerns needs to be resolved. Finansinspektionen's (FI) operational independence and sufficiency of resources are overarching concerns which impair FI's ability to discharge its supervisory and oversight functions adequately and effectively. FI's mandate should be clearly defined with stable objectives and priorities that are not micromanaged by government. A revised legal structure ensuring greater independence of FI might be considered. FI's current funding and resources affect its ability to deploy sufficient staff to ensure minimum and consistent levels of supervision across supervised entities. Prioritization of resources on systemic institutions is necessary, but this risks being unable to identify the buildup of prudential risk and on-going risks to investors (e.g., from mis-selling of financial products) in the remainder of the financial sector. Subject to the limitations imposed upon them by lack of numbers (which limits severely the number and frequency of on-site inspections they are able to carry out for example), staff do an excellent job in supervising investment firms and investment fund managers. The dissuasive power of the current sanctions for market abuse should be reviewed.

There is a good level of protection of shareholders in Sweden and accounting and auditing standards are high. These are kept current with international enhancements to standards and sometimes exceed them. Reliance on the stock exchanges to monitor and enforce significant elements of the legal and regulatory framework may be losing its effectiveness as competition for listings by "for profit" exchanges develops. Sweden now has three exchanges although one (NASDAQ OMX) remains dominant.

The FI has put in place a good framework for cross-border cooperation within the European Economic Area (EEA) and beyond. It has signed numerous Memoranda of Understanding (MoUs) and Letters of Intent with fellow regulators and there is evidence that these work in practice. The recent change in the law to remove the "Swedish interest" constraint on information sharing, which should enable FI to become a full signatory to the IOSCO multilateral MoU will enhance the FI's already high reputation in this area.

I. INTRODUCTION

1. **An assessment of the level of implementation of the International Organization of Securities Commissions (IOSCO) Principles in Sweden's securities market was conducted March 9–21, 2011 as part of the Financial Sector Assessment Program (FSAP) by Richard Britton, an external technical expert employed for this purpose by the IMF**. An initial IOSCO assessment was conducted in 2001. At that time several significant weakness in the scope and effectiveness of securities market regulation were identified. Since then the legislative framework has been expanded, strengthened and set out in greater detail, primarily as a result of Sweden's implementation of a large volume of directives, regulations and recommendations under the European Union (EU)'s financial services action plan intended to make a single European capital market a practical reality. The improved ratings in this assessment reflect those changes

II. INFORMATION AND METHODOLOGY USED FOR THE ASSESSMENT

2. **The assessment was conducted based on the IOSCO Principles and objectives of securities regulation and its methodology adopted in 2003 and updated in 2008.**[1] In June 2010 IOSCO approved a revision to the IOSCO Principles, which mainly resulted in the addition of nine new Principles. Recently a draft methodology has been circulated to IOSCO Committees for review. It is expected to be endorsed at the IOSCO Annual General Meeting in April 2011. It would therefore have been inappropriate to have assessed the jurisdiction under the draft methodology Nevertheless, FI agreed to hold exploratory discussions on the status of implementation of the new principles. A summary of such discussions is included as an Appendix I to this assessment.

3. **The assessor relied on (i) a self-assessment developed by the FI; (ii) the review of relevant laws, and other relevant documents provided by the FI; (iii) its staff and other public authorities, in particular representatives of the Ministry of Finance (MoF); as well as (iv) meetings with market participants, including banks, investment firms, fund managers, and market operators.** The assessment also benefited from two recent academic reports on the resources of FI and shareholder voting rights in Sweden.[2]

4. **The assessor wants to thank the FI for its full cooperation as well as staff's willingness to engage in very candid conversations regarding the regulatory and supervisory framework in Sweden.** Particular thanks go to Lennart Torstensson, who coordinated meetings and participated in the discussions with unfailing insight and good

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[1] In 2008 IOSCO only updated the footnotes of the methodology.

[2] A *Report on the Mandate, Structure and Resources of the Swedish Financial Supervisory Authority*, Professor Howell E. Jackson, November 2010 and *Efficiency of Share Voting Systems—Report on Sweden*, Eckbo, Paone, Urheim, August 2010.

humor. The assessor also wants to extend his appreciation to all other public authorities and market participants with whom he met.

III. Description of the Regulatory Structure

5. **The structure of financial regulation in Sweden is based on the unitary model in which a single administrative authority is responsible for licensing and supervising all entities engaged in the business of providing financial services.** This is established in the Financial Supervisory Authority Instructions Ordinance (2007) and the Instructions Ordinance (2009). The FI is responsible for supervision, regulation and licensing of financial markets and financial firms. It is also charged with coordinating supervision as regards anti-money laundering and combating the financing of terrorism (AML- CFT). Section 2 of the Ordinance requires the FI to promote a stable and sound financial system and Endeavour to ensure solid consumer protection in the financial system. It has a particular responsibility for monitoring and analyzing developments in the area of its responsibility with a view to detecting risks of instability in the financial sector which could adversely affect the functioning of the Swedish financial system; in which case, it must notify the government. It must also ensure that its rules and processes are cost effective and easy for citizens and companies to understand and follow.

6. **Other bodies have specific responsibilities under the law.** They share these with, and cooperate with, the FI.

7. **The Riksbanken's (RB) mission, apart from its monetary policy objectives, is to promote a safe and efficient payment mechanism which is closely integrated with the clearing and settlement systems of the securities and derivatives markets supervised by the FI**. The RB also has an overarching responsibility for the development of the financial system as a whole, with a focus on institutions, markets and infrastructure of importance to financial stability, and to present its views to Government on risks and inefficiencies in the financial system. In exceptional circumstances, the RB is also able to provide special liquidity assistance to financial companies that are under the supervision of FI.

8. **The Swedish National Debt Office (NDO) is the support authority under the Government Support to Credit Institutions Act.** This entails responsibility for entering into support agreements with FI and RB and administrative duties relating to the support provided on the basis of this Act. The SNDO also manages the deposit insurance and investor compensation systems.

9. **The Swedish Consumer Protection Agency (CPA) is a state agency whose task is to safeguard consumer interests**; this includes responsibility for investigation and taking action against unfair marketing practices with respect to financial products.

10. **The Swedish National Economic Crime Bureau (NECB) is the prosecuting authority for a range of securities markets offences**. FI is not a criminal prosecutor and therefore when it receives suspicious trade reports (STR) or other evidence that a criminal offence may have been committed it forwards these to the NECB.

11. **As a unitary regulator the FI licenses and regulates all entities operating in the Swedish financial markets including banks, securities firms, insurance companies, fund managers, exchanges and clearing, and settlement bodies.** This is done on the basis of periodic reporting by licensees and on-site inspections. The FI analyses the financial position of individual licensees, can mandate remedial action and impose sanctions when necessary. It also identifies and analyses trends in the financial market as a whole. The FI is divided into four operational departments: (i) Legal, (ii) Markets, (iii) Insurance and Investment Funds, and (iv) Banks and Investment Firms. Each department is divided into several units. The Legal Department handles permits/licenses and notifications. The FI does not have a free-standing Enforcement Department. In recent years it has adopted a more risk based supervisory approach particularly as regards large complex groups.

12. **The ordinance contains several provisions aimed at fostering cooperation and consultation among the various statutory bodies by imposing specific responsibilities on the FI.** In practice this has been translated into the signing of many MoUs and letters of intent with authorities in Sweden, in the EEA and beyond.

13. **The framework for the securities markets rests in the definition of a list of activities that are subject to authorization or licensing.** Those activities include: (i) offering of securities to the public; (ii) the provision of investment services and activities;[3] (iii) the management of collective investment schemes (CIS); and (iii) the operation of a regulated market (RM). These have been transposed into domestic legislation by the government to fulfill Sweden's obligations as a member of the EU.

14. **The definitions of securities business (and securities) are found in the Markets in Financial Instruments Directive (MiFID) which came into force in 2007**. MiFID is but

[3] Providing an investment service includes: (i) to receive and forward, in the pursuit of a profession or business, client orders with regard to financial instruments; (ii) to execute, in the pursuit of a profession or business, orders with regard to financial instruments for the account of those clients; (iii) to manage an individual's capital; (iv) to provide advice with regard to financial instruments in the pursuit of a profession or business; (v) to underwrite or place financial instruments when they are offered on a firm commitment basis, in the pursuit of a profession or business; and (vi) to place financial instruments when they are offered without a firm commitment basis, in the pursuit of a profession or business. Performing an investment activity includes: (i) acting for its own account, in the pursuit of a profession or business; and (ii) operating a MTF, in the pursuit of a profession or business.

one of a large number of pan EU directives, regulations, and recommendations introduced in the last decade which have sought to create a single European market in financial services. Almost every aspect of the legislative and regulatory framework which is subject to this assessment (with the exception of the FI's fining powers), has been introduced, modified or reviewed for compliance following the introduction of a pan-EU directive or regulation.

15. **National differences remain however.** Some directives are so-called "minimum harmonization" measures which enable national authorities, within limits, to exceed the requirements. Some are "maximum harmonization" measure which are intended to prevent Member States from "gold plating" the directive. Others will have embedded within them optional exemptions. Transposition of directives into national law can also produce divergences, by accident or design; and the EU Commission's record of pursuing all but the most egregious cases is not good. The EU Commission has attempted to operate more by regulation, which becomes national law directly, (i.e., without transposition), but the areas in which it has the power to do this are somewhat narrow).

16. **Although in the last decade more powers have accrued to the FI, though legislative change, self regulation remains an important part of the regulatory structure in securities markets.** In particular the role of the dominant stock and derivatives exchange, NASDAQ OMX, remains significant, particularly as regards the supervision of listed companies. Another self regulatory body, the Swedish Securities Council (SSC) acts in takeover situations using powers delegated to it by FI.

IV. Market Structure

17. **At the end of 2009, 255 companies were listed on NASDAQ OMX Stockholm** Only those limited companies with at least SKr 500,000 in capital may offer their shares for public trading. Public companies listed on NASDAQ OMX Stockholm may also be quoted on the Nordic list, which quotes public companies listed on the stock exchanges in Helsinki, Copenhagen and Iceland.

18. **The Nordic list represents a harmonization of the listing requirements of the four countries.** To be listed on NASDAQ OMX Nordic, the expected market value of the shares must be not less than EUR one million. Further requirements are that the ownership must be sufficiently widely held and that the business must have existed for a sufficiently long period (at least three years) and must show stable profitability, or have financial resources to cover operations for at least twelve months.

Table 1. Sweden: Share Ownership Structure of Swedish-Listed Companies as of December 2009

Types of Shareholders	Percent of Capitalization Held
Households	13.9 percent
Public Sector	8.2 percent
Non-financial enterprises	9.6 percent
Financial enterprises	28.6 percent
Non-profit organizations	4.3 percent
Foreign owners	35.4 percent

Source: "Ownership of shares in companies quoted on Swedish exchanges, December 2009," Statistics Sweden.

A. Intermediaries

19. **As of February 2011, there were 89 banks and savings banks and 135 investment firms authorized to carry on securities business.** All were located in Sweden. A majority of the Swedish banks are licensed for securities business, and the four large Swedish banks are a dominant force on the securities market. With only a few exceptions, the "nonbank" securities firms are relatively small and in most cases privately owned. Total assets for securities firms amounted to around SKr 16 billion, assets under management (AUM) SKr 28 billion and capital SKr 4 billion. The business of providing investment advice is an activity that requires a license as a securities firm. In Sweden, (in contrast to many other countries), very few firms offer investment advice as their sole activity. Instead, they generally offer a varying combination of securities services.

B. Collective Investment Schemes

20. **After a dip in 2008, AUM have rebounded strongly to a record level of SKr 1.706 trillion at the end of 2010**. There are 921 CIS under management of which 519 are Undertakings for Collective Investment in Transferable Securities (UCITS) and 400 are special funds. They are managed by 105 authorized firms of which, 82 are fund management companies and 23 are investment firms. There are also 3977 foreign CIS authorized in Sweden under the UCITS based legislation and two specialized funds integrated into the Swedish State Pension System. AUM in these two categories are not included in the table below. Most of the major fund management companies have significant operations in Luxemburg where most of their non-Swedish targeted funds are licensed.

Table 2. Sweden: Collective Investment Schemes

SKr billions	2007	2008	2009	2010	
AUM	1,486	1,043	1,459	1,706	
Net value of assets	1,416	1,017	1,393	1,635	
UCITS	1,223	859	1,164	1,328	81%
Non-UCITS	193	158	229	307	19%
Total	1,416	1,017	1,393	1,635	100%
Bond funds	71	93	94	106	7%
Money market funds	84	90	70	71	4%
Equity funds	787	460	723	964	59%
Mixed funds	277	219	283	203	12%
Fund of funds	73	71	107	155	10%
Other funds	124	84	116	136	8%
Total	1416	1017	1393	1,635	100%

Source: Swedish Investment Funds Association (Fondbolagen Forening).

C. Markets

21. **NASDAQ OMX Stockholm is the dominant stock exchange and marketplace for Swedish shares although its market share has declined sharply in the last two years.** NASDAQ OMX Group, Inc. is a United States (U.S.) public company that owns and operates the U.S. NASDAQ stock market, two U.S. exchanges, a Gulf State exchange and seven European stock and derivatives exchanges in the Nordic and Baltic regions under the OMX brand. It is currently the sixth largest trading venue in Europe.[4] Supervision of its global business places a premium (and cost) on the FI securing close and cooperative relationships with fellow regulators wherever NASDAQ OMX operates an exchange or MTF.

22. **All trading on NASDAQ OMX Stockholm is conducted through its members.** The members consist of securities companies and banks which are licensed by FI to engage in securities trading. Members also include remote members, (i.e., foreign companies that engage in securities trading in Sweden from abroad). NASDAQ OMX Stockholm has 113 share trading members. In principle, non-financial companies and branches of foreign companies can be members of the stock exchange. At present, however, there are no members in this category in NASDAQ OMX Stockholm. Share trading on NASDAQ OMX Stockholm takes place electronically through the matching of orders in a central limit order book (CLOB).

[4] Behind Euronext, Chi-X Europe, LSE, Deutsche Börse, and Borsa Italiana.

23. **The majority of share trading is conducted in electronic trading systems belonging to a stock exchange or a multilateral trading facility (MTF).** It is also possible to trade shares outside these systems. A portion of the trading that takes place outside these systems is conducted in accordance with NASDAQ OMX Stockholm's regulations and is reported to NASDAQ OMX Stockholm as normal stock exchange transactions. The rest is regarded as over the counter trading (OTC). Bond trading in Sweden is largely conducted by telephone while in the foreign exchange market about 85 percent of the spot trade in SKr by primary dealers is done through electronic platforms. Interbank trading in foreign exchange derivatives on the other hand is mostly not electronic.

24. **Supported by its dominant role in cash equity trading in Sweden, most of the trading in equity derivatives takes place under the auspices of the NASDAQ OMX derivatives markets (DM).** In addition to derivatives linked to individual shares, options and futures linked to NASDAQ OMX's own stock indices are traded on the exchange. DM also provides clearing for the derivatives traded on its exchange and for certain OTC derivatives that are not listed for trading.

Table 3. Sweden: Equity Trading on NASDAQ OMX, 2009

Market value 31/12 2009, SEK billion	3,413
Turnover 2009, SEK billion	3,393
Average daily turnover, SEK billion	13.5
Annual turnover, billion shares	58
Total number of deals closed during the year, million	30.3
Average amount per deal	112,127
Average number of deals per day	120,375
Rate of stock turnover, percent	119

Table 4. Sweden: Total Turnover of Standardized on-Exchange Contracts, January–October, 2010

Instrument	Total turnover in SKr
Index futures	5.398 trillion
Index options	29.767 billion
Equity futures (forwards)	19.017 billion
Equity options	20.820 billion
Interest rate futures (forwards)	38.276 trillion
Interest rate options	31 million
Total	43.722 trillion

Source: NASDAQ OMX Stockholm.

25. **In addition to NASDAQ OMX Stockholm, Nordic Growth Market (NGM) and Burgundy have also been licensed by FI to operate as stock and derivatives exchanges**

in Sweden. There are also three MTFs in Sweden: First North, Nordic MTF, and Aktietorget. Swedish shares that can also be traded on overseas MTFs, such as Chi-X Europe, that have specialized in providing a marketplace for shares that are already listed on a stock exchange and thereby fulfill the listing requirements. Data from Thomson Reuters indicates that 42 percent of Swedish equity trading took place outside NASDAQ OMX in February 2011.

26. **Competition in the provision of trading venues has intensified since 2007.** MiFID ended the monopoly of trading of shares in domestic companies granted by many EU governments to established domestic exchanges. This has resulted in several new providers achieving significant market shares.[5] The resulting downward pressure on exchange trading fees has undoubtedly been beneficial to investors, although exchanges have been more successful than expected in maintaining supernormal profits. The absence of a "last trade tape" and consolidated "best bid and offer" on the U.S. model have also increased search costs for institutional investors seeking to obtain "best execution." The European Commission is seeking to resolve these problems in its current "MiFID review."

V. General Preconditions for Effective Securities Regulation

27. **There are a number of general preconditions necessary for the effective regulation of securities markets that appear to be in place in Sweden**. There are no significant barriers to entry and exit for market participants. Competition is encouraged and foreign participation is welcomed. The legal and accounting system supports the implementation of effective regulation of market participants. The commercial law is up-to-date, and so are corporate governance standards. The legislation regarding insolvency is sophisticated although there are issues concerning the enforcement of market contracts entered into in the period immediately after insolvency is declared. The regulators have legally enforceable powers of decision and action. The taxation framework is supportive of the operations of the industry in the jurisdiction.

VI. Main Findings

A. Principles for the Regulator (Principles 1–5)

28. **Although FI is a unitary regulator, FI has to regulate the three major sectors of financial services, banking, securities and insurance under several separate statutes**. While each act may be clear when considered in isolation, there can be problems at the interfaces which can create risks to investors though this is a matter of the effectiveness of enforcement of the law rather than gaps between laws, FI is highly accountable. Restrictions on operational independence arise from the imposition of mandatory special requirements

[5] As noted in Footnote 1 Chi-X Europe has become the second largest trading venue in Europe in three years. In the Nordic region Burgundy has gone from zero to 4.4 percent market share in February 2011 in less than two years.

during the course of a financial year and its reliance for 85 percent of its funding on Parliament. Although staff resources have increased in recent years they remain insufficient for current and predictable future work; turnover, particularly of experienced staff, is high. There are rules in place for dealing with the regulator that are intended to ensure procedural fairness, as required by the Principle; the structure of FI is well described and the processes are reasonably transparent. In practice the process of representation prior to the imposition of a major sanction such as license revocation may need enhancement. The Board and staff of FI are subject to the highest professional standards and these are appropriately monitored.

B. Principles for Self Regulation (Principles 6–7)

29. **Self regulation has a long history in Sweden and still has a far greater role here than in many other European countries.** Although the powers of the FI over exchanges have been strengthened since the 2001 FSAP there are still limitations in FI's ability to secure changes in certain rules and processes it believes to be necessary short of the threat of the imposition of significant sanctions. Despite being regarded as self regulatory bodies, (in that they are not government authorities but exist in the private sector) the listing rules of securities exchanges and the power to make them are set out in the law. As a result, in this part of their business model the accountability of securities exchanges to FI, the statutory regulator, is unclear.

C. Principles for Enforcement (Principles 8–10):

30. **FI has a comprehensive range of inspection, investigation, surveillance and enforcement powers and where it has delegated powers ((e.g., to the Swedish Securities Council regarding takeovers) that has been done with the appropriate degree of oversight and review.** Scarce resources limit the capability to carry out effective enforcement and compliance activities thereby limiting the ability of FI to ensure compliance or detect breaches. The interface between supervision and enforcement does not recognize the different skill and mind sets required. The maximum amount licensees and others can be fined is too low and there have been cases where the FI's use of its statutory discretion not to fine a fund manager which has remedied a breach indicates a significant weakness in FI's use of administrative sanctions.

D. Principles for Cooperation (Principles 11–13)

31. **FI and other government authorities have fundamental obligation to share information including with foreign regulators.** There are appropriate confidentiality provisions in the law and the gateways through these appear effective. FI has more than 40 active MoUs and Letters of Intent with foreign authorities. As a result of a very recent change in the law (March 1, 2011) FI can now share information with foreign counterparts even if the alleged conduct is not such that it would constitute a breach of Swedish law if conducted within Sweden. Previously this issue was an impediment to sharing information with foreign regulators. As a result of the change FI reapplied to become a full signatory to

the IOSCO Multilateral Memorandum of Understanding (MMoU). This was granted in April 2011. FI has extensive powers to assist foreign regulators with information held by FI. It also has extensive powers to access information held by other entities.

E. Principles for Issuers (Principles 14–16)

32. **Because the listing rules of NASDAQ OMX and the other securities exchanges derive directly from statute, FI has little influence over the conduct of listed companies except via seeking to ensure that the exchanges interpret and enforce their listing rules appropriately.** The provisions whereby a company can keep confidential information it would otherwise be required to make public lack specificity. NASDAQ OMX (currently the dominant exchange for listed companies) claims that its criteria for granting exceptions are very narrow. The maximum of 120 days for filing annual reports, while it may the EEA standard is slow by comparison with some other advanced markets where 90 or 75 days is the norm. There is high level of protection for securities holders in Swedish company law and via implementation of EU directives on takeovers and shareholder rights. Sweden applies the "comply or explain" approach with regard to corporate governance of public companies. The governance code is updated by a private sector body which has self regulatory elements. Although the existence of classes of shares with multiple voting rights renders some major companies largely immune from hostile takeovers bids, these arrangements are transparent to incoming minority shareholders. Although the conduct of takeovers is governed by stock exchange listing rules, another self regulatory body, the Swedish Securities Council, operating under delegated powers from FI (and subject to its oversight), plays a role in enforcing the rules and granting exemptions. Company boards have to represent the interests of all shareholders equally and there are limits to their use of defense mechanisms to thwart a hostile bid. Accounting and auditing standards are high. The supervision of auditors and auditing standards is the responsibility of a government authority, the Supervisory Board of Public Accountants. Sweden has adopted the International Federation of Accountants (IFAC) International Standards on Auditing (ISA). Independence of auditors is required under the Auditors Act and Swedish Auditing Standards (RS) which are based on the ISA standard but with some enhancements. Group accounts (and those of listed companies) must be prepared according to International Financial Reporting Standards (IFRS) as adopted by the EU. Other companies may use a mix of IFRS and Swedish GAAP. The reason for this lies in the tax system. The Swedish Accounting Standards Board is responsible for interpreting the latter. Although standards as regards companies listed on an RM are set by the Swedish Financial Reporting Board, enforcements of elements of the regime is the responsibility of the relevant stock exchange. This looks unsound in a market where for-profit exchanges have begun to compete for listings. The position is currently under review in the MoF.

F. Principles for Collective Investment Schemes (Principles 17–20)

33. **FI has inadequate resources to effectively supervise fund management companies and insurance intermediaries who market CIS. The department finds it**

difficult to do more than 10 AMC specific on-site inspections a year. The last comprehensive survey (three years ago) discovered a level of non-compliance which suggests many breaches go undiscovered unless investors complain. Insurance intermediaries are in practice largely unsupervised for this business. They are not required to provide quarterly reports, require no capital but carry PII; the department relies on customer complaints to indicate problems. Too much reliance is placed on a legal requirement for licensees self-reporting breaches or the external auditor doing so. There is evidence that this system has not been working as was intended and the FI has begun to explore mechanisms by which it might be improved Sweden has seen the emergence of a category of fund salespersons that has unexpectedly been able to exploit an element of the Swedish interpretation of the UCITS directive whereby Sweden has implemented a set of rules that allows for marketing in the sense of advertising of a CIS with no requirement to obtain a license in advance. The unregulated nature of this business means that there are no safeguards as to the quality or suitability of funds sold as would apply to properly notified or licensed fund sales. To clarify that this is not the intention of the rules Sweden plans shortly to strengthen the wording of the IFA, such that any kind of marketing of a CIS in Sweden will require a notification or license. Due to resource constraints FI is unable to be fully effective in supervising compliance with its asset segregation rules. Recent cases highlighted breaches extending, in one case, over several years. FI's policy as regards use of its fining powers do not appear sufficient to act as a deterrent to major fund managers and custodians. Disclosure requirements are as in the UCITS III and appear sufficient. There will be new rules, and additional obligations on the boards of UCITS management companies with the implementation of UCITS IV in July 2011. On unlisted securities FI has issued guidance imposing a special duty of care on fund managers. Valuations should be carried out by independent and competent persons according to consistently applied and pre-defined principles. Under this guidance it would not be appropriate that the valuation be performed by the person or persons responsible for the management of the fund. There are appropriate regulations governing the treatment of pricing errors and suspension of redemptions.

G. Principles for Intermediaries (Principles 21–24)

34. **The number of staff carrying on prudential and in particular conduct of business supervision is insufficient.** Applicants for a license are only subject to an on-site inspection if their business is sufficiently large and complex that physical Chinese walls are an issue. The six major firms are seen by the prudential supervisors at least annually and often quarterly; the remainder are seen once in 2.5 years. Conduct of business supervisors do no on-site inspections except for cause or as part of “themed” projects. Within the limits set by the number of staff, inspections and examinations appear thorough. Pre-visit planning is detailed and objective based. Feedback to firms itemizes problem areas comprehensively and action is required and followed up. The department has introduced a risk based supervision approach to make the best use of limited resources. There is a problem in the interface between the SMA and the Insurance Intermediation Act which create risk to retail investors. Unless licensed under the more rigorous requirements of the SMA an insurance intermediary

is not permitted to give investment advice on shares, bonds structured products or other complex financial instruments but some are doing so. FI has recently initiated a full review of its relevant regulations. This review covers the full regulation of insurance intermediaries, not only the ancillary service of selling investment funds. The project is looking for ways to tighten the application procedure and to come up with suggestion for necessary changes in the overall regulation.

35. There are initial and ongoing minimum capital requirements with which market intermediaries must comply. These requirements are harmonized at the EU level under the Capital Requirements Directive, (CRD). These have been fully transposed into Swedish law via the Capital Adequacy and Large Exposures Act (2006). The requirements set out in the IOSCO Principle appear to be present. An intermediary is required to have an adequate management and organizational structure and adequate internal controls. An intermediary is required to have senior management that is of sufficiently good repute and sufficiently experienced. The senior management is primary responsible for ensuring that an intermediary complies with its legal obligations. An intermediary is required to maintain, monitor and regularly evaluate its procedures and systems; to have an internal audit function and to appoint an independent external auditor. An intermediary is required to self-report problems to FI and the external auditor has an obligation to report any problems discovered on the audit of the intermediary. The effectiveness of this last requirement is in doubt, which, as a result of one large case, has stretched the supervision resources even farther than normal. The appropriate agreements are in place to deal with a failure of an intermediary. FI, RB, and the MoF have signed a MoU regarding crisis management. FI is a signatory to the MoU on cooperation between the financial supervisory authorities, central banks, and finance ministries of the EU on cross-border financial stability. With regards to Swedish financial institutions with significant activities in other countries, such as Nordea Bank and NASDAQ OMX, there are MoUs on supervision with other relevant jurisdictions within Sweden and in the Nordic area. Although NASDAQ OMX is now owned by the second largest stock market operating group in the U.S., FI does not have a formal MoU with the U.S. Securities and Exchange Commission (SEC). Regular scenario/stress test situations are carried out together with RB. Such work has also been carried out at the Nordic level.

H. Principles for Secondary Markets (Principles 25–29)

36. **In comparison with securities exchanges in most of Europe and indeed globally, securities exchanges in Sweden have a wide self regulatory remit**. In recent years FI's powers over exchanges have been significantly strengthened. The authorization provisions currently applied to trading systems operated by some of the large banks do not fully meet the IOSCO Principle regarding transparency. Although FI reviews the trading rules of a securities exchange for compliance with the SMA and its regulations, the FI does not review and analyze the performance of trade matching or execution algorithm of automated trading systems. As for the transparency of markets generally there are challenges across Europe as markets fragment and a variety of trading platforms are developed. Sweden does not appear

to derogate from the current MiFID pre and post trade transparency regime. The rating recognizes the concerns identified in Sweden and elsewhere as part of the current MiFID review on specific elements in the current regime.

37. **Overall it appears that although the NECB has a good record in successfully prosecuting those cases it brings to court, the current regime has only limited deterrent effect in applying dissuasive sanctions for criminal offences such as insider dealing.** In this context Sweden has implemented the Market Abuse Directive. Elsewhere, in securing market integrity and minimizing systemic risk Sweden has implemented the relevant EU directives such as the Settlement Finality Directive. Large Exposures are dealt with in the Capital Adequacy and Large Exposures Act to which all banks and market intermediaries are subject. FI does not itself monitor open positions but has the right to require full information about positions from the central securities depository (CSD), central counterparty (CCP), and licensed firms. The market authorities have powers to take action under their rules and regulations if necessary.

38. **Although the CSD was not assessed FI has observed that since 2001 the clearing and settlement system for cash bonds and equities on NASDAQ OMX** h**as been radically improved to take account of the IMF assessment at the time by introducing a gross rather than net settlement system.** It is now owned by Euroclear, one of the two Europe based International Central Securities Depositories (ICSD). There is a CCP for top tier stocks, the European Multilateral Clearing Facility (EMCF), based in the Netherlands. FI has a MoU on this arrangement with the Dutch regulator.

Table 5. Sweden: Summary Implementation of the IOSCO Objectives and Principles—Detailed Assessment

Principle	Grading	Findings
Principle 1. The responsibilities of the regulator should be clearly and objectively stated.	**FI**	Although FI is a unitary regulator FI has to regulate the three major sectors of financial services, banking, securities and insurance under several separate statutes. While each Act may be clear when considered in isolation, there can be problems at the interfaces which can create risks to retail investors though this is a matter of the effectiveness of enforcement of the law rather than gaps between laws.
Principle 2. The regulator should be operationally independent and accountable in the exercise of its functions and powers.	**BI**	FI is highly accountable. Restrictions on operational independence arise from the imposition of mandatory special requirements during the course of a financial year and its reliance for 85 percent of its funding on Parliament.
Principle 3. The regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.	**BI**	Although staff resources have increased in recent years they remain insufficient for current and predictable future work; turnover, particularly of experienced staff, is high.
Principle 4. The regulator should adopt clear and consistent regulatory processes.	**BI**	There are rules in place for dealing with the regulator that are intended to ensure procedural fairness, as required by the Principle; the structure of FI is well described and the processes are reasonably transparent. In practice, the process of permitting a party to be heard prior to the imposition of a major sanction such as license revocation may need enhancement.
Principle 5. The staff of the regulator should observe the highest professional standards.	**FI**	The Board and staff of FI are subject to the highest professional standards and these are appropriately monitored.
Principle 6. The regulatory regime should make appropriate use of self-regulatory organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence and to the extent appropriate to the size and complexity of the markets.	**FI**	Self regulation has a long history in Sweden and still has a far greater role here than in many other European countries.
Principle 7. SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.	**BI**	Although the powers of the FI over exchanges have been strengthened since the 2001 FSAP there are still limitations.

Principle	Grading	Findings
		Despite being regarded as self regulatory bodies, (in that they are not government authorities but exist in the private sector), the listing rules of securities exchanges and the power to make them are set out in the law. As a result, in this part of their business model their accountability to FI, the statutory regulator, is unclear.
Principle 8. The regulator should have comprehensive inspection, investigation and surveillance powers.	**FI**	FI has a comprehensive range of powers and where it has delegated these power, e.g., to the Swedish Securities Council as regards takeovers, that has been done with the appropriate degree of oversight and review.
Principle 9. The regulator should have comprehensive enforcement powers.	**FI**	FI has comprehensive enforcement powers.
Principle 10.The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.	**PI**	Scarce resources limit the possibilities to detect breaches. The interface between supervision and enforcement does not recognize the different skill and mind sets required. The maximum amount licensees and others can be fined is too low and there have been cases where the FI's use of its statutory discretion not to fine a fund manager which has remedied a breach indicates a significant weakness in FI's use of administrative sanctions.
Principle 11. The regulator should have the authority to share both public and non-public information with domestic and foreign counterparts.	**FI**	FI and other government authorities have fundamental obligation to share information including with foreign regulators. There are appropriate confidentiality provisions in the law and the gateways through these appear effective.
Principle 12. Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.	**FI**	FI has more than 40 active MoUs and Letters of Intent with foreign authorities. As a result of a very recent change in the law (March 1, 2011) FI can now share information with foreign counterparts even if the alleged conduct is not such that it would constitute a breach of Swedish law if conducted within Sweden. As a result of the change FI became a full signatory to the IOSCO MMoU in April 2011. Previously this issue was an impediment to sharing information with foreign regulators.

Principle	Grading	Findings
Principle 13. The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers .	**FI**	FI has extensive powers to assist foreign regulators with information held by FI. It also has extensive powers to access information held by other entities.
Principle 14. There should be full, timely and accurate disclosure of financial results and other information that is material to investors' decisions.	**BI**	Because the listing rules of NASDAQ OMX and the other securities exchanges derive directly from the law, FI has little influence over the conduct of listed companies except via seeking to ensure that the exchanges interpret and enforce their listing rules appropriately. The provisions whereby a company can keep confidential information it would otherwise be required to make public lack specificity. NASDAQ OMX (currently the dominant exchange for listed companies) claims that its criteria for granting exceptions are very narrow. The maximum of 120 days for filing annual reports, while it may the European standard is slow by comparison with some other advanced markets where 90 or 75 days is the norm.
Principle 15. Holders of securities in a company should be treated in a fair and equitable manner.	**FI**	There is a high level of protection for securities holders in Swedish company law and via implementation of EU directives on takeovers and shareholder rights. Sweden applies the “comply or explain” approach with regard to corporate governance of public companies. The Code is updated by a private sector body which has self regulatory elements. There is a high level of protection for securities Although the existence of classes of shares with multiple voting rights renders some major companies largely immune from hostile takeovers bids, these arrangements are transparent to incoming minority shareholders. Although the conduct of takeovers is governed by stock exchange listing rules another self regulatory body, the Swedish Securities Council, operating under delegated powers from FI (and subject to its oversight), plays a role in enforcing the rules and granting exemptions. Company boards have to represent the interests of all shareholders equally and there are limits to their use of defense mechanisms to thwart a hostile bid.

Principle	Grading	Findings
Principle 16. Accounting and auditing standards should be of a high and internationally acceptable quality.	**FI**	Accounting and auditing standards are high. The supervision of auditors and auditing standards is the responsibility of a government authority, the Supervisory Board of Public Accountants. Sweden has adopted the IFAC, ISA. Independence of auditors is required under the Auditors Act and RS (Swedish Auditing standard) which is based on the ISA standard but with some enhancements. Group accounts (and those of listed companies) must be prepared according to lFRS as adopted by the EU. Other companies may use a mix of IFRS and Swedish GAAP. This is tax driven. The Swedish Accounting Standards Board is responsible for interpreting the latter. Enforcements of elements of the accounting regime for listed companies is the responsibility of the relevant stock exchanges. This looks unsound in a market where competing for profit exchanges have begun to compete for listings The position is currently under review in the MoF.
Principle 17. The regulatory system should set standards for the eligibility and the regulation of those who wish to market or operate a CIS.	**PI**	Fund management companies and insurance intermediaries who market CIS. The department finds it difficult to carry out more than 10 AMC specific inspections in a year. The last comprehensive survey (three years ago) discovered a level of non-compliance which suggests many breaches currently go undiscovered unless investors complain. FI has inadequate resources to effectively supervise Insurance intermediaries are in practice largely unsupervised for the sale of CIS. They are not required to provide quarterly report, require no capital but carry PII; FI relies on customer complaints to indicate problems. Too much reliance is place on licensees self-reporting breaches or the external auditor doing so as required under the law. There is evidence that this system has not been working as was intended and the FI has begun to explore mechanisms by which it might be improved Sweden has seen the emergence of a category of fund salespersons that has unexpectedly been able to exploit an element of the Swedish interpretation of the UCITS directive whereby Sweden has implemented a set of

Principle	Grading	Findings
		rules that allows for marketing in the sense of advertising of a CIS with no requirement to obtain a license in advance. The unregulated nature of this business means that there are no safeguards as to the quality or suitability of funds sold as would apply to properly notified or licensed fund sales. To clarify that this is not the intention of the rules Sweden plans shortly to strengthen the wording of the IFA, such that any kind of marketing of a CIS in Sweden will require a notification or license.
Principle 18. The regulatory system should provide for rules governing the legal form and structure of CIS and the segregation and protection of client assets.	**BI**	Due to resource constraints FI is unable to be fully effective in supervising compliance with its asset segregation rules. Recent cases highlighted breaches extending, in one case, over several years. FI''s fining policy in this area does not appear sufficiently tough to act as a deterrent to major fund managers and custodians.
Principle 19. Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a CIS for a particular investor and the value of the investor's interest in the scheme.	**FI**	Disclosure requirements are as in the UCITS III Directive and appear sufficient. There will be new rules, and additional obligations on the boards of UCITS management companies with the implementation of the UCITS IV directive in July 2011.
Principle 20. Regulation should ensure that there is a proper and disclosed basis for assets valuation and the pricing and the redemption of units in a CIS.	**FI**	Current requirements are as set out in UCITS III and appear satisfactory. There will be new rules on principles for valuation of the fund with the implementation of UCITS IV. On unlisted securities FI has issued guidance imposing a special duty of care on fund managers. Valuations should be carried out by independent and competent persons according to consistently applied and pre-defined principles. Under this guidance it would not be appropriate for the valuation to be performed by the person or persons responsible for the management of the fund. There are appropriate regulations governing the treatment of pricing errors and suspension of redemptions.
Principle 21. Regulation should provide for minimum entry standards for market intermediaries.	**PI**	The number of staff carrying on prudential and in particular conduct of business supervision is insufficient. Applicants for a license are only subject

Principle	Grading	Findings
		to an on-site inspection if their business is sufficiently large and complex that physical Chinese walls are an issue. The 6 or so major firms are seen by the prudential supervisors at least annually and often quarterly; the remainders are seen once in 2.5 years. Conduct of business rules supervisors do no on-site inspections except for cause or as part of "themed" projects. Within the limits set by the number of staff, inspections and examinations appear thorough. Pre-visit planning is detailed and objective based. Feedback to firms itemizes problem areas comprehensively and action is required and is followed up. The department has introduced a risk based supervision approach to make the best use of limited resources. Unless licensed under the more rigorous requirements of the SMA an insurance intermediary is not permitted to give investment advice on shares, bonds structured products or other complex financial instruments but some are doing so. FI has recently initiated a full review of its relevant regulations. This review covers the full regulation of insurance intermediaries, not only the ancillary service of the sale of investment funds. The project is looking for ways to tighten the application procedure and to come with suggestion for necessary changes in the overall regulation.
Principle 22. There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.	**FI**	There are initial and ongoing minimum capital requirements with which market intermediaries must comply. These requirements are harmonized on EU level under MIFID and the Capital Requirement Directive, (CRD). These have been fully transposed into Swedish law via the Capital Adequacy and Large Exposures Act (2006).
Principle 23. Market intermediaries should be required to comply with standards for internal organization and operational conduct that aim to protect the interests of clients, ensure proper management of risk,	**FI**	The requirements set out in the IOSCO Principle appear to be present. An intermediary is required to have an adequate management and organizational structure and adequate internal controls. An intermediary is required to have senior management that is of sufficiently good repute

Principle	Grading	Findings
and under which management of the intermediary accepts primary responsibility for these matters.		and sufficiently experienced. The senior management is primary responsible for ensuring that an intermediary complies with its legal obligations. An intermediary is required to maintain, monitor and regularly evaluate its procedures and systems; to have an internal audit function and to appoint an independent external auditor. An intermediary should self-report problems to FI and the external auditor has the same obligation. The effectiveness of this last requirement is in doubt, which, as a result of one large case, has stretched the supervision resources even farther than normal.
Principle 24. There should be a procedure for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.	**FI**	The appropriate agreements are in place. FI, RB and the MoF have signed a MoU regarding crisis management. FI is a signatory to the MoU on cooperation between the financial supervisory authorities, central banks and finance ministries of the European Union on cross-border financial stability. With regards to Swedish financial institutions with significant activities in other countries, such as Nordea Bank and NASDAQ OMX, there are MoUs on supervision with other relevant jurisdictions within Sweden and in the Nordic area. Although NASDAQ OMX is now owned by the second largest stock market operating group in the USA, FI does not have a formal MoU with the US SEC. Regular scenario/stress test situations are carried out together with RB. Such situations have also been carried out at the Nordic level. There is an Investors Compensation Schema as required under EU law. During the last three years, FI has successfully handled several major instances of failure of an intermediary in cooperation with other authorities in Sweden and overseas. Examples are Carnegie Investment Bank in 2008 and the situation in the Baltics in 2008.
Principle 25. The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight.	**BI**	The authorization provisions currently applied to trading systems operated by some of the large banks do not fully meet the requirements of Principle 25 concerning adequate transparency.
Principle 26. There should be ongoing regulatory supervision of exchanges and trading systems, which should aim to ensure that the integrity of trading is maintained through fair and equitable rules	**FI**	FI's powers over stock exchanges as trading systems have been strengthened in recent years although weakness exist in one aspect of their business model - listings. See Principle 7.

Principle	Grading	Findings
that strike an appropriate balance between the demands of different market participants.		
Principle 27. Regulation should promote transparency of trading.	**BI**	There are challenges across Europe in achieving appropriate levels of market transparency. Sweden does not appear to derogate from the current MiFID pre and post trade transparency regime. The rating recognizes the concerns identified in Sweden and elsewhere as part of the current MiFID review on specific elements in the current regime.
Principle 28. Regulation should be designed to detect and deter manipulation and other unfair trading practices.	**PI**	Sanctions for violation of the criminal law are not sufficient to be fully effective, proportionate and dissuasive as required by the Principle. The NECB has a good record in obtaining prosecutions in those case it does bring to court. It may also be the case that the collateral costs of a acquiring a criminal record for insider dealing such as diminished prospects for future employment by an FI licensed firm), add to the dissuasive value of a conviction even if the direct costs are very low.
Principle 29. Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.	**FI**	Sweden has implemented the relevant EU Directives such as the Settlement Finality Directive. Large Exposures are dealt with in the Capital Adequacy and large Exposures Act to which all banks and market intermediaries are subject. FI does not itself monitor open positions but has the right to require full information about positions from the CSD, CCP and licensed firms. The market authorities have powers to take action under their rules and regulations if necessary.
Principle 30. Systems for clearing and settlement of securities transactions should be subject to regulatory oversight, and designed to ensure that they are fair, effective and efficient and that they reduce systemic risk.	Not assessed	FI has observed that since 2001 the clearing and settlement system for cash bonds and equities on NASDAQ OMX has been radically improved to take account of the IMF assessment at the time by introducing a gross rather than net settlement system. It is now owned by Euroclear, one of the two Europe based global ICSDs. There is a CCP for top tier stocks (ECMF) based in the Netherlands. FI has a MoU on this arrangement with the Dutch regulator.
Aggregate: Fully implemented (FI) – 17, broadly implemented (BI) – 8, partly implemented (PI) – 4, not implemented (NI) – 0, not applicable (N/A) – 0.		

Table 6. Sweden: Recommended Action Plan to Improve Implementation of the IOSCO Objectives and Principles

Principle	Recommended Action
Principle 1	Steps should be taken to clarify that insurance intermediaries wishing to sell shares, bonds, structured products and other complex products must be licensed under the SMA and mechanisms developed to get this message across to current and potential licensees.
Principle 2	The government should reconsider its policy of attaching specific short term project requirements to Parliament's annual budget allocation for FI initially and during the course of the financial year. The government should examine the benefits of changing the basis of FI's funding to a structure where the mix as between Parliamentary allocation and fees levied by FI is more reliant on the latter and where, subject to consultation, FI can set the fees at the level it believes is necessary to fulfill its mandates.
Principle 3	The government and FI should consult on measures to seek to ensure that FI has sufficient, and sufficiently experienced and qualified staff to meet current and predicated workloads.
	Given that FI will never be able to compete solely on salary levels it should consider how best to create career paths and a work environment which encourage staff to remain in public service beyond the time when industry finds their acquired skills and knowledge particularly desirable.
Principle 4	FI should review its internal processes by which licensees can make representations prior to the imposition of major sanctions such as license revocation.
Principle 7	Given the emergence in Sweden of competing for-profit securities exchanges which have significant self regulatory responsibilities under the law, particularly as regards listed companies, the government might wish to consider whether the time may be approaching when the need to ensure consistently applied, effective and efficient issuer regulation will require regulation of issuers on a statutory basis by a single statutory body such as FI.
Principle 9	Clarify relationship between FI and CPA.
Principle 10	FI should consider whether it has got the balance right between supervision and enforcement in its current structure. FI should consider increasing fines to dissuasive levels and review the use of its statutory discretion not to fine fund management companies because they rectify breaches.

Principle	Recommended Action
Principle 14	See recommendation under Principle 7. FI and NASDAQ OMX should consider jointly whether the criteria under which a listed company can legitimately delay publishing price sensitive information should be given greater specificity and transparency. The government might wish to consider whether the EU standard of a maximum of 120 days for filing annual reports is adequate as a means of providing investors with useful information on the performance of a public company. Other major economies outside the EU impose significantly shorter deadlines.
Principle 15	FI might wish to consider whether the requirement for insiders to report their transactions in 5 days is too long given current technology.
Principle 16	The MoF should pursue to a definitive conclusion its review of whether for-profit securities exchanges should continue to be responsible for enforcing accounting standards on listed companies.
Principle 17	The regulation of insurance intermediaries who sell CIS should be strengthened. The FI should implement its current plans to end the provision which permits unlicensed persons to sell unapproved foreign CIS to retail investor as long as no money changes hands directly should be closed.
	FI, in consultation with the government, should take steps to increase the resources in the investment funds supervision department to a level which enables it to fully meet its mandate. Government should review the maximum level of fines and FI should review its apparent policy of forbearance in the use of fines at the top end of the range.
Principle 18	FI should vigorously argue its case in European Securities and Markets Authority (ESMA) that a custodian should not be affiliated with the management company of a UCITS. Consider the need for additional segregation requirements and detailed confirmation of assets by the independent auditor where the AMC and custodian are not at arm's length.
Principle 21	FI, in consultation with the government should take steps to increase the resources in the securities firms supervision department to a level which enables it to fully meet its mandate.
Principle 22	Consider more timely/frequent reporting by securities firms
Principle 24	Consider giving FI the express authority to petition the court for the appointment of a receiver/administrator

Principle	Recommended Action
Principle 25	In addition to reviewing the trading rules of a securities exchange for compliance with the SMA and its Regulations, the FI should also review and analyze the performance of the trade matching or execution algorithm of automated trading systems.
Principle 26	See Recommendation to Principle 7.
Principle 28	The Government should carry out a comprehensive review of the legal and judicial framework around the prosecution of securities market crimes to see whether steps could be taken to make the process more effective, proportionate and dissuasive.

Authorities' Response to the Assessment

39. The Swedish authorities appreciate the work carried out by the IMF in assessing Sweden against the IOSCO principles. Overall, the authorities agree with the mission's assessment, and consider many of the recommendations valuable to improve the regulation and supervision of the securities markets.

VII. Detailed Assessment

40. **The assessment of the country's observance of each individual Principle is made by assigning to it one of the following assessment categories: fully implemented, broadly implemented, partly implemented, not implemented and not applicable.** The IOSCO Methodology provides a set of assessment criteria to be met in respect of each Principle to achieve the designated benchmarks. The Methodology recognizes that the means of implementation may vary depending on the domestic context, structure, and stage of development of the country's capital market and acknowledges that regulatory authorities may implement the Principles in many different ways.

- A Principle is considered *fully implemented* when all assessment criteria specified for that Principle are generally met without any significant deficiencies.

- A Principle is considered *broadly implemented* when the exceptions to meeting the assessment criteria specified for that Principle are limited to those specified under the broadly implemented benchmark for that Principle and do not substantially affect the overall adequacy of the regulation that the Principle is intended to address.

- A Principle is considered *partly implemented* when the assessment criteria specified under the partly implemented benchmark for that Principle are generally met without any significant deficiencies.

- A Principle is considered *not implemented* when major shortcomings (as specified in the not implemented benchmark for that Principle) are found in adhering to the assessment criteria specified for that Principle.

- A Principle is considered *not applicable* when it does not apply because of the nature of the country's securities market and relevant structural, legal and institutional considerations.

Table 7. Sweden: Detailed Assessment of Implementation of the IOSCO Principles

Principles Relating to the Regulator	
Principle 1.	The responsibilities of the regulator should be clear and objectively stated.
Description	The relevant legislation and regulation for the Swedish securities sector is comprehensive. It consists primarily of the following: • Securities Market Act (SMA) (2007); • Investment Funds Act (IFA) (2004); • Financial Instruments Trading (Market Abuse Penalties) Act (2005); • Capital Adequacy and Large Exposures Act (2006); • Financial Instruments Trading Act (1991); • Money Laundering and Terrorist Financing Act (2009); • Act on Public Offers on the Stock Market (2006); • The Reporting Duty for Certain Holdings of Financial Instruments Act (2000); • Financial Advice to Consumers Act (2003); • the Public Access to Information and Secrecy Act (2009); • Administrative Procedure Act (1986); • relevant regulation issued by FI; • regulations governing investment services and activities; • regulations governing operations on trading venues; • regulations governing investment funds; and • regulations and general guidelines governing measures against money laundering and terrorist financing. The responsibility, powers and authority of FI is set out in the Ordinance (2007) on Authorities, the Ordinance (2009) with instructions for FI and the different sector acts, such as the IFA and the SMA. FI is the only competent authority for supervision of financial institutions such as credit institutions, insurance companies, securities firms, exchanges and investment fund companies. Ordinance (2009) contains provisions that delineate the responsibilities and tasks of FI According to Section 1 of the Ordinance, FI is responsible for supervision, regulation and licensing of financial markets and financial firms. Moreover, FI is charged with coordinating supervision as regards AML/CFT. The Ordinance provides that FI is to work towards a stable and well functioning financial system with a good level of consumer protection. Moreover, FI is to monitor and analyze developments in financial markets. Section 2 also states that rules and routines of FI should be cost-efficient and simple for citizens and firms to understand and comply with. It imposes specific duties on FI, (e.g., on international supervisory cooperation and the drawing up of reports. It also requires FI to cooperate with the RB and the Swedish Civil Contingencies Agency in matters concerning crisis

	preparedness. FI is to consult with the Swedish National Financial Management Authority, the Swedish Consumer Agency, RB and the Swedish NDO on issues relevant to the respective authorities. In so doing, FI is to provide the other authorities with necessary information. Apart from the 2009 Ordinance, the annual appropriations letter given to FI by the government may also set out specific responsibilities and tasks for the authority for the fiscal year in question. Where these various governmental or regulatory authorities have abutting or shared responsibilities the laws are intended to avoid gaps and inequities. The strong obligations on cooperation and consultation, which appear to work in practice, contribute to this objective, although as set out below there is one problem area that requires attention.
Assessment	Fully Implemented
Comments	Although FI is a unitary regulator FI has to regulate the three major sectors of financial services, banking, securities and insurance under several separate statutes. While each may be clear when considered in isolation, there can be problems at the interfaces which can creates risks to retail investors. Such a case arises in the interface between the SMA and the Insurance Intermediation Act which. Under the latter Act an insurance intermediary can sell CIS by way of advice but may not give advice regarding the purchase and sale of share, bonds, structured products or other complex instruments. For that an insurance intermediary requires a license under the SMA. FI has concerns that some insurance intermediaries (there are 1000 in total) are not respecting this regulatory frontier. It is probable that inappropriate advice is being given and unsuitable products are being sold to retail investors. FI is currently undertaking a project to establish the scale of the problem though this is a matter of the effectiveness of enforcement of the law rather than gaps between laws.
Principle 2.	The regulator should be operationally independent and accountable in the exercise of its functions and powers.
Description	FI is an administrative authority under the MoF. According to the Instrument of Government (1974), FI is under the obligation to act with objectivity and impartiality when performing its tasks within the public administration. FI acts independently as provided for in the Instrument of Government. In addition to the 2009 Ordinance which sets out permanent instructions for the FI, the government issues an annual appropriation instructions, which sets out the policy objectives and priorities for the year ahead, and the framework by which FI is to report on its achievement of the objectives set. As regards the operational independence of FI, Swedish administrative authorities are vested with the competence to take decisions independent of instructions from the government, the parliament or other public authorities. Pursuant to the Instrument of government, which forms part of the Swedish Constitution, public administrative authorities take decisions on an independent basis. Neither the government nor Parliament is allowed to dictate how an authority is to decide in an individual case involving exercise of public authority against a private subject or a local authority, or in relation to the application of law. Commercial interests do not appear able to exert improper influence on the FI in its operational activities. The 2009 Ordinance sets out when and under what conditions FI shall consult other authorities. The circumstances under which consultation is required do not interfere with day-to-day activities of FI. There are no requirements for consultation with any Government minister. Individual Government ministers are prohibited from directly interfering or having influence on the day-to-

	day activities of FI. The cost of FI-activities is met out of charges levied on supervised entities which FI passes on to the government with a15 percent retention of the fees collected on average. The balance of the annual budget of FI is decided by Parliament on a proposal from the Government. There is a mid-year review. Provisions on how the state budget is drawn up are set out in the Budget Act. The Act permits the government to impose some limitations on the use of funds allotted to an administrative authority such as FI. When the state budget has been adopted by the Parliament, the government issues a letter with appropriations instructions for each administrative authority. This letter provides more details regarding, (e.g., the modalities of reporting how the authority meets its objectives or any specific projects that the authority is to carry out. In this context, the appropriations instructions may include instructions regarding the use of parts of the funds for certain specific purposes. Both the state budget in its entirety and all letters with appropriations instructions are public and available electronically. Swedish regulation does not contain any specific provisions concerning employee liability for FI decisions taken in good faith. General provisions on, e.g., the liability of public administrative authorities and their employees are set out in the 1972 Damages Act. Under this Act public administrative authorities are liable for damages resulting from negligence in carrying out their duties. However, case law has set the threshold for what constitutes negligence in the discharge of administrative duties very high. An authority's incorrect assessment of, e.g., what action it should take under applicable rules, is not enough to incur liability; the incorrect assessment must have been manifestly wrong for liability to arise. Provisions on the liability of employees of FI for damages arising from actions that they have taken in the discharge of their duty are set out in the Damages Act. FI employees may be held liable for actions taken in the discharge of their duty only if extraordinary grounds for imposing liability are at hand namely gross negligence or criminality. Academic commentaries on this provision have held that this entails a presumption that the employee is not liable. Employees are also protected by FI's internal administrative guidelines and decision-making procedures, which provide additional protection for employees and where the liability of a particular employee may depend on the given responsibilities. Both the members of the Board of FI and the Director General are appointed by the government on a minimum term (three years and six years, respectively). The Director General may be removed from office before the end of the six year term only if he or she commits forms of misconduct or suffers from a disability impairing the performance of the authority, defined by law. Where the head of a government agency is removed from office, the reasons must be publicly disclosed. The public accountability of FI operates on several levels. FI assesses its performance with regard to its operational goals and objectives in its annual report. The annual report is reviewed by the Swedish National Audit Office. The Swedish National Audit Office may also, pursuant to the law governing its activities, conduct performance audits of the work of administrative authorities. For example, the Swedish National Audit Office published a performance audit of the consumer protection work carried out by FI and the Consumer Protection Agency in 2006. In addition the Parliamentary Ombudsman is assigned by the Parliament to ensure that agencies such as FI, as well as the public officials they employ (and anyone else whose work involves the exercise of public authority) comply with laws and statutes and fulfill their obligations in all other respects. The Ombudsman is allowed to act as a special prosecutor and bring charges against the official for malfeasance or some other irregularity. This very rarely

	happens, but the mere awareness of this possibility means a great deal for the Ombudsmen's authority. Furthermore FI's operations are also under the supervision of the Chancellor of Justice, who is a non-political civil servant appointed by the government and who acts as the government's ombudsman in the supervision of authorities and civil servants. Finally, The Director General of FI appears at least once a year before the Parliamentary Finance Committee to make a statement and answer questions. FI issues various public reports describing and discussing issues concerning the financial system. The reports cover specific issues on an ad-hoc basis, as well as regular reports giving a broad picture of the situation. FI also produces and publishes, usually on a quarterly basis, various statistics, based in regular reporting from supervised entities. Reports and statistics are published on the website. The Director General, as well as others from FI, frequently takes part in public seminars and discussions on issues relevant to the Authority's mandate. FI, as a state authority, is subject to the principle of public access to information which is laid down in the Freedom of the Press Act. This principle means that the public and the mass media—newspapers, radio and television—are entitled to receive information about state and municipal activities, unless otherwise is prescribed by law. The supervisory measures that FI takes against institutions and individual are made public by the supervisor, subject to rules of confidentiality In the case of enforcement actions FI has to provide written reasons for its material decisions. The Administrative Procedure Act states that a statement on a decision on a matter determined by an authority shall contain the reasons that settled the outcome when the matter concerns the exercise of public power. The reasons for the decision may, however, be omitted wholly or in part if (1) the decision is not adverse to any party (2) for some other reason it is obviously unnecessary to state the reasons, or (3) the matter is of such an urgency that there is no time to formulate the reasons for the decision. If the reasons for the decision are not given in the decision itself, the authority should at the request of the party concerned publish the reasons later, if possible. The decision-making process includes procedural protection. The law requires that there are, for example, rules on disqualification to ensure that a person who has had a previous involvement in the case is disqualified from being involved in handing it. According to the Administrative Procedure Act, no matter may be determined without the applicant, the appellant or any other party having been informed about any information that has been brought into the matter by someone other than himself and having been given an opportunity to respond to it, provided that the matter concerns the exercise of public power in relation to that person. This right of access to information applies with the restrictions prescribed by the Public Access to Information and Secrecy Act (2009). The authority may, however, decide the matter without this provision having been observed if (1) the decision is not adverse to the party, (2) the information is of no importance, (3) such measures for some other reason are obviously unnecessary or (4) the determination cannot be postponed. According to the Act, a person whom the decision concerns may appeal against it, provided that the decision affects him adversely. In the view of FI, all its decisions are subject to a sufficient, independent review process, ultimately including judicial review. The Act also contains provisions whereby the FI shall correct a decision which is manifestly wrong including situations where the error has been demonstrated by the emergence of new information. The duty shall not apply if the authority has sent the case documents to a court of superior instance or if there are other special reasons against the authority altering the decision. Confidential and commercially sensitive information are subject to appropriate safeguards to prevent inappropriate use or disclosure under the Public Access to Information and Secrecy Act. If an authority receives confidential information from another authority in its supervisory or auditing

	business, the information remains confidential at the receiving authority according to the same provision as it was confidential at the first authority.
Assessment	Broadly Implemented
Comments	The reasons for this assessment are as follows. **Restrictions on operational independence** Although Parliament sets the annual budget of FI in cash terms the Government imposes specific requirements on FI which are to be financed out of the budget. Sometimes, but not on all occasions, these additional requirements are supported by additional funding valid for one financial year. The requirements can be issued at any time during the financial year. These special requirements may be of an administrative nature, seeking information on how funds have been spent in specific areas with substantiating justifications. Others however impact directly on the supervisory work of the FI as they require sectoral staff to devote time to developing adequate responses. This may involve developing policy proposals to deal with an issue raised in a requirement or surveying the market to establish what is current practice. The results may in turn lead to further requirements being issued. While each project on its own might be interesting and worth pursuing, according to staff, (and in some cases FI itself suggests that it carries out the work for an additional allocation of funds), this process requires FI to constantly revise its priorities to accommodate the requirements. Resources have to be redirected away from day to day supervision. Meeting the requirements is mandatory. The IOSCO Principle's requirement that a regulator be "operationally independent from politically interference" is not to be interpreted narrowly, (e.g., as applying only to a minister seeking to interfere in an insider dealing case). When a government can demand that a regulator takes on additional work as specified by the Government such that resources have to be diverted from day to day supervision and even from enforcement (and the FI's approach to managing the enforcement process makes it particularly vulnerable in this regard—see Principle 10) the operational independence of the regulator is called into question. **Funding concerns** While funding currently appears to be stable that may not always be the case. FI is dependent for about 85 percent of its annual budget on an allocation from Parliament. This exposes the FI to the risk that if Sweden enters a period of economic strain its budget will be cut, alongside other government funded authorities. It also makes very difficult multi-year planning such as is necessary for major IT projects. Given the complexity of modern markets and the businesses of banks and some securities firms, sophisticated IT systems have become essential if a regulator is to be fully effective. While IOSCO does not favor one funding model, the assessor believes that there would be considerable merit in FI being able to move to a broader base to meet its funding needs, namely by retaining a higher percentage of the funds it generates out of fees charges to market participants accompanied by the freedom to set fees at a level it judges to be necessary, subject to consultation with fee payers. Given the concentrated nature of the Swedish financial services sector it would probably be inappropriate to move to a fully "self funded" model as this would expose the FI to the risk of being subject to pressure from commercial interests to keep fees below the level required for effective supervision.
Principle 3.	The regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.
Description	**Powers**

	In general, the key securities markets powers and authorities are provided for in the IFA and the SMA. FI has a mandate to issue regulations regarding prudential and conduct of business rules concerning a variety of different issues. The mandates provided by law and ordinance enable FI to issue and amend regulation under devolved authority without any need for legislative changes as long as these are within parameters set within the relevant law such as the SMA or IFA. FI has in recent years established an explicit and transparent process for identifying the need for regulatory changes or modifications, and for consulting market participants and other authorities on proposed changes. The SMA and the IFA stipulate that investments firms and fund management companies shall provide the FI with any and all information regarding their operations and related circumstances at the request of the FI. Moreover, FI has a mandate to issue regulations regarding information that a supervised entity institution shall provide to the FI. FI also have the power to demand information from any person and to summon and question a person in order to obtain information relevant for the exercise of the supervisory tasks devolved to FI under the law and its regulations (except when this conflicts with the professional secrecy of lawyers). Similar provisions apply under the Financial Instruments Trading (Market Abuse Penalties) Act, Financial Instruments Trading Act and the Reporting Duty for Certain Holdings of Financial Instruments Act. Pursuant to the SMA and the IMA, the FI may intervene when an investment firm or fund management company has violated its obligations pursuant to the applicable Act, other legislation governing the operations of the institution, the institution's articles of association, by-laws or regulations, or internal instructions based on legislation governing its operations. It is up to the FI, in the first instance, to determine the situations in which intervention is necessary. The corresponding powers for the banking sector are found in the Banking and Financing Business Act. There are provisions for a range of different measures that FI may take. FI may issue an order requiring an institution to take prompt remedial action. FI may also issue a warning, levy a fine or, in cases of serious infringements, revoke the license. Generally, "the FI-toolkit" in terms of sanctions has expanded considerably since 2001, especially regarding the power to levy fines, although some limitations remain as regards the last. **Resources** As set out in Principle 2 the budget is decided by the Parliament based on a request made by FI. Within its budget framework and ita overall objectives, FI is independent in performing its regulatory and supervisory functions subject however to the need to meet additional special requirements imposed by Government. In order to achieve overall, general objectives, FI sets its own operational goals and objectives. FI is in control of its approved budget, including salaries, training of staff, equipment, travels etc. In recent years, supervisory resources have grown; e.g., in 2000 FI had 154 employees (on a full time basis), nine years later the number has grown to 229. This reflects higher supervisory ambitions, but also the fact that the scope of the business of FI has grown, not least as a result of the regulatory development within the EU. The need for increasing resources—also with respect to staffing issues—has thus been recognized by the government and the political system at large. Problems remain however as analyzed below. **Employee personal development** Every employee has two scheduled yearly meetings with her/his supervisor, where the employee's performance is evaluated. In these meetings a personal development plan, including present tasks, possible future development and required training tools is assembled. These training proposals are then coordinated by the Personnel department, On a general basis, FI offers a variety of training opportunities, both in-house and from external

	parties. These include, among other things, computer skills, secrecy laws, etc. Also, everyone who is employed by FI receives an introductory training course regarding FI's general purpose and activities. Frequently, luncheon seminars are held at FI, which often feature external speakers. Subjects may range from new developments in the European supervisory structure to presentations on complex products.
Assessment	Broadly Implemented
Comments	The reasons for the assessment are as follows. Although the staff resources of the FI have increased in recent years, a recent study suggested that while the financial services sector in Sweden is approximately at the median level in size and complexity in Europe, the total staff of the FI is below the median for EEA regulators. Such surveys are generally capable of various interpretations (and this one was funded by FI although carried out by an independent and non-Swedish academic expert in the field) but, as discussed elsewhere, this assessment has identified manifest shortages in some key departments. It is also the case that staff turnover at 15 percent is high. Of particular concern is that FI finds it difficult to retain personnel who have attained a reasonably high standard of knowledge and expertise. Generally they leave to take jobs in the industry – as compliance or risk officers. It was noteworthy that in meeting firms in the course of this assessment, at least one ex-FI employee was present at each firm. Given the new wave of detailed regulation that is about to be imposed in Sweden (and across the EEA) it is inevitable that firms will seek to poach the best talent from the regulator, but this can be particularly damaging in the case of a small regulator such as FI which does not have strength in depth. It is unlikely that FI will be able to compete on salary levels. Therefore considerable attention must be given on developing ways to enhance the work experience at FI in order to encourage experienced staff to remain in post. The obligation to comply with Government requirements to undertake projects referred to in Principle 2, which often calls for the reallocation of staff resources from day-to-day supervision, is a further cause for concern here.
Principle 4.	The regulator should adopt clear and consistent regulatory processes.
Description	**Processes** FI's exercise of its powers and discharge of its functions are consistently applied. Not only in the processes but also in its decision-making and use of powers, FI strives to establish a coherent practice and aims to treat similar cases similar. For instance, FI has decided on and made public service commitment times for the handling of all sorts of applications. In recent years FI has worked through its various process documents in order to achieve a more consistent and transparent design of the main processes within the authority, (e.g., supervision, licensing and regulatory development). This also includes observance of FI's exercise of its powers etc., mainly through built-in "checkpoints" where FI supervisors at different levels are required to monitor and sign off activities. General procedural rules and regulations are set out in the Administrative Procedures Act and in the sectoral Acts. In addition, FI has its own internal rules and routines. In recent years, FI has established an explicit and transparent process for identifying the need for regulatory changes or modifications, consulting market participants and other authorities on proposed changes. FI consults with the public before issuing new rules and regulations. It also often invites reference groups, consisting of representatives from the industry, to comment on proposal for new rules during the formulation process. All rules, (i.e., binding regulations and non-binding guidelines) are published and are available on the FI's web site. Since autumn 2009 FI draws up and publishes a memorandum, containing the reasoning behind new proposed rules and an analysis of the

	consequences, (i.e., impact studies). FI also publishes important decisions regarding licensing or sanctions on its web site. In the Administrative Procedure Act there are rules in place for dealing with FI that are intended to ensure procedural fairness, such as rules on transparency of the processes by which decisions are made, hearing all parties before a decision is made, disqualification, judicial review etc. Each matter to which a person is a party is required to be handled as simply, rapidly and economically as is possible without jeopardizing legal security. In its handling of matters, the authority is required to avail itself of the opportunity of obtaining information from and the views of other authorities, if there is a need to do so. The authority is required to express itself in an easily understandable way. FI is required to give reasons in writing for its decisions that affects the rights or interests of others The SMA and the IFA contain two exemptions from the right of appeal. These are decisions by FI to convene a board or shareholders meeting according to powers under the SMA and IFA and decisions to order someone to give FI information on certain business matters in cases where it is uncertain whether the business falls under the relevant Act. The general criteria for granting, denying or revoking a license are public. Those affected by the licensing process are entitled to be informed with respect to the reasons for FI's decision to grant, deny or revoke a license. Thus FI makes its decisions after having communicated in writing with the parties. In addition FI often holds one or several meetings with the parties in these matters. In the case of an intervention that results in revoking a license there is a special internal process within FI that applies, which aims to ensure inter alia that the matter is satisfactorily investigated and that the party has been informed of all the allegations. Problems in the sanctioning process remain however, as discussed below. **Confidentiality** FI's procedures for making reports on investigations public are consistent with the rights of individuals to be protected against disclosure of non-public information and of personal data. FI applies the Public Access to Information and Secrecy Act and the Personal Data Act in this respect. The first concerns information pertaining to business affairs of a supervised entity, as well as the business or personal affairs of someone who has dealings with the supervised entity. It also covers information about an individual's business or personal affairs in the context of fit and proper tests and other information about an individual's business or personal affairs provided by supervised persons pursuant to certain enumerated laws in the financial markets area. Information on state support of credit institutions held by FI is covered by secrecy provisions. **Investor education** FI has taken an active role on promoting financial education. For instance, FI has, in collaboration with the CPA and the NECB, initiated a program for financial education in schools to increase consumers' capability to access and to evaluate financial information. FI also has projects running to provide financial education to immigrants and to young, unemployed persons.
Assessment	Broadly Implemented
Comments	There rules in place for dealing with the regulator that are intended to ensure procedural fairness, as required by the Principle; the structure of FI is well described and the processes are reasonably transparent in the sense that the sanctioning process is standardized and on the public record. In practice however there are issues concerning the rights of an entity under investigation to make representations in addition to written responses. Although written representations may happen at two stages in the sanctioning process there is no right of the entity or its legal advisors to make

	representations in person to the Board before the Board decides what if any sanction to impose. This is of particular concern when the Board decides, on advice from its Chief Legal Counsel, to revoke the license of a firm. The Board is acting in a quasi judicial role and in this case, if it accepts the advice of its Chief Legal Counsel, its decision will have very serious consequences for a licensee. Even if an appeal to the courts is ultimately successful, the chances of reviving the business are, in most cases, remote. The assessor understands that the FI has had this issue under consideration but no proposals have yet emerged. The assessor therefore suggests that FI should review its internal processes by which licensees can make representations prior to the imposition of major sanctions such as license revocation to ensure full protection of the licensee's interests and rights.
Principle 5.	The staff of the regulator should observe the highest professional standards including appropriate standards of confidentiality.
Description	Generally, FI's staffs, as is the case of staff in all public authorities, are required to meet the highest professional standards. FI's staff are required to observe legal requirements and other written guidance on the avoidance of conflicts of interest and to apply high standards of objectivity and impartiality. The rules for the avoidance of conflicts of interest are actively monitored primarily by the head of the relevant unit. Other ethical standards apply, such as standards regarding when a person should disqualify himself from a matter. The 2009 Ordinance states that anyone who is a member of the Board or an employee of FI shall not, for themselves or another person run or be part of a company that conducts operations that require permits, registration or notification from FI or a corresponding authority of another country. A member of the Board or employees may not be employed by or sponsored by such companies. Members of the Board and employees, as the Board decides, may not without prior authorization have loans from companies that are under the supervision of the authority. In respect of the Chairman of the Board such permission is issued by the Government, and in respect of the other board members including the Director General the permission is issued by the Chairman. In other cases the permission is issued by FI. Restrictions on the holding or trading in securities and requirements to disclose financial affairs or interest are laid down in internal rules. These rules are actively monitored by the Chief Legal Counsel on a regular basis and on an annual basis. For its staff FI has adopted the rules of the Swedish Securities Dealers Association governing transactions in financial instruments and currency, etc. made for their own account by employees and contractors of securities firms and their affiliates. Short term trading is not permitted. Investment can be undertaken only with the expectation that the holding period will be at least one month although losing positions may be terminated earlier. According to the Guidelines the staff of FI: • shall use caution when performing their own securities transactions in order not to damage the reputation of FI. • shall only do business in financial instruments to the extent that the level of risk is proportionate to their own finances and never to such an extent that there is a risk that the individual's wealth is put at risk. • shall not use their position, or act in any way such that the suspicion may arise that employees on their own or persons closely related to them are making financial gain in an improper manner. • shall refrain from any form of exploitation of price sensitive information which has not been published.

	Appropriate use of information obtained in the course of the exercise of powers and the discharge of duties are regulated by rules on confidentiality in the Public Access to Information and Secrecy Act as well as by contracts between the employee and FI regarding professional secrecy. According to the contract on professional secrecy, an employee may be disciplined for violation of the contract. The secrecy provisions extend beyond the period of a person's employment at FI. These rules are monitored actively by the heads of units. Ultimately, the Swedish Data Inspection Board, which is a public authority, is tasked to protect the individual's privacy. The Board supervises authorities, companies, organizations and individuals for compliance with the Code of Personal Data. According to the 2009 Ordinance FI must have a personnel committee which, by reference to Section 25 of the Government Agencies Ordinance, shall decide on: (1) dismissal from employment caused by personal factors, (2) disciplinary issues, (3) notice for prosecution, and (4) suspension. Employees may be sentenced to prison for up to two years, or in case of gross negligence or criminal intent, up to six years.
Assessment	Fully Implemented
Comments	
Principles of Self-Regulation	
Principle 6.	The regulatory regime should make appropriate use of Self Regulatory Organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence, and to the extent appropriate to the size and complexity of the markets.
Description	Self regulation has a long history in Sweden and still has a far greater role here than in many other European countries. Although the term SRO is not formally recognized in Swedish law there are many bodies which are considered to have self regulatory functions but only two sorts have specific responsibilities under the regime for securities market regulation and over which FI has supervisory powers. The first type of SRO is the securities exchanges or RM as defined in the SMA which implements MiFID. Under the SMA a securities exchange must maintain appropriate rules for trading on its RM. (Note that securities exchanges can also operate MTFs). The rules shall state: • the participants' obligations to the securities exchange; • rules governing transactions on the market; • the qualification requirements for participants' employees and agents who trade on behalf of the participants; and • the mechanisms for clearing and settlement of executed transactions. To enforce these requirements a securities exchange is required to have a disciplinary committee charged with the task of handling violations of the rules mention above by members and (where relevant) issuers. In the legislation, the requirements of the SROs are specified in general terms. More detailed requirements are set out in regulations issued by FI. FI supervises on an ongoing basis the SROs and their rules to satisfy itself that they continue to meet the criteria set out in the legislation and regulations. This includes seeking to ensure that the SROs are supervising their issuers and members for compliance with the obligations set out in the SRO's rules. One element of a securities exchange's rule book under the SMA must be rules regarding public take-over bids which apply to shares which are admitted to trading on the RM operated by the securities exchange. The rules must satisfy the requirements imposed by the 2004 Take-overs Directive as implemented in Sweden via the Act on Public Take-Over Offers on the Stock Market. Takeover bids also involve the second type of SRO, the Swedish Securities Council. While the

	Takeovers Act has given FI powers (alongside powers directly provided for securities exchanges under the law) it also gives it the right, which FI has exercised, to delegate certain of its powers to the SSC. The SSC takes decisions on a range of issues set out in the Takeovers Act, most notably on whether an extension should be granted to extend the deadline for preparing and filing for approval the offer document. The SSC must publish its decisions if the decision means that the application is fully or partially granted. The Council announces the decision via publication on its website. Decisions made by the Council can be appealed to FI. Decisions regarding this matters made by FI can in turn be appealed to the administrative court. FI monitors the performance of the SSC to satisfy itself that it is using its delegated powers properly. FI's ultimate sanction is to withdraw the delegated powers. The role of the SSC is discussed further under Principle 15.
Assessment	Not Assessed
Comments	The function of the SSC appears primarily to provide a mechanism by which parties to a take-over bid can appeal decisions made by a securities exchange under its rules. This is necessary because the Takeovers Directive requires such decisions to be taken by a competent (i.e., statutory) authority and not an exchange although in this case, the competent authority, FI, has delegated those powers to the SSC. Although less powerful than the better known U.K., Take-over Panel, it shares the characteristic of being a self regulatory body that has secured an on-going role in the pan-EU harmonization of the regulation of takeover bids on a statutory basis. This principle is rated "not assessed" because IOSCO has set no criteria for the Principle and it is used for descriptive purposes only.
Principle 7.	SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.
Description	As regards securities exchanges, under the SMA, authorization to operate a securities exchange may be granted by FI to a Swedish limited company or a Swedish co-operative association where: 1. the Articles of association or statutes do not conflict with the SMA or any other statutory instrument; 2. there is reason to believe that the envisaged operation will be conducted in accordance with the provisions of the SMA and other statutory instruments governing the undertaking's operations; 3. there is reason to believe that any person who holds or may be expected to hold a qualifying holding in the undertaking: a) will not impede the conduct of the operations in a manner inconsistent with the SMA and other statutory instruments governing the undertaking's operations; and b) is otherwise suitable to exercise a significant influence over the management of a securities company; 4. all persons who shall serve on the undertaking's board of directors or act as managing director or who shall be appointed as an alternate therefore possess sufficient insight and experience in order to participate in the management of a securities exchange and are otherwise suitable for such duties; and 5. the undertaking fulfils the requirements otherwise set forth in the SMA. Under the SMA a securities exchange is required to conduct its business honestly, fairly and professionally and in such a manner as to maintain public confidence in the securities market. A securities exchange conducting a RM shall apply three principles: (i) free access, whereby each and every party who satisfies the requirements of the SMA and the securities exchange may participate in trading; (ii) neutrality, whereby the securities exchange's rules for the trading facility shall apply in a uniform manner vis-à-vis all who participate in trading; and

	(iii) effective transparency, whereby participants receive prompt, contemporaneous, and correct information regarding trading and that the public has the opportunity to obtain such information. The SMA requires an exchange SRO to follow similar professional standards of behavior as would be expected of a regulator regarding confidentiality, procedural fairness and the appropriate use of information obtained in the course of its exercise of its powers and discharge of its responsibilities as well as ensuring that that potential conflicts of interest at the SRO are avoided or resolved. The functions as an SRO are part of a licensed exchange and thus supervised as a part of FI's overall supervision of the exchange. During the authorization process exchange SROs are required to demonstrate their capacity to perform as SROs stated in the legislation and in the regulations issued by FI. FI has the power to sanction an exchange if it fails to meet its obligations under the law and regulations. On an ongoing basis a securities exchange must monitor the trading on the RM and ensure that the trading occurs in accordance with the SMA and other statutory instruments and generally accepted practice on the securities market. The securities market is obliged, upon request by FI, to grant the FI access to its system for monitoring the trading and price trends and generally to provide whatever information FI requires. An exchange must identify and manage conflicts of interest. As regards the SSC the supervisory relationship is different in that it is an appeals body from decisions taken by a stock exchange. Decisions made by the SSC can in turn be appealed to FI. Decisions made by FI can in turn be appealed to the administrative court. FI monitors the performance of the SSC to satisfy itself that it is using its delegated powers properly. (See further description of the supervision of the SSC set out under Principle 8). FI's ultimate sanction is to withdraw the delegated powers which it might do if, for example, issuers and other market participants lost confidence in its decision taking.
Assessment	Broadly Implemented
Comments	Although the powers of the FI over exchanges have been strengthened since the 2001 FSAP there are still limitations on FI's ability to secure necessary changes in certain rules and processes without having to threaten the imposition of significant sanction. As regards companies with securities listed on the exchange, the exchange's powers over the companies (the listing rules) are laid down in the SMA. By this means Sweden has implemented elements of the Prospectus Directive and the Transparency Directive to a large degree in the rules of private sector bodies—namely, national exchanges. FI has no direct powers over issuers listed on a RM except in regard to prospectuses and takeovers (where it shares power with the exchange) and it is unclear what action FI could take against an exchange should a disagreement arise as to whether or not an exchange had fulfilled its legal obligations towards a listed issuer should the exchange refuse to accept FI's interpretation of the relevant law since the exchange does not act on the basis of powers delegated to it by FI. Problems might occur were NASDAQ OMX to come under serious pressure from new entrants in the exchange space competing successfully for listings (where FI's powers are weakest) and other business on the basis of a *de minimis* level of regulation. There are already three exchanges, all operating under the same legal structure and the largest is controlled by a U.S. publicly quoted exchange operator with global interests. More may emerge. There are, for example commercial pressures on MTFs to seek authorization as RMs, primarily to access the listing fees market. At the very least this opens up opportunities for regulatory arbitrage by companies seeking the least rigorous regulatory regime in a highly competitive market place. The government, which has granted the power to approve prospectuses to the FI, should keep the situation under review and in due course consider transferring to FI the powers to supervise, on an ongoing basis, companies which have been admitted to trading on any exchange or MTF in Sweden in order to ensure

	consistently applied, effective and efficient issuer regulation. Exchanges and MTFs could and should have their own admission to trading rules, but those would be additional requirement and could be no less robust than those of the FI.
Principles for the Enforcement of Securities Regulation	
Principle 8.	The regulator should have comprehensive inspection, investigation and surveillance powers.
Description	The FI can inspect a regulated entity's business operations, including its books and records, without giving prior notice. It may obtain books and records and request data or information from regulated entities without judicial action, even in the absence of suspected misconduct, in response to a particular inquiry and on a routine basis. As a unitary regulator it does not have to seek the cooperation of another regulator in banking and other information. It has the power to supervise its authorized exchanges and regulated trading systems through surveillance and can (and does) impose record-keeping and record retention requirements on regulated entities. The retention requirement is five years. Regulated entities are required to maintain records concerning client identity and to maintain records that permit tracing of funds and securities in and out of brokerage and bank accounts related to securities transactions. Under the Act on Measures against Money Laundering and Terrorist Financing they are required to maintain other measures such as the reporting of suspicious transactions. An applicant's business plan must contain a description of the internal rules regarding measures against money laundering and financing of particularly serious crime that the company intends to apply. A firm must appoint an anti-money laundering officer and identify the person to the FI. FI has delegated certain of its powers regarding takeovers to the Swedish Securities Council (see Principle 7) It supervise the SSC. FI has full access to information maintained or obtained by the SSC and can require changes/improvements to be made in the SSC's processes should it determine that change is necessary. It reviews the SSC's operations annually. The SSC is subject to disclosure and confidentiality requirements that are no less stringent than those applicable to the FI. However, the SSC makes its own decisions independently, and the decisions can be appealed to FI. Further, FI has a written agreement with the SSC governing the practicalities of the relationship.
Assessment	Fully Implemented
Comments	In its October 2010 Follow-Up Report to its 2006 Mutual Evaluation Report Financial Action Task Force (FATF) recognized that Sweden has made significant progress in addressing deficiencies previously identified and decided that the country should be removed from the regular follow-up process.
Principle 9.	The regulator should have comprehensive enforcement powers.
Description	FI has the power to intervene against an asset management company (AMC), investment firm or securities or derivatives exchange under its jurisdiction that does not comply with the relevant laws and regulations. Where a regulated entity has violated its obligations under applicable laws and regulations FI intervenes. FI may order the regulated entity, within a certain time, to limit the operations in some respect, reduce the risks therein, or take some other measure in order to rectify the situation. FI may issue a remark and combine the remark with a fine. If the violation is serious FI shall issue a warning. A warning is regarded as a reference to behavior which merits the revocation of a license but where the facts of the case merit the regulated entity being given another chance. However, revocation of a license is used in particularly serious cases.

	Among the FI's powers are those to: • seek orders, to refer matters for civil proceedings or to take other action to ensure compliance with regulatory, administrative, and investigative powers; • impose administrative sanctions; • order the suspension of trading in securities or to take other appropriate actions; and • FI has the investigative and enforcement power to require data, information, documents, records and statements or testimony from any persons involved in relevant conduct or who may have information relevant to a regulatory or enforcement inquiry/investigation. Sanctions or other corrective action from FI do not compromise private rights of action. There have been cases of class actions in Sweden. Private persons may also seek remedies in accordance with the Financial Advisory Services to Consumers Act if a financial advisory service has caused the person financial loss. Within Sweden the Market Abuse Act 2005 states that FI shall notify the prosecuting authority (NECB) when there is reason to believe that an offence has been committed pursuant to that Act. Under the IFA FI shall provide any and all information required by a competent authority in a state within the EEA in order to exercise supervisory functions over a foreign regulated entity. If the FI cannot obtain information directly there are other bodies in Sweden which may be able to assist such as the Swedish Companies Registration Office, the Tax or Police Authorities and the Swedish Courts. Subject to the issues discussed in Principle 11 concerning the Act of Public Access to Information and Secrecy all information obtained can usually be exchanged.
Assessment	Fully Implemented
Comments	The relationship between the FI and the Consumer Protection Agency may need clarification
Principle 10.	The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.
Description	FI operates a risk based supervision system. It has a process for determining what supervision activities should be undertaken. Macro- and micro-economic factors are analyzed and processed into supervisory activities. These factors are mainly based on an assessment of risk, but are also based on complaints from the general public, made against individual or several entities. Securities and derivatives exchanges monitor the trading and price trends on their RMs and seek to ensure that trading occurs in accordance with the relevant laws, regulations and rules and generally accepted practice on the securities market. This is achieved through automated systems that continuously and in real time register fluctuations in price and turnover as well as indicating deviant trading patterns. FI has an automatic system to handle and analyze all the information filed with FI in accordance with the transaction reporting requirements set out in SMA. Follow up is currently done on a manual basis. However, the FI has recently acquired a fully automated market surveillance system which will significantly increase the system's ability to generate meaningful alerts for follow up by staff or referral to the NECB. As regards licensed entities FI has issued general guidelines regarding Reporting of Events of Material Significance. The guidelines states that an undertaking regulated by FI should report such events as may result in changes in financial circumstances which may have the consequence that the undertaking is unable to fulfill its obligations to customers. An undertaking should report events which may result in: • significant financial damage to a large number of customers; and • significant bad will for the undertaking.

	Events referred to include, for example: • the fact that information provided in conjunction with customer transactions is erroneous or deficient; • the fact that customer transactions have been handled in an erroneous or deficient manner; • the fact that errors have arisen arise in technical systems; or • the fact that internal or external regulations have been violated. FI has a unit for consumer protection which receives and responds to consumer complaints and also addresses consumer related issues. Consumer complaints may also result in action from the supervisory departments. All complaints sent to FI are registered in the central register of FI. FI monitors the performance of its supervisory and enforcement activities regularly, both quantitatively—as a part of the follow-up of the activity plans—and qualitatively, where major supervisory activities are assessed with regard to their perceived effects on the market. FI inspection activities are also checked by FI's internal auditors, who report to FI's board. Also, the Swedish National Audit Office is responsible for auditing the activities of the entire Swedish state and, in this way, promoting the optimum use of resources and efficient administration. FI's activities are thus reviewed by the Swedish National Audit Office on a regular basis. FI publishes on its website how many suspected breaches of the Market Abuse Penal Act it has forwarded to the NECB. Regulated entities are required to have an effective compliance function. The rules also state that entities should maintain instructions and procedures to detect any risk of failure by the entity to fulfill its obligations under applicable laws and regulations. The business plan of the entity must include a description of the compliance function and a description of how the compliance function operates, which FI monitors as part of its supervisory work. FI can take measures against or discipline or sanction regulated entities for failure to reasonably supervise subordinate personnel whose activities violate relevant laws or regulations or breach of its obligations to apply sound routines for the management of the operations and to have sound routines for internal control and effective methods for risk assessment and to have effective operation and management of its information systems. FI supervises securities exchanges as regards their monitoring of the trading and price trends on their platforms in order to ensure that trading occurs in accordance with the law, other statutory instruments and generally accepted practice in the securities market.
Assessment	Partly Implemented
Comments	Effectiveness and credibility address issues such as the probability that the regulator is detecting a sufficient proportion of breaches of laws and regulations by licensees, and has the powers and the will to impose sanctions and other measures such that the regulatory system has sufficient deterrent and dissuasive impact. At the same time, to be effective and credible it must provide incentives for licensees and others to correct breaches and restore the positions of person who have suffered loss as a result of their non-compliant behavior, and to improve on-going conduct, although this should not exclude the licensee from being subject to proportionate and dissuasive sanction for the breach. As regards FI's approach to supervision on the positive side, a review of a sample of examination reports demonstrated that on-site inspections are carried out efficiently and comprehensively with evidence of substantial pre-visit planning, including review of the licensee's previous compliance history. The results of the inspections are conveyed to the firma in written form with clarity and indicate the relative severity of any breaches discovered. There was also evidence of subsequent follow up to establish whether breaches had been remedied. The assessment has resulted from the cumulative effect of several issues.

	The positives have to be balanced by the problem that, largely because of limited resources in the departments which supervise investment firms and fund management companies, insufficient on-site inspections are carried out to validate the risk assessments and make the process fully effective. Instead, considerable reliance is placed on licensees self-reporting—notifying FI when they detect breaches or on their external auditors doing so. While self-notification is a useful tool it should not have the reliance placed upon it which appears to be the situation in FI. A recent major case has revealed weaknesses in the second supervisory pillar—auditor notification. This has caused FI to consider ways in which the credibility of its enforcement processes could be enhanced among auditors to engender in the profession a greater awareness of the need to meet their obligations towards the regulatory system. See also the discussion under Principle 21. As for the process of enforcement, and in particular the interface between supervision and enforcement FI should examine whether it has struck the right balance in having enforcement fully integrated and dispersed among the respective supervision teams. In practice both functions are performed by the same individuals. This may create difficulties for both FI staff and licensees. The role of enforcement staff is to diligently pursue breaches of the law, regulations, rules and guidelines by supervised entities, license holders and, where relevant, issuers. As such the role (and necessary attitude) is notably different from that of supervisory staff who, while seeking out breaches in their day to day to day monitoring and examinations of licensees, should have an important role in helping firms understand the regulations and to develop processes to secure compliance. As such, the two roles demand different skill sets and different mind sets. An enforcement unit should act as an independent investigation function to determine whether an alleged contravention of relevant laws and regulations has been committed. The enforcement process is typically triggered by supervisory concerns where supervisory intervention, sanction, or use of remedial powers is being contemplated. There is therefore a need to establish a sufficient degree of independence from the supervisory function in order to ensure due process. This assists in persuading licensees that the enforcement process is fair and credible. Another reason for as separate enforcement unit is to insulate the supervisory function from the (of necessity) confrontational approach of enforcement to preserve an open and cooperative relationship with supervised entities during routine inspections. The FI is aware of some of these problems. It is for example considering providing training for staff in the different skill sets and how to alter their approach to licensees when moving from a supervisory role to an enforcement role. It remains be seen how effective that will be in the long run. In the meantime anecdotal evidence suggests that on the one hand FI staff have become reluctant to give advice on how to comply, while firms have become reluctant to seek advice for fear that this will be interpreted as their currently failing to comply—with their supervisor adopting an enforcement role. This apparent chilling in the relationship between FI and licensees, if widespread, will have had a negative impact on the effectiveness and credibility of the inspection, investigation, surveillance and enforcement powers. In seeking to explain the benefits of the current system FI argues that, while aware of some industry criticisms on the above lines it does not believe them to be well founded. Furthermore it argues that its licensees, issuers and others who may have obligations under the law and regulations FI is charges with administering exhibit a relatively high level of compliance and that when cases do arise they most frequently arise out of day-to-day supervisory work; combining supervision and enforcement in the same small teams is the most effective way to manage supervision and enforcement in a small regulatory body. Given the limited number of on-site inspections FI staff are able to undertake it is difficult for FI to say with confidence that there is a low rate of non-compliance in Sweden. Indeed, when detailed examination of all securities firms was undertaken in 2008/9 to check the level of compliance of key elements of MiFID which was introduced in 2007 the supervisors discovered significant levels of non-compliance in most firms which resulted in numerous sanctions and one

	license revocation. That work enabled FI to set up baselines for its current risk based approach to supervision which was beneficial. However, while it is to be hoped that standards have improved FI has only limited evidence on which to make such a judgment. As a separate point, in the view of the assessor the low level of fines which the FI can impose impacts on the credibility of the process. Fines are limited to 10 percent of the previous year's revenues of the firm or person concerned with a cap of SKr 50 million. In the case of major market players the cap is seriously inadequate. For example, the largest fund management company has annual revenues probably in excess of SKr 4.5 billion and several other licensees generate annual revenues in excess of SKr 1 billion. Furthermore there have been cases where the FI's use of its statutory discretion not to fine a fund manager which has remedied a breach indicates a significant weakness in FI's use of administrative sanctions. The final issue in regard to effectiveness and credibility of the totality of enforcement in Sweden relates to criminal prosecutions. FI is not a prosecutor for criminal offences. Suspected cases of criminal behavior, (e.g., insider dealing), are passed immediately to the NECB. Issues concerning criminal prosecutions are analyzed under Principle 28 though it should be noted here that there are significant legal constraints on gathering and presenting evidence, and issues regarding the level of penalties which are relevant to an assessment of Principle 10. Overall, the judgment of the assessor is that issues concerning resources, and process in FI, and the sanctions available to it, call for a "partly implemented assessment." He has serious doubts as to whether, overall, FI is able to take adequate measures to encourage compliance with the law and its regulations and to detect sufficient infringements of the law and regulations to provide a fully credible risk of detection with the imposition of proportionate and dissuasive sanctions.
Principles for Cooperation in Regulation	
Principle 11.	The regulator should have authority to share both public and non-public information with domestic and foreign counterparts.
Description	The general principle of public access to information regarding governmental activities and documents, which is laid down in the Freedom of the Press Act, gives FI, and other government authorities, the fundamental obligation to share information. "Public" is interpreted as including domestic and foreign regulators. This obligation is restricted through prohibitions in the newly modified Act of Public Access to Information and Secrecy. In this Act information concerning the business or management activities of entities under FI's supervision is prohibited from being disclosed if it can be presumed that disclosure would cause damage to the entity. The same prohibition applies to information concerning business or personal activities of a third party who has entered into a business relationship with such a regulated entity. However there is also a general provision that information may be shared with other authorities if it is clear that the interest in disclosing the information has priority over the interest of the entity in keeping that information confidential. There are also statutes which imply that information shall be shared in specific situations such as those set out in the Financial Instrument Trading (Market Abuse) Penalties Act. The Act of Public Access to Information and Secrecy also provides two gateways to share confidential information with foreign authorities. First, where the government by law or ordinance has determined that information may be provided to a foreign authority. Statutes applicable to FI's international cooperation are found in the SMA the IFA, Financial Instruments Trading Act, the Financial Instrument Trading (Market Abuse Penalties) Act and the Insurance Business Act. A limitation is however that these statutes only refer to authorities within the EEA.

	The second gateway relates to the situation when the need is to share information with authorities outside the EEA. The law state that such sharing is permitted when information can be provided to a Swedish authority and it is in the Swedish national interest to disclose the information to the foreign authority. FI makes its decisions on the basis that sharing enforcement and supervisory related information is in the Swedish national interest as it contributes to enhancing confidence in global financial markets (including securities and derivatives markets), from which Sweden benefits. Whether FI is able to share information is thus decided on a case by case basis. It is at FI's discretion to determine whether or not information shall be shared with other authorities. FI does not need to seek external approval before sharing information for enforcement and regulatory purposes with foreign counterparts. Information exchange is also subject to the EU Directive on data protection, implemented in Sweden via the Personal Data Act. This aims to prevent the violation of personal integrity in the processing of personal data. The Act states that information may not be transferred to third party countries which do not have adequate regulations on the protection of personal data.
Assessment	Fully Implemented
Comments	As a result of a very recent change in the law (March 1, 2011) FI can now share information with foreign counterparts even if the alleged conduct is not such that it would constitute a breach of Swedish law if conducted within Sweden. As a result of the change FI re-applied to become a full signatory to the IOSCO MMoU. That status was granted in April 2011. Previously this issue was an impediment to sharing information with foreign regulators.
Principle 12.	Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.
Description	Domestically FI is required to confer with RB in matters regarding monetary stability or matters regarding monetary and payment policy and to provide RB with necessary information. According to the agreement between FI and the NDO, which administers the deposit guarantee system, FI will, on request, give information about deposits and capital ratios to to NDO in order to enable it to determine the fees for the deposit guarantee scheme. FI informs the NDO when new institutions have been licensed, branches of foreign entities have been established in Sweden and Swedish entities have established branches abroad. The Public Access to Information and Secrecy Act provides that secrecy provisions shall not hinder the communication of information to the Swedish Parliament and Government and any other Swedish supervisory authority. Furthermore, confidential information concerning suspicion of crime may be disclosed to the police or to an authority which has to take action against the crime if imprisonment is prescribed for the crime. Information that FI receives according to an agreement with a foreign authority cannot be disclosed if disclosure would be in breach of the agreement. Internationally, in relevant sectors (i.e., the banking, securities, investment funds, and insurance) EU law states that authorities within the EEA shall co-operate and share information. This is implemented in Swedish law. In addition FI has signed various MoUs and letters of Intent concerning the exchange of information. FI is a signatory to the multilateral MoU on exchange of information and surveillance of securities activities between the members of ESMA. FI has more than 40 active MoUs and Letters of Intent with foreign authorities in order to exchange information and/or assist in licensing and surveillance matters. The Public Access to Information and Secrecy Act states that information received trough an international agreement is not public if Parliament has approved the agreement (such agreements are the EU-directives), or if the government has decided to incorporate the agreement in the

	Ordinance of Public Access to Information and Secrecy. Currently 35 agreements are incorporated in the ordinance. When entering into MoUs or Letter of Intent FI require that information received by the other authority may be used solely for the purpose for which the agreement is intended. FI may agree to send information requested by a foreign authority where there is no MoU or Letter of Intent. In these cases FI requires confirmation that the information will be safeguarded and not used for purposes other than described in the request for assistance. During 2009 FI received and processed 23 requests for assistance concerning foreign authorities' investigations on insider dealing or market abuse as well as several requests for assistance in merger, acquisitions and other issues. It declined one request due to the (now removed) impediment to assisting a foreign regulator when there was no Swedish interest in the matter. Requests for information are given priority. Due to the presumption of public access to information, the staff of FI at all time have to be prepared to locate information held by the authority, solve secrecy issues and share the information when not restricted by law.
Assessment	Fully Implemented
Comments	
Principle 13.	The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers.
Description	FI has extensive powers to assist with information held by FI. It also has extensive powers to access information held by other entities, such as banks, providers of investment services, natural persons etc. Information on transactions on regulated and OTC markets are reported daily to FI by providers of investment services. In addition providers of investment services have obligations to create and save documentation (e.g., on clients and their transactions, to which FI has access on demand. The documentation must be archived for at least five years. Registers on the legal owners of limited liability companies are held by the CSD in book entry form or the company itself. The Swedish Companies Registration Office is responsible for a number of registers on businesses. FI has direct electronic access to the information in these registers. By this means FI can get information on, for example, the board of directors, the CEO and external auditors at limited liability companies; the owners of partnership and limited partnership companies; the board, CEO and external auditor at economic associations; and the board and CEO at European international business companies and associations. From registers held by the 21 county administrative Boards FI can get information on foundations. If the information is not held in FI's files, FI can collect the requested information from other parties in Sweden. All necessary types of information are covered. FI has the ability to take voluntary statements from anyone, at the request of a foreign authority or in its supervisory capacity. However, FI cannot compel a person to make a statement, nor can FI take statements under oath. FI may require any person who could be expected to have information to attend for questioning, under threat of a fine for non-attendance, although that person had the right to remain silent. FI cannot bring a case to court to assist foreign regulators. An example is insider investigations which although initiated by FI are handed over to the NECB when there is reason to believe there a criminal offence may have been committed. It is the NECB which decides if the case should be taken to the court. FI can however offer assistance in obtaining co-operation from the NECB or other Swedish governmental authorities.

	As regards conglomerates, Sweden has implemented the EU Directive on financial conglomerates and has identified six Swedish conglomerates. Swedish law imposes obligations to cooperate on the top holding company; all companies in the group are obligated to answer any question asked by FI in pursuit of its supervisory duties. Within the supervisory duty falls cooperation with foreign authorities within the EEA. Cooperation with non-EEA authorities regarding non-EEA conglomerates follows the procedures outlined in Principle 12.
Assessment	Fully Implemented
Comments	
Principles for Issuers	
Principle 14.	There should be full, accurate and timely disclosure of financial results and other information that is material to investors' decisions.
Description	A Swedish public limited liability company is regulated by the Swedish Companies Act. The Act has been amended and supplemented by several subsequent acts, last amended in 2010. The Act regulates only `limited liability companies' and distinguishes between private and public limited liability companies. Starting from April 1, 2010, in order to be classified as a limited liability company, a company must have a share capital amounting to at least SKr 50,000. Approximately one quarter of all Swedish companies are limited companies. Only a public limited liability company whose share capital amounts to at least SKr 500,000 can promote the sale of its shares to broad circles of potential investors and list the shares for trading on a stock exchange or other organized marketplaces. Therefore, all listed companies are public limited liability companies. The Financial Instruments Trading Act states that a prospectus must be prepared when transferable securities are offered to the general public or admitted for trading on a regulated marketplace unless otherwise prescribed. Since 2001 the prospectus review process has been strengthened. Prospectuses must be submitted to and approved by the FI before an offer to the public can be made. FI reviews them for compliance with the Financial Instruments Trading Act. Provisions regarding the information which shall be included in a prospectus are set forth in an FI Regulation under the Act. Together these implement the EU Prospectus Directive. FI employs seven staff in Issuer Supervision. In addition to prospectus review they investigate breaches of the prospectus law of which there are five or so cases a year. FI can issue fines for such offences of up to SKr 10 million. In 2010 they reviewed 125 full prospectuses, 30 base prospectuses for bond issues and 24 prospectuses required for admission to trading on a securities exchange but where no capital was raised. The prospectus is required to contain all information regarding the issuer and the transferable securities which is necessary to enable an investor to make an informed assessment of the assets and liabilities, financial position, results and future prospects of the issuer and any guarantor as well as of the transferable securities. The information must be written in a way such that it is easy to understand and analyze. When a company is about to have its securities listed on a RM any advertising of the offer to the public must include information about where and how to get the prospectus and also state that the advertisement is merely that. It is not the prospectus. The information in the advertisement must not be misleading or false. The board of directors is responsible for the content of the prospectus. Others such as lawyers and accountants named in the prospectus can be liable under civil law on a claim by shareholders. A founder, member of a board of directors or a managing director who, in the performance of his or her duties, intentionally or negligently causes damage to the company shall pay compensation for such damage. This also applies where damage is caused to a shareholder or other person as a consequence of a violation of the Act, the applicable annual reports legislation, or the articles of

	association. There are specific rules governing interventions by FI when a Swedish securities firm, a securities exchange or a Swedish clearing organization has disregarded its obligations pursuant to the SMA. NASDAQ OMX has disciplined listed companies under its listing rules where the prospectus has subsequently been shown to be misleading. Warrants are defined as transferable securities and therefore the rules on prospectuses apply. There are disclosure terms in the rules of the derivative market and in the contract between the buyer and the market. Derivatives that are equivalent to transferable securities that are traded on a RM are subject to the same rules. This means that disclosures, mechanics of trading and risks have to be made public. Standardized derivative instruments are classified as non-transferable contracts and are not covered by the rules on prospectuses. These are governed by bilateral contracts based on the rules of the marketplace and clearing rules. **Ongoing supervision of issuers** Under the SMA an exchange must have clear and transparent rules for the admission to trading of financial instruments on an RM. Financial instruments may be admitted to trading only where conditions exist for fair orderly and efficient trading. The listing rules implement several EU directives such as Market Abuse, Transparency, MiFID and the Takeovers Directive. The exchanges are responsible for monitoring the companies whose securities are listed on them. This is an unusual structure in Europe and reflects the continuation of Sweden's traditional reliance on self regulation. The process of listing on NASDAQ OMX involves review by an Admissions Committee consisting of exchange staff and capital market experts. It is assisted by 30 people in the Surveillance Dept which is part of the Legal division. Legal reports directly to the office of the General Counsel at NASDAQ US. It also has a Disciplinary Committee to adjudicate and sanction breaches of the listing rules. The Chair of that committee is a retired supreme court judge, the deputy is a current supreme court judge and they are accompanies by one law professor and 2 capital market experts. It hears on average 10 cases a year but has not delisted a company since the 1980s As an illustration of FI's "one step removed" role in listed company regulation, FI's department of Issuer Supervision reviews the work on company annual report and accounts which NASDAQ OMX and NGM perform for compliance with accounting standards. Groups must comply with IFRS. Single companies comply with a mix of IFRS and Swedish GAAP. This requirement is tax driven—groups do no pay tax, only individual companies. The Swedish Accounting Standards Board, a private sector body, has determined where IFRS applies and where not. Other functions of the department are to monitor "flagging" reports—percentage holdings—and the Insiders Register. This register, which is public, contains the transactions of all individuals that are assumed to have superior information about a company such as board members and senior management. This is seen as providing valuable insights to outside investors on, at least, the views of well informed insiders concerning the company. Of course insiders may have other purely personal reasons for buying or selling shares. All companies must also keep a logbook where they record all possible insider information that not yet has been public (and is not required to be made public immediately, such as a major contract in the process of negotiation) and which persons in the organization may be aware of this information. This derives from implementation of the Market Abuse Directive. For a Swedish issuer whose transferable securities are admitted to trading on a RM, the annual report must be published no later than four months after the close of each financial year. An issuer of shares, bonds or transferable securities must publish an interim report for the first six months of the financial year. The half-yearly report shall be published as soon as possible and not later than two months after the end of the reporting period. Other public companies with securities admitted

	to trading only on a MTF must publish annual report no later than six months after the close of each financial year. There is no legal obligation for these companies to publish periodic reports, but the MTF may impose such obligations by contract. Larger undertakings must provide information in the annual report regarding significant transactions which have not been carried out on market rate terms and conditions with a member of the board of directors, managing director, or any other senior executive of the company or its parent company, or a comparable foreign legal subject or a closely related natural or legal person to such persons, According to the same provision public limited liability companies which are smaller companies shall provide information regarding such transactions where the transaction has been entered into with a member of the board of directors of the company. An issuer must inform the market place about their business and they have to make such disclosures about their business and their securities public as is material for the valuation of the securities. The SMA and exchange listing rules describes how the issuer makes the information public. It must be published in a fast and non-discriminating way to the public in the whole EEA. The SMA and FI Regulations require that a) Financial information and other required disclosure in prospectuses, listing documents, annual and other periodic reports, and where applicable, in connection with shareholder voting decisions, be of sufficient timeliness to be useful to investors. b) Periodic information about the financial position and results of operations (which may be in summary form) is made publicly available to investors. c) Appropriate measures are to be taken (for example, provision of more recent unaudited financial information) when the audited financial statements included in a prospectus for public offerings are stale. In addition to specific disclosure requirements there a general requirement to disclose either all material information or all information necessary to keep the disclosures made from being misleading. Generally listed companies are expected to publish price sensitive information without delay. However, under the law a listed company may defer publication of such information regarding its operations and securities as is material for assessment of the price of the security where: 1. there are acceptable reasons; and 2. there is no risk that the public will be misled: and the issuer can ensure that the information is not divulged. These concessions are granted by NASDAQ OMX under its listing rules.
Assessment	Broadly Implemented
Comments	Because the listing rules of NASDAQ OMX and the other securities exchanges derive directly from EU law as implemented in Sweden, FI has little influence over the conduct of listed companies under the law except via seeking to ensure that the exchanges interpret and enforce their listing rules appropriately. It has full sanctioning powers should, in its view, an exchange fail to meet its obligations though it is unclear what might happen if an exchange, particularly NASDAQ OMX which has over 90 percent of the listed companies in Sweden, and all the large ones, was to challenge FI's judgment given that the exchange is exercising powers under the law directly, in parallel with FI, rather than exercising powers delegated by FI. According to FI staff the relationship with NADAQ OMX surveillance staff is close and cooperative. The latter frequently consult FI staff on particular courses of action that they are contemplating regarding listed companies.

	The listing rules of NASDAQ OMX (the dominant exchange for listed companies) while requiring a company to notify it of its intention to withhold information have no explicit mechanism or detailed criteria for over-ruling the company. The exchange claims however that it works on a strong presumption that price sensitive information should be made public immediately with few exceptions. Greater transparency on the process, such as clarifying what are acceptable reasons would be helpful (they could vary depending on the business of the company). Although not an element of the grade the assessor notes that the maximum of a four month period for filing annual reports, while it may the European standard is slow by comparison with some other advance markets. It compares poorly with, for example, the U.S. which requires the largest issuers to file those financial statements within 75 days of year-end, with 90 days the period for others. Canada uses a 90 day period, except for the smallest issuers.
Principle 15.	Holders of securities in a company should be treated in a fair and equitable manner.
Description	According to the SMA, issuers of transferable securities admitted to trading on a RM have to publish all information that can affect the market value in a fast and equitable manner. Overseeing compliance with this required is the responsibility of the securities exchanges on which the company's securities are admitted to trading. The main voting rights provision in Swedish law is that all shares have equal rights in the company. However, the law permits provisions in the articles of association to distinguish between different types of shares on such matters as number of votes per share. This provision is longstanding. A share in a company may not have more than ten times the number of votes of any other share in the same company. Such differentiation in voting rights currently can be found in about half of the Swedish stock market companies. In practically all of these companies, the difference in the number of votes per share is 1:10. The Companies Act (2005) contains provisions mandating that shareholders should be treated in a fair and equitable manner. There are rules concerning how and when to call a shareholder's meeting and about the content of such notice and also about rights of minority shareholders to require an extraordinary shareholders' meeting. There are also rules concerning the rights of the minority shareholders to appoint an auditor. Minority shareholders may also call for a separate examination of the management and the accounts of the company. The Company's Act gives shareholders private rights of action against the companies. Sweden has implemented the Takeovers Directive. Takeover bids are regulated in the Act on Public Offers on the Stock Market, the Financial Instruments Trading Act and the Securities Markets Act. The Act on Public Offers on the Stock Market contains provisions concerning (e.g., the obligations of the offeror and mandatory bids). The Financial Instruments Trading Act contains provisions concerning (e.g., the information an offer document shall contain) as does the Securities Markets Act. Sweden has also implemented the Transparency Directive on the harmonization of transparency requirements in relation to information about issuers whose securitizes are admitted to trading on a RM. Sweden has also, but with some delay, implemented the Shareholder Rights Directive which harmonizes the terms under which shareholders with voting rights should be able to exercise those rights, particularly cross-border. It was also intended to encourage sound corporate governance by providing shareholders with effective control in those EEA jurisdictions where such control was lacking. In practice the necessary amendments to Sweden's existing provisions were deemed to be limited. This level of legal reinforcement of shareholders rights should ensure that minority shareholders receive adequate protection. For example there are reporting requirement to FI of significant holdings by persons acting on their own account, on behalf of others and with affiliates. Any change in a holding of shares shall be reported to FI where the change entails that the portion of all shares in the company or of the voting interest which is equivalent to the holding reaches or

	exceeds any of the limits of 5, 10, 15, 20, 25, 30, 50, 66, 67, or 90 percent or falls below any of these limits. There are specified time limits for reporting to the company and to the FI. FI publishes the information in a report not later than midday on the trading day following the day on which the FI receives the report. It issues fines for late reporting. Another example is the registry of trading by insiders referred to under Principle 14 that is available on FI's website and is therefore accessible to minority shareholders and the public. This contains information about the changes in shareholdings (and holdings equivalent to shares) that insiders and affiliated persons have in the company. The registry is updated daily. Insider reporting is regulated in the Act concerning Reporting Obligations for Certain Holdings of Financial Instruments (2000). Insiders are defined as owners (alone, together or through affiliated persons) of shares corresponding to 10 percent or more of the share capital or of all shares in the company. Insiders must report all trades within five days. Companies are responsible for providing a complete list of insiders and must notify FI of changes to the list within fourteen days. A company which has issued transferable securities on a RM must continuously register the natural persons who work for the company that have access to insider information the "logbook." Persons that are employed or work on commission for securities firms or for a securities exchange who normally have access to insider information and affiliated persons shall notify holdings of financial instruments and changes in those holdings. This is an element of the Market Abuse Directive which Sweden has implemented. In terms of specifics the regulatory framework and legal infrastructure provides for the equitable treatment of shareholders in connection with the following: a. Voting i) For election of directors; ii) On corporate changes affecting the terms and conditions of their securities; and iii) On other fundamental corporate changes b. Timely notice of shareholder meetings c. Procedures that enable beneficial owners to give proxies or voting instructions efficiently d. Ownership registration (in the case of registered shares) and transfer of their shares e. Receipt of dividends and other distributions, when, as, and if declared f. Transactions involving i) A takeover bid, and ii) Other change of control transactions g. Holding the company, its directors and senior management accountable for their involvement or oversight resulting in violations of law h. Bankruptcy or insolvency of a company All shares shall carry equal rights in the company, unless otherwise provided for in the articles of association. These may prescribe that there shall be shares of different classes or the right to issue such shares. There are provisions regarding pre-emption rights in conjunction with new issues of shares or issues of warrants or convertible instruments, provisions regarding entitlement to bonus shares and differences in voting rights. The Companies Act contains provisions regarding distribution of profits. Takeovers are regulated primarily via provision in the Act on Public Offers on the Stock Market

	and rules of the stock exchange on which the securities are listed. According to the Act, all holders of securities of the same type in a target company must receive equal treatment and, if a person/entity gains control of a company, other holders must be protected. The Act is supplemented by self-regulation by way of the rules of the securities exchanges and the Swedish Securities Council (the latter under powers delegated to it by FI). Inter alia, the board of the target company must take into account the interests of the company as a whole and must not deprive holders of securities of an opportunity to decide on the offer. Holders of securities must be given sufficient time and information to arrive at a soundly based decision regarding the offer. A bid to acquire 30 percent of a company triggers the mandatory bid rules. Furthermore the price of the mandatory bid must be at a price at least equal to the highest price paid by the offeror and associates in the previous six months. If in the six months after the takeover has been concluded the offeror his associates pay a third party more than the bid price the price paid to the previous sellers must be increased to this level. The initiator of a takeover bid is required to agree to comply with the rules of the exchange on which the target is listed. Although not mandatory, a ruling that an offeror has breached the rules and failed to remedy the situation would make it very difficult for him to obtain further assistance from the exchange, its members or other professionals with expertise in the takeovers area in Sweden. The Stock Market (Takeover Bids) Act contains provisions regarding the offeror's obligation to prepare an offer document and to apply for approval thereof. There are requirements as to what information such an offer document shall contain. When FI has approved the offer document, the FI registers the document. The offer document may not be published until it has been approved and registered by FI. In essence an offer document must contain information regarding the terms and conditions of the offer sufficient to enable the shareholders of the target company to make a well-informed decision regarding the offer. It shall include extensive information about the offeror and the identity of any persons acting in concert (a defined term) with the offeror. It must set out which shares are covered by the offer; the time limit for acceptance of the offer; the consideration which is offered for the shares covered by the offer, the way in which the offer is financed and, where the consideration is not cash, a description of the consideration which enables valuation of the consideration; the maximum and minimum number of shares which the offeror is offering to acquire; the number of shares in the target company which are held by the offeror and, where applicable, persons acting in concert with the offeror, and the percentage of share capital and voting interests for all shares in the target company represented by these shares; the reasons for the offer; the offeror's intentions with respect to the future business of the target company and, to the extent it is affected, the offeror company; the offeror's intentions with respect to the company's employees and management, including each material modification of the employment terms and conditions; the offeror's strategic plans for the company and the effects that these may have on the business and the places in which the company conducts business; where applicable, the compensation to be paid and the method to be used to establish it; information regarding which national legislation will be applicable to the agreements entered into between the offeror and the shareholders in the target company as a result of the takeover bid. When a public takeover bid is launched for a company on a RM, there is a statutory obligation for the bidder to make a commitment to the exchange to comply with exchange rules for such offers and to accept any sanctions which may be imposed by the Exchange in the event of breaches of the rules. Where the consideration which is offered consists of transferable securities issued or held by the offeror, the offer document shall also contain information comparable to the information which is required in a prospectus. As noted under Principle 7 the realm of takeovers is where another self regulatory body has a

	role—the Swedish Securities Council. It operates under devolved powers for the FI. It provides exemption when it considers them appropriate from the time limits under the Act on preparing and obtaining approval for a bid and also whether: a) the mandatory bid is to be performed by someone who is related to the offeror, b) there is a situation of an mandatory bid; c) an action taken by the by the board of the offeree company is violating any regulation regarding defense mechanisms; d) to grant an exception to the regulation governing the mandatory bid; and e) to grant an exception to the regulation governing defense mechanisms. FI, but not an exchange, can require (under threat of sanction) a party to fulfill the obligation to launch a mandatory offeror to stop any frustrating action taken by the target company. It can also suspend a public takeover offer. The SSC is one of three organizations which make up the Association for Generally Accepted Principles in the Securities market. The others are the Swedish Corporate Governance Board and the Swedish Financial Reporting Board. Behind these are nine trade associations with particular briefs for capital market issues and NASDAQ OMX. The SSC is comprised of representatives of the Swedish business community. It consists of a chair, vice-chair and 22 members. It has an Executive Director and a secretariat. Of particular relevance to this Principle is the Swedish Corporate Governance Board. It was set up in 2005 with the general aim of promoting good corporate governance in Swedish stock exchange listed companies. A major part of this role is the management of the Swedish Corporate Code of Governance (Code), which was introduced for major stock exchange companies on July 1, 2005. Since then, the Code has been revised and its application broadened. As of July 1, 2008, the revised Code was applicable to all Swedish companies whose shares are traded on a RM in Sweden. The latest revision of the Code took place in 2010, with new rules coming into force on February 1, 2010 (with certain transitional rules). As of May 2010, the Board also took over the responsibility for the issues that were previously dealt with by the Swedish Industry and Commerce Stock Exchange Committee (NBK), now largely limited to rules for takeovers of companies admitted to trading on MTFs. These rules are broadly the same as the rules for takeovers on an exchange (to ensure consistency among Swedish companies admitted to trading on different types of trading platforms) but they have no statutory backing.
Assessment	Fully Implemented
Comments	The requirement for insiders to report their transactions in five days appears too long given current technology. However, FI issues fines for late reporting—approximately 120—40 a year. Fines can range from SKr 15,000–SKr 350,000. FI fears that a tighter deadline would lead to a surge in fines and protests about excessive regulation.
Principle 16.	Accounting and auditing standards should be of a high and internationally acceptable quality.
Description	The central provisions concerning the public accounting of companies are written in the Accounting Act (1999) which includes regulations about current recording of transactions, preparation of annual accounts and filing of accounting records. This Act is applied by all companies or persons that are required to maintain accounting records irrespective of the of legal form that the company has. The Accounting Act is a general law that only contains the general criteria for the accounting. These criteria are expanded upon by IFRS and Swedish GAAP. The rules for the public accounting of companies such as audited annual reports, consolidated accounts and interim reports are spread out in several separate laws. Which law shall be applied depends upon the legal status of the company or person that is required to maintain accounting

	records. For example, banks, securities firms and insurance companies must comply with sector specific Acts. Since January 1, 1996 these Acts complying with the accounting directives of the EU (the fourth and seventh accounting directive and also the banking and insurance directive). For issuers with securities listed on a RM the SMA stipulates that they, in the group accounts, have to follow IFRS as adopted by the EU. Under the Financial Instruments Trading Act 1991 and the FI's Regulations public companies are required to include audited financial statements in public offerings and listing particulars documents and in publicly available annual reports. In the case of prospectuses the last three years' audited financial statements must be included and they have to follow IFRS as adopted in the EU. The required audited financial statements include a) A balance sheet or statement of financial position. b) A statement of the results of operations. c) A statement of cash flow. d) A statement of changes in ownership equity or comparable information. Sweden uses IFRS as adopted by the EU in consolidated accounts. Public issuers with securities admitted to trading only on an MTF may be allowed to follow Swedish GAAP instead of IFRS. Swedish GAAP is generally considered to be of a high and internationally acceptable quality. Financial statements are required to be presented in a way which is comprehensive, understandable by investors and reflect consistent application of accounting standards Regarding auditing standards, Sweden has adopted the IFAC international auditing standards (ISA). This is in accordance with EU directive 2006/43 EC on statutory accounts. Independence of auditors is required under the Auditors Act and RS which is based on the ISA standard. The RS is a translated copy of ISAs. However, Sweden has added some extra principles that further govern what the auditor must do. The external auditor is required to be independent of the company in both fact and appearance Where unaudited financial statements are used, for example, in interim reports, and interim period financial statements in public offering and listing particulars documents, in full or summary format, the financial information is presented in accordance with IFRS as adopted by the EU or Swedish GAAP. The Swedish Accounting Standards Board is responsible for interpreting the latter. The supervision of auditors and auditing standards is the responsibility of a government authority, the Supervisory Board of Public Accountants. Information about the resignation, removal or replacement of an external auditor must be announced on the shareholder's meeting. Although the FI is the administrative authority under the SMA, the Act also states that the enforcement of the law and regulations on issuers listed in Sweden is to be carried out by the RMs (currently NASDAQ OMX and NGM). FI is responsible only for issuers with registered office in Sweden and whose shares/debt securities are admitted to trading only in other member countries. FI issues regulations and directions covering the enforcement actions to be performed by the RMs. The regulations are binding. During 2010/2011 there will be an evaluation of the Swedish system of enforcement of companies' compliance with accounting standards. This may lead to changes regarding the organization of Swedish national enforcement. The application of accounting and auditing standards is not significantly impacted by the presence of foreign companies. The Swedish equity market is largely domestic. Only about 20 companies (out of 260) are domiciled outside of Sweden.
Assessment	Fully Implemented

Comments	The assessor did not review the detailed requirements under stock exchange rules but notes that a system of enforcement of accounting standards reliant upon the resources and commitment of a commercially driven stock exchange has risks such as selective enforcement and regulatory arbitrage. The assessor understands the position is currently under review at the MoF and NASDAQ OMX would not oppose this role being assumed by another body.
Principles for Collective Investment Schemes	
Principle 17.	The regulatory system should set standards for the eligibility and the regulation of those who wish to market or operate a CIS.
Description	**Operating a CIS** The main regulation for CIS in Sweden is found in the IFA. The IFA implements the provisions in the UCITS Directives. FI has issued regulations regarding certain provisions of the IFA. In order to operate an investment fund, authorization is required from FI. An AMC can operate Swedish UCITS and Swedish non-UCITS. An investment firms which is authorized under the SMA to provide the investment service portfolio management, may apply for a license under the IFA to operate Swedish non-UCITS only. According to the IFA, in order for a limited liability company to be granted authorization to act as an AMC it must meet the conditions of a "fit and proper" test. These are i) the head office of the company shall be situated in Sweden; ii) there shall be cause to assume that the envisaged operations will be conducted in accordance with the IFA and other statutory instruments; iii) any person that holds or may be expected to hold a qualified holding in the company shall be deemed not to impede that the operations of the company are conducted in a manner consistent with the IFA and all other statutory instruments governing the company's operations and otherwise be considered suitable to exercise a significant influence over the management of the company; iv)the chief executive officer, members of the board of directors and deputies shall possess sufficient insight and experience to participate in the management of an AMC and otherwise be deemed suitable for such duties; v) the rules of a fund to be operated by the AMC have been approved by FI; and vi) the company fulfils the conditions otherwise set forward in the IFA. An AMC shall have a minimum initial capital of EUR 125,000. During the operations, the own capital of the AMC must not be less than the initial capital. According to IFA, an AMC is subject to a general obligation to conduct its business in such a manner that the public's confidence in the fund market is maintained, the capital investments of individuals are not unduly jeopardized, and the operations otherwise are deemed to be sound. In addition to the conditions for authorization set forth in the IFA, FI has issued regulations which set out detailed requirements as to the contents of an application for authorization). The application must include a business plan which, inter alia, shall contain the following information: a description of the company's activities, a list of owners, a group description, a list of management (including information on previous experience and education), information on the economic situation of the AMC, a schematic view of the organization, a description of delegation agreements, a description of information systems and security issues, a description of administrative processes, an account for existing or potential conflicts of interest, a description of internal control mechanisms (compliance, risk management and internal audit) information on management of ethical issues and customer complaints, descriptions of the controls for personal transactions and anti-money laundering. To the business plan shall be attached relevant internal instructions and guidelines required by law and regulations. In the authorization process, FI makes an assessment of whether the operations of the company as described in the business plan is in compliance with the requirements of IFA and its regulation.

	FI has issued regulations on the operational requirements of an AMC (e.g., requirements for internal control mechanisms, documentation and outsourcing) and rules of conduct (e.g., conflicts of interests) of an AMC. These rules and regulations will be subject to review as part of the implementation of the UCITS IV directive in July 2011. This will lead to more detailed rules on operational requirements. Under the IFA FI is empowered to apply sanctions for unlicensed operation of a CIS and/or for violation of CIS operator obligations. FI shall order such person to cease the business; FI may also impose a fine. Where an AMC has violated its obligations pursuant to the IFA or other statutory instruments governing the operations of the AMC, the fund rules, articles of association of the AMC or internal instructions based on legislation governing the AMC's operations, FI is authorized to intervene. Intervention takes place through an order to limit the operations in some respect, reduce the risks therein, or undertake other measures in order to rectify the situation, prohibit implementation of decisions, or through the issuance of a remark. For more serious breaches FI issues a warning. Remarks and warnings are public. Both may be accompanied by a fine. If the breach is sufficiently serious the AMC's authorization will be revoked. Under threat of revocation of an AMC's authorization FI can secure the removal of any person serving on an AMC's board of directors or its managing director who fails to fulfill the requirements set forth in the IFA. Moreover, FI shall revoke an authorization if an AMC has: i) obtained the authorization by providing false information or in some other undue manner; ii) fails, within a period of one year from the granting of the authorization to commence the operations to which the authorization refers; iii) has declined the authorization; or iv) fails, during a period of six consecutive months, to conduct such operations as covered by the authorization. In such cases covered by i, ii, and iv, FI may, if deemed sufficient, issue a warning instead of revoking the authorization. Where an AMC fails to provide in due time certain information to FI, it may be ordered to pay fines for the delay. FI conducts ongoing supervision of AMCs in order to ensure that the operator comply with the authorization requirements. An AMC is also required to inform FI of any material changes to its business plan. Although it is no longer explicitly stated in the IFA that FI has the powers to revoke an authorization from an AMC that no longer fulfils the conditions for authorization, it has been clearly indicated in the preparatory works of the IFA that this possibility follows from the other provisions. Supervision includes ensuring that the business operations are conducted according to the requirements of the IFA and other statutory instruments governing the operations of an AMC, the fund rules, articles of association and internal instructions which are based on legislation governing the operations of an AMC. FI has the powers to request any information that it deems necessary in order to conduct its supervision and may also conduct on-site inspections at any AMC, custodian or third party entities operating under a delegation (outsourcing) agreement. FI regularly uses these powers in its supervisions over AMCs, (e.g., cases of suspected violations of the IFA and FIs Regulations and in order to ascertain that the AMC continuously complies with the authorization requirements. An AMC must be able to, at any time, to present a list of the holdings of each CIS it operates. An AMC that operates a Swedish UCITS must provide this list to the FI quarterly. An AMC managing a Swedish non-UCITS shall do likewise on a date set by the FI. A Swedish non-UCITS shall also, as per the last day of every month calculate and report to FI the non-UCITS' risk level. An AMC is also required to submit quarterly, semi-annual and annual reports without delay. An AMC is required to maintain records regarding its operations and the internal organization for at least five years. An AMC is required to report changes of its management (i.e., members of the board of directors, the managing director and deputies) to FI It is also required to report any material change to its business plan to FI. Any changes to the fund rules must be approved by FI prior to entry into

	force. The articles of association of an AMC are not formally subject to FI's approval, although compliance with the articles of association is part of FI's supervision. As regards conflicts of interest under FI regulations an AMC is required to have internal instructions for the handling of conflicts of interests. Conflicts of interests should also be disclosed in the business plan of the AMC. The IFA contains a rule stating that the management of a fund must not be delegated to the custodian or an entity whose interests could come in conflict with the AMC or the unit holders. FI's regulations furthermore contain provisions as regards the managing of ethical matters and related party transactions. An AMC is also subject to FI's Regulations and general guidelines governing remuneration policies in credit institutions, investment firms and fund management companies. There are no explicit provisions in the IFA or FI's Regulations as regards best execution, appropriate trading, churning or underwriting. However FI is able to intervene when its supervision has detected that a fund manager has failed to comply with principles of best execution, appropriate trading and/or timely allocation of transactions. The same applies if FI detects that a fund manager has engaged in churning or inappropriate underwriting arrangements. Its interventions are based on the general obligations on fund managers to act in the common interests of the unit holders and the requirement of sound business operations and the specific obligations to conduct its business in such a manner that the public's confidence in the fund market is maintained, the capital of individuals are not unduly jeopardized and the operations otherwise are deemed to be sound. There will be explicit rules on best execution, appropriate trading and timely allocation of transactions and churning with the implementation of the UCITS IV Directive in July 2011. The auditor of an AMC must immediately notify FI if he or she becomes aware of facts which may constitute a violation of any regulation governing the company's operations. In the management of an investment fund, the AMC is required under the IFA to act exclusively in the common interest of the unit holders. An AMC may not hold fund property, act as a guarantor, take or give cash loans. For each investment fund there must be an appointed custodian which must act independently from the AMC and exclusively in the common interests of the unit holders. FI recently fined two custodians for failure to meet their obligations to unit holders by failing to have adequate internal controls. In one case this had resulted in the fund management company overcharging unit holders for several years. As regards outsourcing an AMC may under certain conditions delegate to third parties services or functions included in the fund operations in order to optimize the company's operations. A delegation may not be of such scope or character that the AMC relinquishes all operations or such part of the operations that the AMC is no longer able to protect the common interests of the unit holders or otherwise cannot fulfill the obligations pursuant to the IFA. The third party must possess suitable knowledge and skills taking into account the nature of the delegation. In the agreement, the AMC shall reserve the right to monitor entrusted services or functions, to issue instructions necessary for the sound management and to immediately terminate the agreement where such termination is in the common interest of the unit holders. Further requirements for delegation are set forth in FI's regulations. The AMC must inform FI of a delegation arrangement and submit the agreement for prior review. In the event that FI considers that the agreement violates the IFA or that it impedes effective supervision, FI has the authority to order the AMC to negotiate the amendments it judges are necessary. Delegation to a third party does not affect the responsibility of the AMC under the IFA. In the agreement; the AMC must reserve the right to supervise entrusted services. Moreover, according to FI's Regulations an AMC shall take necessary steps to ensure that the third party service provider carries out the delegated activities efficiently. For this purpose, the AMC shall establish

	processes for assessing the performance of the service provider. Moreover, the AMC shall have the expertise required for efficiently monitoring the delegated activities and managing the risks associated with the delegation and monitoring these functions and managing these risks. Information on delegation arrangements shall be disclosed in the business plan of the AMC and in the full prospectus of the managed funds. In the business plan, the AMC shall describe the service provider's expertise and skill; the service provider's other significant activities, and such circumstances that may give rise to a conflict of interests between the service provider and the AMC or unit holders. **Marketing** As the term is used in Sweden "marketing" means only the act of distributing information and marketing material on a certain product or service, If the purpose is to sell the product or service the term would be "marketing and selling" or "marketing and distribution." Marketing in the exclusive meaning of distributing information and marketing material is not subject to regulation by FI. It is subject to the supervision of the Consumer Protection Agency, Marketing in the sense of selling, distributing or acting as an intermediary for a CIS is subject to authorization or licensing requirements. An AMC can distribute third party funds after having been granted a license to perform certain services or functions upon the request of another AMC, so-called in-sourcing. A Swedish securities company, credit institution authorized under the SMA or a foreign securities company which conduct securities business from a branch in Sweden can distribute units in CIS in accordance with the provisions set forth in the SMA which implements MiFID. Distribution of units in a CIS normally either require a license to perform the investment service execution of orders (if the order is sent directly to the AMC) or the investment service reception and transmission of orders (if the order is sent via another intermediary). The SMA also contains provisions enabling securities companies established within the EEA to conduct securities business in Sweden on a cross-border basis An insurance broker can distribute units in investment funds in accordance with the Insurance Brokers Act. An insurance broker can either be a natural person or legal person. Distribution of investment funds is an ancillary service that requires a license from FI. The license is available only to those insurance brokers which have a license to mediate life insurance. No capital requirements apply to an insurance broker. However, the insurance broker must have an indemnity insurance covering the sale of investment funds, although that will only cover claims for professional negligence, and must also be able to demonstrate to FI that it has sufficient competence to distribute investment funds. An insurance broker may not handle client's means or fund units and must pass on the client's orders directly to the AMC (i.e., not via another intermediary). **International cooperation** Since Sweden is a member of the EU, provisions regarding cooperation with other EEA states follow from the UCITS III Directive. According to the IFA, FI shall in certain situations consult with competent authorities in other EEA states, prior to granting an authorization. This is for instance the case where an AMC is a subsidiary to another AMC, securities company or credit institution established in another EEA state. The IFA also contains provisions as regards cooperation between competent authorities in case of cross-border activities of Swedish UCITS and foreign UCITS. A foreign UCITS may be marketed and sold in Sweden following a notification to FI. There is no requirement of a license. The UCITS must however make necessary measures in Sweden in order to be able to make payments to unit holders, redeem units and provide all information that is

	required of the UCITS under its home state regulations. There will be new requirements with the implementation of UCITS IV in July 2011. With the new rules implemented, a foreign UCITS that market and sell units in Sweden will have to notify the supervisory authority in its home member state in advance, and include documentation according to rules set out by the home member state. The statutory regulator in the home member state will notify FI once the application is complete and approved. In order for a foreign non-UCITS to be marketed and sold in Sweden, it is necessary to apply for a license from FI. Such license may be granted provided that the following conditions are met: i) the foreign non-UCITS conducts similar business in its home state; ii) the foreign non-UCITS is subject to satisfying supervision in its home state and the competent authority has consented to the operations in Sweden; iii) the foreign non-UCITS fund effects the necessary measures in order to be able to, in Sweden, make payments to unit holders, redeem units, and provide such information that is required of the non-UCITS under the regulations applicable in its home state; and v) there is cause to assume that the planned operations in Sweden will be conducted in a manner which is compatible with the IFA and other legislation governing its operations. In addition the IFA contains requirements on international cooperation where an AMC wishes to delegate the management of an investment fund to a foreign entity. Such delegation is permitted provided that the company that shall perform the delegated activities is subject to supervision and has the relevant authorizations to perform management services and, in case of a non-EEA entity, FI can establish a satisfactory cooperation with the home state authority. IFA also contains provisions on international cooperation in case of violation of IFA by a foreign AMC/CIS operating in Sweden.
Assessment	Partly Implemented
Comments	There are four reasons for this significant downgrade. First the regulation of insurance intermediaries which market CIS is inadequate. It is too easy to obtain a license. There are 565 such entities, out of a total insurance intermediary sector of around 1000. They are mainly very small firms. The numbers are growing. They are largely unsupervised for this activity. They are not required to provide quarterly reports, are not required to have capital but carry PII for claims of professional negligence; FI relies on customer complaints to indicate problems. Fraud is not uncommon but more prevalent is product bias where the intermediary recommends the fund which pays the highest (undisclosed) fee. The FI is attempting to strengthen the licensing requirements under the existing legislation and has proposed legislative change to ending commission based sales and to move the industry to a transparent advisory fee based system. Second, Sweden has seen the emergence of a category of fund salespersons that are have unexpectedly been able to exploit an element of the Swedish interpretation of the UCITS directive whereby Sweden has implemented a set of rules that allows for marketing in the sense of advertising of a CIS with no requirement to obtain a license in advance. This activity involves the making of recommendations and sales but not handling the purchase funds which the investor is invited to send to an address outside the jurisdiction. The unregulated nature of this business means that there are no safeguards as to the suitability or quality of funds sold as would apply to properly notified or licensed fund sales. To clarify that this is not the intention of the rules Sweden plans shortly to strengthen the wording of the IFA, such that any kind of marketing of a CIS in Sweden will require a notification or license. The third reason concerns the lack of resources to effectively supervise AMCs and insurance intermediaries who market CIS. The investment funds supervision department consists of seven people (there are 10 in licensing fund managers and funds). They supervise 83 AMC, the 565

	insurance intermediaries and, in cooperation with colleagues in the securities department, 23 investment firms that manage non-UCITS. The last industry wide inspection program was undertaken three years ago which uncovered significant numbers of breaches sufficient to warrant remarks or warnings. This suggests that there is likely to be similar levels of non-compliance today, but with its current level of resources the department finds it difficult to can carry out more than 10 AMC specific inspections in a year. The department's goal is to visit new funds within one year and to visit 10–20 AMCs a year on theme based inspections. The department is also trying to meet all fund management companies once a year. This is not a formal inspection but does take place at the AMCs office. The department also handles between 5 and 10 new fund management company applicants a year, each of which takes around 20 person days to process There are on average 20–30 new funds a year where the FI has to approve the prospectus and fund rules. Subsequent changes to fund rules must also be approved by FI. The largest number of inspections performed is initiated by the FI based on its risk assessment process. Inspections are also based on issues arising from themed visits, external events, data from on-going reporting and complaints from the public, as with the supervision of investment firms discussed later, much also depends on the firms self-reporting breaches or the external auditor doing so as required under the law. There is evidence that this system has not been working as was intended and the FI has begun to explore mechanisms by which it might be improved. The fourth reason concerns FI's use of its discretion in deciding whether to fine fund managers. Within the limits set by the lack of resources the department has had some successes and pursues investigations diligently when it is alerted to problem. Two years ago the largest fund management company in Sweden notified FI (as it was required to do) that it had significantly overcharged clients in two funds over a period of 2.5years. The company repaid clients Skr 540million. The total cost to the company was undisclosed. However, despite the gravity of the offence, FI decided not to fine the AMC because it rectified the breach. This indicates a significant weakness in FI's use of administrative sanctions. IOSCO requires that there be effective, proportionate and dissuasive sanctions for violation of CIS operator obligations. While even the maximum permitted fine of SKr 50 million (as FI can levy elsewhere), would have had a minor impact on the company in the context of the total cost of restitution, and the company's annual revenues of SKr 4 billion or more it would have given a signal to fund managers and others of the FI's serious intent regarding enforcement. The case did however lead to a modest fine on the custodian, The initial investigation of the custodian was initiated as a result of its failure to detect the overcharging, but the main reasons for the sanction and the fine was due to its failure to fulfill its supervisory duties according to the IFA.
Principle 18.	The regulatory system should provide for rules governing the legal form and structure of CIS and the segregation and protection of client assets.
Description	The investment fund's legal status must be stated in the fund rules. The rules must state whether the fund is a Swedish UCITS or a Swedish non-UCITS (special fund). In addition, the legal nature of the fund must be described in the fund rules. It must be stated that the net fund assets are owned by the unit holders jointly and that each fund unit entitles the holder to an equal share in the assets of the fund. It must also be stated that the AMC represents the unit holders in all issues which concern the fund and that the investment fund cannot acquire rights or assume obligations. The fund rules must be attached to the full prospectus. The full prospectus shall include any additional information that is required in order for an investor to form an opinion on the risks attached to an investment in the fund as well as a clear description of the risk profile of the fund. FI approves the fund rules of an investment fund and is responsible for the ongoing supervision of AMCs and investment funds. Amendments to fund rules must be approved by FI which will do so if it deems

	them reasonable for the unit holders. Upon approval of amendments to the fund rules, FI may prescribe that the unit holders be informed of the amendments and that the amendments may not be applied for a certain period, not exceeding three months. Changes to investor rights would normally be approved with the provision that investors should be informed prior to the changes entered into effect. This is for instance the case with changes regarding fees, how often the fund is open for redemption and sale or if a non-UCITS is transformed into a UCITS. Minor changes to the fund rules, (e.g., editorial changes) would normally not require prior notification to investors. Fund rules should state where amendments of the fund rules shall be announced. Other changes to investor rights which do not entail an amendment of the fund rules would in many situations lead to material changes to the business plan which must be notified to FI. An AMC may not hold property which is part of an investment fund managed by the company. The fund property must be kept by a custodian who must keep the investment fund's assets segregated from the assets of the AMC. The custodian is obliged to act independently in relation to the management company and solely in the best interest of the unit holders. This principle applies whether the management company and the depositary belong to the same group of companies or not. An AMC is required to have an auditor. FI is also entitled to order one or more auditors to participate in the audit of a management company. An AMC shall, in respect of each investment fund it manages, provide an annual report within four months of the expiry of the financial year and a half-yearly report in respect of the first six months of the financial year within two months following the expiry of the half year. The annual report and a half-yearly report shall contain any and all information necessary in order to be able to assess each investment fund's development and financial position. The AMC's auditors shall review the accounts forming the basis of the annual report for an investment fund. The auditor's report, with any comments, shall be reproduced in its entirely in the annual report. Where FI has appointed an auditor, such auditor shall participate in the review. The management of an investment fund shall immediately be taken over by the depository where: i) FI has revoked the authorization of the AMC; ii) the AMC has been placed into liquidation; and iii) the AMC has been placed into insolvent liquidation.
Assessment	Broadly Implemented
Comments	The assessment is based on the level of effectiveness of FI's enforcement of segregation rules. The FI recently fined two of the big four banks for deficiencies in their custody departments. In one case FI established that the bank had not exercises independent and sufficient control over the assets of one of the bank's own fund management companies for several years which indicates weaknesses in supervision. In the other case, among other failings the assets of a number of funds were not controlled at all for a period of one year. However, the fines, SKr 2.5 million and 3.5 million respectively, do not appear sufficient to be a deterrent. IOSCO requires that the custodian either be an independent third party or that there be special legal or regulatory safeguards provided to protect the fund's assets. FI's official position on the independence of custodians, as expressed recently to the EU Commission is that where there is an intra-group relationships between a UCITS custodian and a management company the conflicts of interest that arise from such a relationship make it difficult for the custodian to act independently from the manager and solely in the interests of the unit holders. FI believes that this issue should be resolved though a new provision in the UCITS directives to the effect that a custodian should not be affiliated with the management company of a UCITS.
Principle 19.	Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a CIS for a particular investor and the value of the investor's interest in the scheme.
Description	An AMC shall, for each investment fund (i.e., Swedish UCITS and non-UCITS) it manages maintain a full prospectus and a simplified prospectus. The full prospectus shall contain i) the fund

	rules; ii) any additional information required in order to be able to assess the fund and the risks associated with investing in the fund; iii) a clear and readily understandable explanation of the risk profile of the fund; and iv) information about delegation arrangements. The simplified prospectus shall, in a readily understandable summary manner, contain the basic information required in order for investors to be able to assess the fund and the risks associated with investing in the fund. The simplified prospectus shall be attached to the full prospectus. In addition, the full prospectus and the simplified prospectus shall state: i) the types of assets in which the fund's assets may be invested; and ii) whether the fund's assets may be invested in derivative instruments. Moreover, the following information shall be presented in a prominent place in the full prospects and the simplified prospectus as well as in all other advertising material: i) the investment focus of the fund; and ii) whether the fund's value may vary significantly due to the composition of the fund or the management methods used by the AMC. In FI's Regulations there are additional rules as to the contents of the full prospectus and the simplified prospectus. An AMC shall confirm in writing to each holder of units in an investment fund, the registration of such holders' fund holding. The confirmation shall state the name of the investment fund and the names of the AMC and the depository. In addition it shall state where the full prospectus and the simplified prospectus and the annual report and the half-yearly report, are available. Each year, an AMC shall inform in writing each unit holder in an investment fund of the total costs for the fund during the immediately preceding year relating to the fund holdings. The information shall state the amount relating to management costs, including costs for the depository. Information as to the legal constitution of the investment funds, the rights of investors, information on the methodology of asset valuation, procedures for purchase, redemption and pricing of units, description of the investment policy and investment restrictions, name of the depository, fees and charges shall be included in the fund rules which shall be attached to the full prospectus. The simplified prospectus shall include information regarding the AMC (e.g., when it was authorized to conduct fund operations by FI, place of establishment, whether it has license to perform portfolio management, name of the auditors), the targeted investor profile, investment policy, risk profile, historic performance, tax rules, fees, dividends, publication of unit value, sale and redemption of units. The full prospectus shall include information on delegation arrangements, information regarding the investment fund, risk profile and fees. FI's Regulations require that the simplified prospectus state the date of publication. There are no requirements in the IFA or FI's Regulations that the full prospectus or the simplified prospectus contains audited financial information. However, the annual report of an investment fund shall include audited financial information. The full prospectus, simplified prospectus and the latest annual report and, where applicable, half-yearly report published thereafter, shall be provided or sent free of charge to any party intending to purchase units in an investment fund. Such parties shall also, free of charge, be offered the simplified prospectus prior to the execution of the agreement. With the UCITS IV implementation there will be rules with a requirement that the full prospectus, and not just the simplified prospectus, must state the date of issuance. Although only the fund rules and not the prospectus and simplified prospectus is subject to a formal approval of FI, FI has the power to intervene in an offering that violates the fund rules, the IFA, FI's Regulations or other legislation governing the fund operations of the AMC. As regards advertising material outside of the offering documents prohibitions on false or misleading advertising are stipulated in the Marketing Act 2008. According to the IFA, there shall at all times be a current full prospectus and a current simplified prospectus available for each investment fund. Full prospectuses, simplified prospectuses, annual reports and half-yearly reports shall be submitted to FI immediately upon completion. FI's Regulations stipulate how the annual report and half-yearly report should be prepared. There is no requirements in the accounting standards under which annual financial statements are prepared for footnotes that (a) summarize the significant accounting policies used in preparing the financial statements, (b) include all material

	information required to be disclosed by such standards, and (c) include any additional material information necessary to understand the information presented in the body of the financial statements. There is, however a requirement that where the balance sheet items, current receivables and current liabilities, amount to specific sums, the items be specified in notes. There will be new rules with the implementation of the UCITS IV Directive.
Assessment	Fully Implemented
Comments	
Principle 20.	Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a CIS.
Description	According to the IFA the value of the fund shall be calculated according to the principles set out in the fund rules. The assets of the fund shall be valued on the basis of market value. Additional requirements regarding the valuation are set forth in FI's regulation. The AMC must regularly, and not less than once per week, calculate and, in a suitable manner, publish the value of the units of its UCITS. Non-UCITS must at least every month calculate and publish an indicative NAV, if the fund is not open for redemptions/subscriptions every month. FI's regulations state how the net asset value of the fund should be calculated. These rules are in accordance with high-quality, accepted accounting standards. There will be new rules on principles for valuation of the fund with the implementation of UCITS IV. IFA stipulates that the fund's value should be calculated in accordance with the principles stated in the fund rules. The fund rules shall state the principles for calculation of the value of the fund and the units thereof, including the valuation principles used in conjunction with the valuation of unlisted assets and such OTC-derivative instruments. As regards unlisted securities FI as issued guidance to the effect that unlisted securities should always, like listed holdings, be valued at market price. It goes on to state that a fund management company should pay special attention to establishing the market valuation of unlisted holdings and that the valuation should be performed by independent and competent persons according to consistently applied and pre-defined principles. It would not therefore be appropriate that the valuation is performed by the person or persons responsible for the management of the fund or that the acquisition price is used. Further it is stated in FI's Regulations that the grounds and principles for valuation of non-listed financial instruments and OTC-derivatives shall be included in the fund rules. It is a minimum requirement that fund rules should state that fair valuation of assets using objective grounds should be the alternative where market prices are not available. According to IFA, the AMC's auditors shall review the accounts forming the basis of the annual report for an investment fund. There are rules on how the assets should be valued in the annual and semi-annual reports. FI also has the right to appoint one or more auditors to participate in the audit of the AMC. The IFA states the general principle that the value of a fund unit is calculated as the value of the fund's assets divided by the total number of units in the fund. It also states that the fund rules shall state the principles for the calculation of the sales and redemption price of the units in collective investment undertakings. The sale and redemption price is based on the valuation of the assets as described above. In the fund rules the principles for how AMC calculate redemption and subscription price must be clear. It must also be stated whether there are fees for redemption and subscription. New and more explicit rules on valuation of assets will come into force with the implementation of the UCITS IV directive in July 2011. Pricing errors would not be deemed to be within the concept of sound fund business and therefore if FI discovers pricing errors, FI will investigate this and normally the AMC will be required to compensate the unit holders for any losses they may have suffered. The IFA states that where funds for redemption must be acquired through sale of fund property, such sales and redemption

	shall be effected as soon as possible. In the event that such sale would significantly prejudice the interest of other unit holders, the AMC may, following notification to FI, delay such sale. FI's Regulations state that the fund rules shall state that the investment fund may be closed for entry and exit in the event such extraordinary circumstances have occurred as a consequence of which a valuation of the fund's assets cannot be made in a manner which ensures equal treatment of the unit holders. FI must be notified in case of any suspension or deferral of redemption rights. Following notification FI has the power to take necessary action using its general intervention powers under the IFA.
Assessment	Fully Implemented
Comments	
Principles for Market Intermediaries	
Principle 21.	Regulation should provide for minimum entry standards for market intermediaries.
	Authorization from FI is required to conduct securities business under the SMA. The Act provides for the regulation and supervision of the securities market, (e.g., dealing in financial instruments, transmission of orders, execution of orders, managing financial instruments, advising on financial instruments and handling of investor funds. Financial instruments refer to, for the purpose of this Act, transferable securities, money market instruments, fund units and financial derivatives instruments. The SMA implements the MiFID. There is an exemption for insurance intermediaries who provide advice only on units in CIS. FI makes a comprehensive "fit and proper" assessment of the owners and their senior management in light of, among things, information obtained from the Swedish National Police Board, Data AB (business and credit information agency), and the Swedish National Tax Board. For the assessment of foreign citizens, FI contacts the foreign supervisory authority. The assessment includes appropriate proficiency requirements such as valuation of industry knowledge, skill and experience. There are initial capital requirements set out in the SMA. All applicants must submit written information concerning internal controls, risk management and the supervisory systems they have in place. Any potential conflicts of interest must be identified. The information provided is assessed by FI and deficiencies in said systems must be corrected by the applicant before authorization can be granted. All applicants must meet these to be granted authorization. FI has the power to refuse authorization when the requirements are not met. Authorizations can be refused subject only to administrative or judicial review. When a market intermediary receives knowledge that anyone with a qualifying holding in the company has changed, it must inform FI immediately. Likewise, a legal entity which has a qualifying holding in the firm shall immediately report managerial changes to FI. A qualifying holding means a direct or indirect ownership in a firm, if the holding represents ten percent or more of the capital or of all votes or otherwise enables a significant influence over the firm's management. Furthermore, when management changes occur FI should be immediately informed. The firm must also register those changes with the Swedish Companies Registration Office. Management refers to a board member, an alternate board member and a managing director or person serving in the managing director's stead, (i.e., a deputy managing director. The SMA mandates that where a person who is a member of the board of directors of a securities company, or is the managing director thereof does not fulfill the requirements of the SMA pertaining to such persons FI shall revoke the undertaking's authorization. However, this may not occur unless the FI first informs the undertaking that the person does not fulfill the requirements and such person remains on the board of directors or as managing director after the expiry of a time period determined by the FI, not to exceed three months. Instead of revoking authorization, FI may order that a member of the board of directors or managing director

	may no longer hold that position. The FI may thereupon appoint a replacement. The replacement's mandate shall be valid until the undertaking has designated a new board member or new managing director. Additionally, material changes in the conditions for the firm's authorization to conduct securities operations must be reported to FI. FI has also issued guidelines regarding Reporting of Events of Material Significance. Such events are defined as those which may result in changes in financial circumstances which may have the consequence that the undertaking is unable to fulfill its obligations to customers, events which may result in significant financial damage to a large number of customers; and events which may result in significant bad will for the undertaking. In all such cases the firms must report these to FI. Changes to the business plan require additional authorization. Where any party conducts operations which require authorization without being entitled to do FI will order it to cease such operations Information concerning the existence of a license, its category and status is available on FI:s website. Additional information on the scope of permitted activities and the identity of senior management and names of other individuals authorized to act in the name of the intermediary are also available to the public on line through the Swedish Companies Registration Office. These are connected electronically. FI routinely monitors, investigates and enforces securities laws and regulations affecting intermediary activities pursuant to laws regulating market abuse, the regulation of the representation of material information, (e.g., prospectus, marketing and other information, and the regulation of notice to be given by insiders. For entities under its supervision the FI is also responsible enforcing sections of the Financial Advice to Consumers Act (2003) Where an entity wishes to provide investment advice it must seek authorization as a securities firm under the SMA and submit to all the rules, regulations and guidance thereby imposed by the FI including rules governing the segregation of client assets. The SMA requires securities firms to maintain records of all investment services, ancillary services and transactions which it executes. The records shall be made in such a manner that FI is able to monitor the firm’s compliance with the requirements of the SMA and the implementing regulations. In the FI regulations here are clear and detailed requirements regarding disclosures that must be provided to clients of investment strategies, fee structure and other client charges, potential conflicts of interest), and past investment performance (if relevant). Guarantees as to future investment performance are not permitted. Other matters are addressed in the authorization process and are also part of FI supervision of the investment adviser. Furthermore, there are clear and detailed requirements for the investment adviser to be fully competent when carrying out investment services. If the advisor has been sanctioned by FI that information is available on FI’s website.
Assessment	Partly Implemented
Comments	The significant downgrade is based on two factors; insufficient supervisory resources and problems with insurance intermediaries giving advice on securities to retail investors without authorization under the SMA. Market intermediaries include banks carrying on securities business on their own balance sheets and nonbank securities firms. Licensing is handled by a legal department and appears to be thorough. A new license can take around 150 hours to process over five months. All applicants must attend at the FI’s office but not all applicants are subject to an on-site inspection during the process although large firms with potential conflicts will be visited to assess physical Chinese wall arrangements. The department aims to visit all newly approved licensees within 12 months of the license being granted as this is the period of time a licensee is given to commence operations. The four to five licenses are granted each year and seven to eight license extensions to new business

	are processed in that period. The market is dominated by the four largest banks which, for example, carry out 68 percent of the trading volume on NASDAQ OMX on their own account and for clients. Within FI they are supervised prudentially in a separate unit. Another 6 banks are supervised prudentially in a second unit, along with 140 nonbank securities firms. Although most are small and have simple business models they include 8 commodities dealers trading electricity on the Norwegian Power Exchange, This unit has a staff of 5. Conduct of business regulation is carried out across the board in one unit of 5 people. These numbers appear too low for effective supervision. Within the limits set by the number of staff, inspections and examinations appear thorough. Pre-visit planning is detailed and objective based. Feedback to firms itemizes problem areas comprehensively and action is required and followed up. The prudential supervision section visits large complex firms at least annually, and in some cases quarterly. For the remaining 140 firms the aim is to visit them on average every 2.5 years. The department has introduced a risk based supervision approach to make the best use of limited resources. It was not possible to review this in depth although it was noted that the process of risk assessment is currently largely manual. Conduct of business supervisors plan to visit 10–20 firms annually, either for cause or as part of a program of themed visits. It does not do regular on-site inspections. Following the introduction of MiFID in 2007 the department was able to review all licensees in 2008/9 for compliance with key elements of the new legislation. This resulted in several sanctions including one license revocation. That project also established a baseline for the subsequent risk based assessment process. FI has a current cross sectoral project in which it is seeking to determine what the minimum level of supervision is, including on-site inspections, to which all licensees should be subject. But at this level of resources, events can impose a serious strain on the supervisory process. Following a recent major case, the department is currently valuing the holdings of securities marked to market of all the banks and non banks in order to satisfy itself that positions have not been overvalued, the trading book/banking book allocation process is not being abused and to encourage licensees to improve their internal valuation procedures. The second factor is based on problems in the interface between the SMA and the Insurance Intermediation Act which create risk to retail investors. Unless licensed under the more rigorous requirements of the SMA an insurance intermediary is not permitted to give investment advice on shares, bonds, structure products or other complex financial instrument although the insurance intermediary can distribute product information and give advice with respect to CIS. To a client, the dialogue that may accompany this process may appear to be investment advice; and the insurance intermediary may indeed have crossed the boundary between mere selling and selling based on advice. In the latter case the insurance intermediary should be licensed under the SMA and be subject to the client suitability, product knowledge, competence etc requirements of the SMA which are missing in the Insurance Intermediation Act. There is also no investor compensation scheme under the Insurance Intermediation Act as the product sold in this case is not insurance. FI is currently undertaking a project to establish to what extent products other than CIS, such as structured products and other (high commission generating) complex instruments, are being sold in breach of the exemption from licensing under the SMA
Principle 22.	There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.
Description	There are initial and ongoing minimum capital requirements with which market intermediaries must comply. These requirements are harmonized on EU level under MIFID and the Capital Requirement Directive, (CRD). These have been fully transposed into Swedish law via the Capital Adequacy and Large Exposures Act (2006).

	The capital adequacy requirements are structured to result in capital addressing the full range of risks to which market intermediaries are subject, (e.g., market, credit, liquidity, operational, and legal, including reputational risks. They apply to on and off-balance sheet exposures. The capital adequacy requirements are sensitive to the quantum of risks undertaken; that is the required capital increases as risks increase according to formulae set out in the law. A securities firm must identify measure, control, internally report, and verify the risks associated with its business. The firm must ensure that it has satisfactory internal controls. It shall specifically ensure that its credit risks, market risks, operating risks and other risks do not, on aggregate, jeopardize its ability to fulfill its obligations. In order to fulfill this requirement, the company shall have in place methods which enable continuous evaluation and maintenance of capital which, in terms of amount, type, and distribution, is sufficient to cover the nature and level of the risks to which the company is or can be exposed. The company must evaluate these methods to ensure that they provide full coverage. Capital standards are sufficient to allow an intermediary to absorb some losses and to wind down its business over a relatively short period without loss to its customers or disrupting the orderly function of the market. Firms are required to maintain records such that capital levels can be readily determined at any time. The data that serves as the basis for reporting to FI must be documented in a manner that enables effective oversight by FI at any time. The detail, format, frequency and timeliness of reporting is sufficient to reveal significant deterioration in the capital adequacy position of the firms. They report own funds and capital requirements to the FI on a quarterly basis no later than the twentieth banking day in the month after each balance sheet date. FI can always require a firm to report more frequently. Firm's annual accounts and semi annual accounts are subject to audit by independent auditors. The audit also includes a report on the adequacy of risk management and whether it is working effectively. If intermediaries want to include current financial year profits on a quarterly basis in their own funds when reporting capital adequacy to the supervisor, this profit has to be verified by the intermediaries' external auditors. FI is empowered to appoint one or more auditors to participate, together with other auditors, in an audit of a Swedish securities firm, a securities exchange or a Swedish clearing organization, at the entities expense. An external auditor must immediately notify FI when he becomes aware of facts which may constitute a material violation of any regulation governing the company's operations, have a negative impact on the company's continued operations or lead to the auditor's recommendation against adopting the balance sheet or profit and loss statement. FI reviews market intermediaries´ capital levels as set out in the quarterly capital adequacy and large exposures report and takes appropriate action when material deficiencies are discovered. FI also reviews the capital levels in the yearly process within Pillar II of the capital adequacy legislation and can add on additional capital requirements if necessary. Credit institutions and investment firms are supposed to report to the supervisor a total capital need for current risks in their operations. The supervisor assesses what is a reasonable target level of capital for each entity based on the risks that they are exposed to and whether they have sound risk management. If an intermediary has disregarded its obligations pursuant to the law and FI Regulations, FI will intervene. FI will issue an order to limit the operations as it sees fit for a period of time in order to reduce the risks and may take any other measure in order to rectify the situation. It may also issue a remark or a warning. Where the violation is sufficiently serious, the undertaking's authorization will be revoked. FI may refrain from intervention where a violation is insignificant or excusable, where the undertaking makes rectification, or where any other body has taken steps against the undertaking which are deemed sufficient. The FI has used these powers in a number of cases.
Assessment	Fully Implemented

Comments	
Principle 23.	Market intermediaries should be required to comply with standards for internal organization and operational conduct that aim to protect the interests of clients, ensure proper management of risk, and under which management of the intermediary accepts primary responsibility for these matters.
Description	As a condition for authorization, an intermediary is required to have an adequate management and organizational structure and adequate internal controls. An intermediary is required to have senior management that is of sufficiently good repute and sufficiently experienced. The senior management is primary responsible for ensuring that an intermediary complies with its legal obligations. An intermediary is required to maintain, monitor and regularly evaluate its procedures and systems; to have an internal audit function and to appoint an independent external auditor. FI has access to reports and all other documents concerning an intermediary. An auditor is obliged to report to FI if he or she has knowledge of conditions that may have a negative impact on an intermediate's capability to fulfill its legal requirements. An intermediary is required to segregate funds and securities belonging to its clients unless the client has given its expressly prior consent that the intermediary may use the client's financial instruments on specified terms. Segregated clients' assets will thus not be a part of the estate of an insolvent intermediary. In an insolvency situation, a Swedish court will appoint a liquidator at the request of FI, who takes over the running of the company and handles the winding-up process. FI permits an intermediary, who is under liquidation or has had its license revoked, to continue its securities activities for as long as is needed (within reason) to accomplish an orderly winding up of the company and to protect customers' assets. An intermediary is required to obtain and retain necessary information from a client or a potential client about the client's knowledge and experience and required to "know its customer" before providing investment advice. An intermediary is required to provide its clients with information and establish a record that includes the document or documents that set out the rights and obligation between the intermediary and its client and the other terms on which the intermediary will provide services to the client. This includes reports on the services provided, costs associated with the transactions and services undertaken on behalf of the client, and at least once a year an overview of the financial instruments and funds the intermediary holds on behalf of the client. An intermediary is required to maintain effective and transparent procedures for the prompt and reasonable handling of complaints from clients. An intermediary is required to have a compliance function, to maintain records of all services and transactions undertaken and records that includes the document or documents that set out the rights and obligation between the intermediary and its client and the other terms on which the intermediary provides services to its clients. The records are to be retained for at least five years and be retained in a way that the information can be accessed by FI. According to Swedish law, an intermediary has to be a limited company. Therefore, intermediaries are required comply with the general provisions on accounting and auditing, and also other specific requirements for intermediaries. An intermediary is required to take all reasonable steps to avoid conflicts of interest and is required to act honestly, fairly and professionally. An intermediary is required to disclose to its clients the nature of or the source of any conflicts of interests and to keep records of all services it has carried out in which conflicts of interests have or could arise. This list of obligations is largely to be found in MiFID which is fully adopted in Sweden. . As regards the provision of investment advice there are some add-ons as regards the education of financial advisors and the provision of documentation to retail investors.
Assessment	Fully Implemented

Comments	
Principle 24.	There should be a procedure for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.
Description	In order to ensure prudential stability FI assesses all Swedish entities under supervision to ensure that all risks are managed properly and that the capital requirement in relation to the risk exposure of the entity under supervision are correct. This is done at least yearly. On top of that, FI assesses the size of the firm's capital base in relation to the capital requirement. It is expected that all entities under supervision should have large enough capital buffers to endure severe stress situations. If a supervised entity, although well capitalized, ends up in a stressed situation, the entity is obliged to inform FI on its situation immediately. If such an event occurs FI has the following tools to handle the situation. As regards the authorities FI will alert the RB in order to facilitate liquidity and alert the NDO regarding depository guarantee schemes. As regards the entity FI may: • demand that the entity under supervision closes down areas of its business; • demand that the entity under supervision (if quoted on the stock exchange) informs the stock exchange of its situation; • if necessary revoke licenses or temporarily take over control. The latter will preferably be done in cooperation with the NDO. Before initiating any of the alternative actions stated above, FI conducts an impact study to evaluate the consequences to the market as well as owners and customers to the entity under supervision. It is mandatory for FI to go through such an impact study before it takes action of any significance against a licensed entity; and • make information on its actions available to the public by publication on its website and through a press release. During the last three years, FI has successfully handled several major instances of failure of an intermediary in cooperation with other authorities in Sweden and overseas. . Examples are Carnegie Investment Bank and the situation in the Baltics in 2008. FI has powers to issue an order to limit the operations of an intermediary in any respect within a certain time; an order to reduce the risks therein within a certain time; and an order to take any other measure in order to rectify the situation and a prohibition on decision taking. Although FI does not have the power to apply to have a firm placed in bankruptcy, in the event of a possible failure FI may request the District Court to appoint a suitable person as administrator to represent such shares or participating interests which may not be represented by the owner. Such an application shall be adjudicated by the District Court in the place of residence of the owner or, where the owner is not resident in Sweden, by the Stockholm District Court. An administrator shall be entitled to reasonable compensation for work and expenses. The compensation shall be paid by the owner of the shares or the participating interests and shall, upon request, be advanced by the undertaking. Where the party with payment liability does not accept the administrator's claim for compensation, the compensation will be determined by the court. Pursuant to the Deposit Insurance Act, the deposit insurance is a state-provided guarantee of deposits in all types of accounts at banks, securities companies and some other institutions. The guarantee is managed by the NDO Since October 2008, deposit insurance covers all types of accounts, regardless if the account is available for immediate withdrawal or not. If a financial institution goes bankrupt, the insurance provides compensation up to Euro 50,000 per customer.

	The Investor Compensation Act is derived from a EC directive, 97/9/EC. Investor compensation covers securities handled by certain securities companies, securities brokers and some other institutions on behalf of customers in the course of providing investment services (such as the purchase, sale and deposition of financial instruments). The scheme also covers funds that an institution receives in conjunction with providing an investment service for which it is accountable. Customers may be compensated for lost assets up to a value of SKr 250,000 per institution. FI, RB and the MoF have signed a MoU regarding crisis management, (communication and cooperation) in which financial disruption is one of the mentioned scenarios. There is also a MoU signed in 2008 on cooperation between the financial supervisory authorities, central banks and finance ministries of the European Union on cross-border Financial Stability to which FI is a signatory. Furthermore, pursuant to the SMA, in its supervisory operations, FI is required to cooperate and exchange information with competent authorities to the extent which follows from MiFID and the Transparency Directive. Within the scope of its authority, FI shall, following a request from a competent authority in another EEA member state, provide or verify information which is necessary to enable the foreign authority to exercise its supervision pursuant to MiFID. The foreign authority may be present at an inspection which is conducted by FI. With regards to Swedish financial institutions with significant activities in other countries, such as Nordea Bank and NASDAQ OMX, there are MoUs on supervision with other relevant jurisdictions within Sweden and in the Nordic area. Although NASDAQ OMX is now owned by the second largest stock market operating group in the U.S., FI does not have a formal MoU with the US SEC. Regular scenario/stress test situations are carried out together with RB. Such situations have also been carried out at the Nordic level.
Assessment	Fully Implemented
Comments	
Principles for the Secondary Market	
Principle 25.	The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight.
Description	The process of licensing and supervising exchanges and other trading systems is now broader in scope and complexity than it was in 2001. There are now three securities exchanges (RM) in Sweden. There are also several MTFs (including two operated by stock exchanges alongside their RMs). There is also one dark pool (operated by a stock exchange), and several of the large banks use internal crossing networks to execute client orders. Authorization by FI is required for operation of a MTF or a stock exchange following the requirements of MiFID. Authorization to operate a securities exchange as a RM (a MiFID term) shall only be granted to a entity where the holder or potential holder of a qualified holding in the undertaking is deemed suitable to exercise a material influence over the management of a securities exchange and where any person who is to serve in the undertaking's board of directors or serve as managing director, or be an alternate for any of the aforesaid, possesses sufficient insight and experience to participated in the management of a securities exchange and is otherwise suitable for such duties. Authorization may not be granted where any party who has or may be expected to acquire a qualifying holding in the undertaking has, to a significant extent neglected their commercial obligations or other financial affairs or has committed a serious crime. The authorization of the operator of an MTF follows the procedures applied to securities firms although

	the operator of a securities exchange can also operate an MTF. Under the SMA a securities exchange shall conduct its business honestly, fairly and professionally and in such a manner as to maintain public confidence in the securities market. A securities exchange operating an RM is therefore required to apply the principles of • free access, whereby each and every party who satisfies the requirements of the SMA and the securities exchange may participate in trading on its markets; • neutrality, whereby the securities exchange's rules for the trading facility shall apply in a uniform manner vis-à-vis all who participate in the trading; and • effective transparency, whereby the participants receive prompt, contemporaneous, and correct information regarding the trading and that the public has the opportunity to obtain such information. A securities exchange or MTF is required to maintain appropriate rules for trading on its RM. In addition a stock exchange or MTF is required to have satisfactory dispute resolution and appeal procedures or arrangements as appropriate to its technical systems standards. It must also have procedures related to operational failure. The system is assessed by FI as to its ability to perform as claimed with regard to transparency and conversely to keep confidential certain data not intended to be disclosed. On application for a license a stock exchange must provide information on its record keeping system, mechanisms for reporting of suspected breaches of the law, and information on how trades are cleared and settled. It must also provide a description of the mechanisms in place to identify and address disorderly trading conditions and to deal with any contravening conduct that is detected, including details of procedures for trading halts, other trading limitations and assistance available to the FI in circumstances of potential trading disruption on the system. A securities exchange is required to have a Disciplinary Board. Procedures at the board are subject to certain procedural rules under FI Regulations. There are specific FI regulations concerning the immediate reporting to FI of trades which indicate possible insider dealing or market manipulation. FI submits these reports to the public prosecutor as soon as possible. A securities exchange is obliged, upon request by FI, to grant FI access to its system for monitoring the trading and price trends. FI is empowered to conduct an on- site inspection of a securities exchange. As part of its ongoing obligations a securities exchange is required to monitor trading by means of technological systems that continuously and in real time register fluctuations in prices and turnover and signal deviant trading patterns. For each market or financial instrument, the securities exchange must define and program into the technological system suitable threshold values for what is considered to be a deviant trading pattern. FI maintains ongoing supervision of securities exchanges. The supervision includes verification that the operation of the exchange and trading on its facilities are conducted pursuant to the SMA, other statutory instruments regulating the undertaking's operations, the undertaking's articles of association, statutes or rules and internal instructions which are based on legislation governing the undertaking's operations. FI has the authority to intervene when a securities exchange (or a Swedish clearing organization) has disregarded its obligations pursuant to the applicable laws and regulations. There is no separate process for approving the rules governing the admission of securities. Instead this is a part of the general authorization process as well as the supervision process. However, a securities exchange is required to verify that the financial instruments admitted to trading meet the requirements for admission to trading as laid down in the SMA and in the securities exchange's rules, namely for fair, orderly and efficient trading and, in the case of transferable securities, that

	they be freely negotiable. Options and warrants may be admitted to trading on a RM only where conditions exist for reliable pricing and efficient settlement. Failure to meet these requirements will lead to intervention by FI. With respect to trading information, similarly situated market participants have equitable access to market rules and operating procedure, arrangements for transparency are adequate and securities exchanges and MTFs are required to maintain audit trails sufficient to reconstruct trading activity within a reasonable timeframe.
Assessment	Broadly Implemented
Comments	The assessment results from the conclusion that the authorization provisions currently applied to trading systems operated by some of the large banks do not fully meet the requirements of Principle 25 concerning adequate transparency. These internal crossing networks are not subject to pre-trade transparency requirements as would be the case if they fell within the definition of an MTF. Neither do they fall within the third MiFID option of being classified as systematic internalizes which would require them to be pre-trade transparent and subject to other obligations to market participants. See also Principle 27. Although not a factor in the assessment it should be noted that the introduction of new products relies on self certification by the exchanges. As regards new derivatives contracts the FI has not laid down procedure to be followed prior to the launch of new contracts although exchanges inform FI about new product development and FI requires risk assessments and legal opinions on a case by case basis. NASDAQ OMX works through a product risk committee. Second, although FI reviews the trading rules of a securities exchange for compliance with the SMA and its regulations, the FI does not review and analyze the performance of the trade matching or execution algorithms of automated trading systems. Revocation of an exchange's license is generally seen as a power difficult if not impossible to use because if its impact on the market, on listed companies, etc. FI has however, in the recent past, used the power, albeit on a small exchange which specialized in small cap stocks. As a result it secured a change to more reputable ownership (an exchange in another EU country) and as a result reversed the revocation.
Principle 26.	There should be ongoing regulatory supervision of exchanges and trading systems, which should aim to ensure that the integrity of trading is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants.
Description	Market surveillance by day-to-day monitoring of trading activities is carried out by the surveillance functions at the RM, MTF and by investment firms that organize trading in securities. The surveillance functions are subject to rules about conflict of interest. FI supervises the surveillance functions of the various trading venues. Supervision of an exchange includes include quarterly meetings in order to gather information and verify compliance with applicable rules and an inspection of the surveillance function. In addition ad-hoc measures are taken based on notifications about rulebook changes and, incident reporting Pre-rade information is available to FI from public sources (Reuters, etc.). More granular pre-trade information is requested from an RM or MTF when needed. Post-trade information is available from FI's own transaction reporting system. FI does not approve changes in the rulebook of an RM or MTF. However the law empowers FI to require that rule changes are submitted to it. It can demand change if it considers what has been presented to it is not compliant with the SMA or its regulations. FI has not used its right to prescribe what information must be regularly reported to us. Instead FI collects this information on

	an informal basis. FI has a range of actions and sanctions that it can apply to a RM or MTF: • FI can decide that the RM/MTF must take corrective action or refrain from taking a decision • FI can issue a warning in combination with a penalty fee for serious breaches. • FI can revoke the entity's authorization. A securities exchange must immediately notify FI if it suspends trading in a financial instrument on an RM on the grounds that investors do not have access to information about the instrument on equal terms (i.e., a suspicion that material undisclosed information is being used) or if investors do not have sufficient information about the issuer. Following such notification FI shall, as soon as possible, decide whether the suspension in trading shall continue. FI may also order that trading shall be suspended on these grounds without a prior decision by the exchange. FI may also order that trading in a financial instrument on a MTF should be suspended on the same grounds.
Assessment	Fully Implemented
Comments	In comparison with securities exchanges in most of Europe and indeed globally, securities exchanges in Sweden have a wide self regulatory remit. The primary goal of the Surveillance function within the Stockholm Stock Exchange section of NASDAQ OMX for example is to maintain and enhance public confidence in the securities market. The Stock Exchange monitors around 260 listed companies and 170 trading members. Infringements of Stock Exchange regulations can be forwarded to the Stock Exchange Disciplinary Committee for rulings on possible sanctions. Suspected breaches of the Market Abuse Act are reported to FI which forwards them to the NECB. The Surveillance function at NASDAQ OMX is divided into Issuer Surveillance and Trading Surveillance. Issuer Surveillance is responsible for : • The scrutiny of companies prior to an initial public offering. It is also responsible for the listing process for other financial instruments. • Monitoring listed companies to ensure that they fulfill their information obligations to the market. The primary obligation on listed companies is to announce information that may affect their share price as soon as possible. • Monitoring of financial reporting, (e.g., that listed companies have produced the regular financial information in accordance with IFRS). • Monitoring that listed companies adhere to generally accepted principles in the securities market. This includes monitoring that companies apply the Swedish Corporate Governance Code. Trading surveillance is responsible for the maintenance of fair, efficient and well organized trading. An IT system monitors trading and generates alarms in response to certain predetermined conditions or values. The system registers pricing and turnover and identifies deviant trading patterns. Against the background of business intelligence, where the information issued by companies is in particular focus, Trading Surveillance checks all alarms and commences investigations when it suspects infringements of Stock Exchange regulations or the Market Abuse Penal Act. Trading Surveillance is able to correct trading data, annul transactions and stop trading of individual shares. Trading Surveillance engages in regular dialogue with the companies and members. It also provides training and advice to listed companies and trading members. In practice NASDAQ OMX would not object to its role monitoring financial reporting role by listed issuers being transferred to another body. As for Corporate Governance, the exchange does not monitor compliance or seek to enforce it. Sweden has adopted the "comply or explain" approach for the required discussion in the annual report.

	Overall however this multiplicity of roles probably makes it a more powerful entity in the business community and in the interface between that community and government than is typical of exchanges in most developed markets. Combined with the freestanding nature of its listing rules under the SMA this raises questions as to whether the exchange is as accountable to the FI, the statutory regulator as is necessary for an SRO, a private sector body. See Principle 7 for a discussion on specific issues.
Principle 27.	Regulation should promote transparency of trading.
Description	The transparency requirements as set out under the SMA and FI Regulations are as set out in MiFID. Where MiFID permits derogations from a full and real time transparency standard the SMS and FI's regulations have adopted these. In the case of equity market transparency, pre and post trade, it should be noted that the EU Commission chose to set out the detailed requirements under MiFID by means of a regulation: Commission Regulation (EC) No 1287/2006. As such the requirements are directly applicable in a member state and do not require transposition into national law as is the case with the Directive itself. In this way the Commission intended the transparency regime for shares admitted to trading on a RM, whether or not actually traded n a RM, to be harmonized across the EEA. Individual Member States can impose additional requirements on their markets. **Pre-trade transparency** Where an RM or MTF operates a continuous auction order book trading system, it is required to make public continuously throughout its normal trading hours the aggregate number of orders and of the shares those orders represent at each price level for the five best bid and offer price levels. Where an RM or MTF operates a quote-driven trading system, it is required to make public continuously throughout its normal trading hours the best bid and offer by price of each market maker in that share, together with the volumes attaching to those prices. **Post-trade transparency** Investment firms, RMs and MTF shall, with regard to transactions in respect of shares admitted to trading on RMs executed by them or, in the case of RMs or MTFs, executed within their systems, make public the security, time of trade, price and quantity. Publication must be as soon as possible and be made available on reasonable commercial terms. Investment firms other than those categorized as systematic internalizes, a form of large-scale market maker, are not required to make their bids and offers generally available to the market. There are no systematic internalizes in Sweden. MiFID contains derogations which permit delayed publication of post trade information for large trades and trades that are large relative to the normal market size. Sweden has gone beyond the MiFID requirements in that it requires investment firms to make public information regarding transactions in shares not admitted to trading on a RM. As with MIFID it has not imposed pre trade transparency requirement on debt securities but in the case of debt securities admitted to trading on a RM or MTF, these venues are required to publish their post-trade aggregated quantities by debt security on a daily basis. FI, the RMs and MTFs have access to full trading information such that they are able to review the need for derogations. FI has implemented MiFID Article 25 which requires that investment firms which trade in securities admitted to trading on a RM report trade details to the FI on T+1.whether or not such trades were carried out on a RM. This provision includes debt securities. FI also receives reports via ESMA of trades in Swedish securities executed outside Sweden and where it has been determined by the European authorities that the FI is the regulator of the most liquid

	market in the security.
Assessment	Broadly Implemented
Comments	As noted in Principle 25 transparency has become fragmented following the introduction of MiFID. As a result investors, particularly institutional investors complain that it has become more difficult for them to determine if their orders have been executed on the best terms available. This fragmentation has occurred simultaneously with the introduction of the MiFID provisions on best execution which have focused greater attention on this element of trading than before. This is a pan-European issue. The Swedish dark pool (operated by NASDAQ OMX) is limited to trades in large orders which might have a negative market impact if exposed to the market. As such it replicates electronically so-called "upstairs trading|" which has been accepted in many otherwise pre-trade transparent markets for many years as necessary to facilitate trading by institutional investors. The FI has stated that it would be concerned if a dark pool was set up in Sweden in which trades of normal market size could be executed as this would be detrimental to overall equity market transparency. The major banks however use internal crossing networks to execute regular sized client orders without exposing them to the market. These circumstances risk creating a two tier market where the best bids and offers may be tradable only by the clients of specific banks. Some internal crossing networks appear to have been carefully constructed to avoid regulation as MTFs or systematic internalizes. Both dark pools and bank crossing networks are however required to publish their executed trades. High frequency trading has also become a feature of the Swedish equity market. Whether or not it is beneficial to the market by providing liquidity, on which there is an unresolved debate globally, it is the case that bids and offers exposed for mere milliseconds are only "transparent" to other computers. The exchanges have a competitive response to this which limits the need, as seen by the banks, of internalizing order flow. Instead of a simple price and time prioritization of orders in their CLOB, as is the global norm, the exchanges have adopted a price/member firm/time prioritization which is intended to enable banks to capture both sides of a trade while matching them in the exchange's pre-trade transparent order book. However while this preserves fee earning order flow for the exchanges it limits the chances of third party orders executing against the bank's order flow. These challenges across Europe and globally are under active consideration as part of the current MiFID review. Sweden does not appear to derogate from the current MiFID pre and post trade transparency regime. Given the concerns identified as part of the current MiFID review on specific elements in the current regime and given increased competition and fragmentation of trading across multiple trading venues, and in particular the absence of a regime for effective consolidation in Europe of post- trade information, the assessment is one of "broadly implemented."
Principle 28.	Regulation should be designed to detect and deter manipulation and other unfair trading practices.
Description	Sweden has fully implemented the Market Abuse Directive. Market and price manipulation, provision of misleading information and insider dealing, and front running are offences under Swedish criminal law—the Financial Instruments Trading (Market Abuse Penalties) Act. Fraudulent conduct is also criminal. Reporting of trades by persons with insider status is covered by the Act concerning Reporting Obligations for Certain Holdings of Financial Instruments. According to that Act administrative sanctions can follow breaches of the requirements regarding notification and disclosure of managers' transactions. FI fines late reporters. Furthermore, under the Financial Instruments Trading (Market Abuse Penalties) Act, there is an obligation on securities firms and exchanges to report suspicious transactions executed on the securities market to FI.

	FI can also fine a securities firm for trading in financial instruments in a way that fails to uphold the public's confidence in the market. FI can also require a securities firm to cease trading in a financial instrument, if there are breaches of appropriate laws. In extreme cases, a license could be withdrawn. Day-to-day real-time trading is supervised by the stock exchanges and other trading venues. FI does not have a direct surveillance in real time, but conduct direct surveillance of all national trading venues. All firms must report all transaction in securities admitted to trading on a RM or MTF and other trades in other securities to FI. The information is entered in a database. FI supervises to ensure that reporting is carried out correctly. A fully automatic system is being installed which will be FI's largest ever IT project. FI's staff monitors and analyze trade data and advise colleagues if they see aberrant trading patters which require further investigation. Suspicious Trading Reports (STRs) received from RMs, MTFs and investment firms are sent directly to the NECB. While the number and type of trading venue have grown in Sweden in recent years they have not developed cooperation arrangements between themselves on market surveillance matters. Contact is via FI which has frequent contacts with all surveillance groups and compile information from all parties involved. FI is also involved in cross border information via Urgent Issue Groups (UIG) in the EEA and via MoUs more generally. Sweden has determined that market abuse actions such as insider dealing should be solely criminal offences. If FI has reason to believe that a trade or pattern of trading might have a criminal purpose it refers the trade or trades to the NECB for further investigation and possible prosecution in due course. Prosecutions: • 2002 – 2 (3 persons) • 2003 – 0 • 2004 – 1 (1 person) • 2005 – 3 (7 persons) • 2006 – 3 (7 persons) • 2007 – 5 (11 persons) • 2008 – 4 (6 persons) • 2009 – 8 (15 persons) • 2010 – 0 Prison sentences can range from fourteen days to four years, and the guilty party can have an order imposed on him for disgorgement of profits. However, according to the NECB, in the case of most insider judgments, prison sentences have been suspended and a fine has been paid The size of the fine depends on the offender's income and can be up to a maximum of SKr 150,000 or (SKr 200,000 (EUR 22,000) for multiple offences.
Assessment	Partly Implemented
Comments	The reason for this downgrade is as follows. The assessor finds that sanctions for violation of the law are not sufficient to be fully effective, proportionate and dissuasive as required by the Principle (key question 2(b)). Such adjectival terms involve an element of judgment based on facts and the views of those actively engaged in the day to day and difficult job of detecting, investigating and prosecuting insider dealing and other cases of market abuse. They also require judgment as to the likelihood of successful prosecution. Even if successfully prosecuted for insider dealing, the chances of a jail sentence seem slight and the alternative of a suspended sentence and a maximum fine of EUR 22,000 does not appear effective or dissuasive or, in many cases, proportionate to the sums which can be made out of

	insider dealing. As to the risks of being successfully prosecuted, the NECB states that over the last ten years it has been successful, fully or partly in 79 percent of the cases it has brought. It has also noted that there are several difficulties in prosecuting these offences which may limit its overall effectiveness. One problem is that the obligations imposed by the court on the prosecution do not reflect how information among insider dealers, tippers and tippees is shared and acted upon. The use of code words and coded conversations will generally not be considered acceptable evidence even when phone records have been obtained. When it comes to phone taps and telephone records the same rules apply for market abuse cases as for other crimes although as the NECB has noted, " the preliminary investigation of insider trading many times differ from other offenses; insider crime is normally rooted in oral narratives of two or more persons and the lack of documentation of these conversation. Neither does insider trading leave any technical tracks such as fingerprints or DNA." On the other hand the assessor acknowledges that despite these difficulties the NECB has a good record in obtaining prosecutions in those cases it does bring to court. It may also be the case that the collateral costs of a acquiring a criminal record for insider dealing such as diminished prospects for future employment by an FI licensed firm), add to the dissuasive value of a conviction even if the direct costs are very low. Overall therefore the assessor has rated this Principle "partly implemented" even though, on a strict reading of key question 2(b), without regard to the broader Swedish context, a "not implemented" assessment would, in his view, be justified. Not a factor in the assessment but as an ancillary matter steps should be taken to require cooperation between exchanges and between exchanges and MTFs. There are apparently secrecy provisions in the law which prevents the latter taking place. These should be repealed. Given the growing diversity of trading platform compared to a few years ago when there was merely one (exchange), cross market issues will become a growing feature of the Swedish market. It is not efficient for all enquiries or requests for assistance to have to be funneled through the FI, although the latter needs to know when one or more trading platforms have concerns. NASDAQ OMX is a member of the global exchange body, the Intermarket Surveillance Group. This is the model which, on a Nordic scale, the FI and the exchanges and MTFs might wish to consider for adoption in Sweden (and its neighbors).
Principle 29.	Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.
Description	In considering this Principle the term "market authorities" is taken to mean the RMs, MTFs, CCPs and the CSD as well as the FI and their respective rules and regulations. Sweden has implemented the Settlement Finality Directive which seeks to reduce the risks associated with participation in payment and securities settlement systems by minimizing the disruption caused by insolvency proceedings brought against a participant in such a system. In order to obtain the benefits of the Directive as transposed into Swedish law as the Act on Settlement Systems (1999) the CCP is required to satisfy FI that it has met the requirements of the Directive. The risk to capital inherent in large exposures is dealt with in the Capital Adequacy and Large Exposures Act which implements the Capital Requirements Directive to which all banks and nonbank investment firms are subject. Settlement of trades is typically T+1. Monitoring of unsettled trades is done by the CCPs. Trades that are rejected by the CCP and the CSD system will be settled bilaterally. Non-settled transactions are subject to the rules and regulations of the RM/MTF. FI does not itself monitor

	open positions but has the right to require full information about positions. The market authorities have powers to take action under their rules and regulations if necessary. Although exposures are continuously monitored by the CCPs and CSD they do not exchange information between themselves. See Principle 28 for a discussion on this problem. FI can access necessary information at very short notice. This has been the case both in conjunction with supervision of individual firms and on a market-wide basis, as during the latest financial crisis. FI can share this type of information with other regulators where a valid MoU is in place. Default procedures are described in the public rules of the CCPs. The CSD system does not have a default procedure of the same type. A transaction that is registered and approved for settlement into the clearing system of the CSD is not affected by the default of either of the participants, as described in the public rules of the CSD. Since 2001 the CSD system has gone through major changes, such as a revised clearing and settlement system, in order to address the issues raised in the 2001 IMF assessment. In its transposition of the Settlement Finality Directive the Act provides the following. "Even if insolvency proceedings have been initiated against a participant to a designated settlement system, a transfer order shall be binding on third parties, provided that it has been entered into the system before the communication of the decision to initiate the proceedings. Further, a transfer order may not be revoked by a participant to a designated settlement system, nor by a third party, from the moment defined by the rules of that system." As to the acceptance of netting practices, under the Financial Instruments Trading Act (1991) an agreement between two parties in conjunction with trading in financial instruments, in other similar rights or obligations, or in currencies, pursuant to which a final settlement shall take place of all outstanding obligations in the event one of the parties is placed in insolvent liquidation, shall be valid against the estate in insolvent liquidation and against the creditors in the insolvent liquidation. The aforesaid also applies to a settlement of obligations between two or more participants in a notified settlement system, provided the settlement has taken place in accordance with the rules of such system.
Assessment	Fully Implemented
Comments	
Principle 30.	Systems for clearing and settlement of securities transactions should be subject to regulatory oversight, and designed to ensure that they are fair, effective and efficient and that they reduce systemic risk.
Description	A separate CPSS-IOSCO assessment was conducted for the futures markets. Arrangements in the securities markets (shares and bonds) were not assessed but the FI has observed that since 2001 the clearing and settlement system for cash bonds and equities on NASDAQ OMX has been radically improved to take account of the IMF assessment at the time by moving form a net to a gross system. . The clearing and settlement system is now owned by Euroclear, one of the two Europe based global ICSDs. There is a CCP for top tier stocks (ECMF) based in the Netherlands. FI has a MoU on this arrangement with the Dutch regulator.
Assessment	Not Assessed
Comments	

APPENDIX: STATUS OF IMPLEMENTATION OF THE NEW IOSCO PRINCIPLES—A DISCUSSION

The Regulator should have or contribute to a process to monitor, mitigate and manage systemic risk, appropriate to its mandate

41. This is a fundamental part of FI's mandate. According to the 2009 Ordinance which gives high level and continuing instructions to FI it has a particular responsibility for monitoring and analyzing development in the area of its responsibility. If the authority sees a risk that instability in the financial sector could adversely affect the functioning of the Swedish financial system, FI should notify the Government. Furthermore it is required to cooperate with the RB and the Swedish Civil Contingencies Agency on issues relating to the Crisis Management and Enhanced Preparedness Ordinance.

The Regulator should have or contribute to a process to review the perimeter of regulation regularly

42. FI has an explicit obligation to address these matters as part of the 2009 Ordinance that FI must promote a stable and sound financial system and Endeavour to ensure solid consumer protection in the financial system.

The Regulator should seek to ensure that conflicts of interest and misalignment of incentives are avoided, eliminated, disclosed or otherwise managed

43. There are numerous references in the law and FI regulations to the requirements on licensees, including securities exchange, to identify, properly manage and disclose conflicts of interest. As such this is a core element of FI's licensing and supervisory work.

Auditors should be subject to adequate levels of oversight

Auditors should be independent of the issuing entity that they audit

Audit standards should be of a high and internationally acceptable quality

44. FI notes that the three new Principles on Auditors are essentially an unbundling of accounting and auditing standards in the current version of the Principles. As such it was assessed here and Sweden was rated as meeting the required standard. FI does not believe that application of the new draft Methodology would lead to any change in that. Please see the discussion under Principle 16 above.

Credit Rating Agencies (CRAs) should be subject to adequate levels of oversight. The regulatory system should ensure that credit rating agencies whose ratings are used for regulatory purposes are subject to registration and ongoing supervision

45. CRAs are subjected to registration and oversight pursuant to the EU Regulation on CRAs (Regulation (EC) No 1060/2009). Such Regulation is directly applicable to the national European member states. The Regulation stipulates that the oversight of CRAs and supervision of compliance of the Regulation is performed by the competent authorities of the concerning Member. There are no CRAs in Sweden. According to FI, the trend among CRAs, presumably caused by pan EU regulation, is to concentrate their business in one or two locations. London is generally the preferred choice.

Other entities that offer investors analytical or evaluative services should be subject to oversight and regulation appropriate to the impact their activities have on the market or the degree to which the regulatory system relies on them

46. FI notes that to date IOSCO has only provided one example of such an entity and notes that such an entity would have to be licensed as an investment firm under the SMA and have received an ancillary permission from FI to carry on the business of providing investment research and financial analysis or other forms of general recommendations relating to transactions in financial instruments. Such a firm is covered by the law and FI Regulations covering conflicts of interest and general guidelines relating to investment recommendations directed at the general public.

47. Should a company wish to provide only such ancillary services as described above it could not be licensed under the SMA. However, such a company would be subject to FI Regulation. FI is required to supervise such companies under the Financial Instruments Trading Act 1991. The regulations cover requirements that the person producing, and with responsibility for, the investment recommendations, be identified, requirements on the presentation of such recommendations, requirement regarding conflicts of interest and requirements on the dissemination of investment recommendations produced by a third party. The issues related to risk are assessed as part of the FI's normal risk assessment process.

Regulation should ensure that hedge funds and/or hedge fund managers/advisers are subject to appropriate oversight

48. Hedge funds and their managers are not subject to a customized regime nor has Sweden (like IOSCO) attempted to define a hedge fund. Instead such funds and their managers fall within the regime for special funds, (i.e., non-UCITS). The current licensing regime for special funds and their managers, as described in the current IOSCO Principles 17–20 on CIS applies. FI believes that the current regime is compliant with the new methodology.