The Stockholm Stock Exchange monitors application of the Code

Stock exchanges perform a vital function in society by enabling the listing and trading of securities. The Stockholm Stock Exchange has an obligation to maintain relevant rules and sanctions in order to maintain public confidence in the securities market. A listing on the Stockholm Stock Exchange obliges companies to follow certain regulations and generally accepted principles. The Surveillance function of the Stockholm Stock Exchange is responsible for monitoring that listed companies adhere to the regulations and generally accepted principles in the securities market. This includes monitoring how the companies apply the Swedish Corporate Governance Code.

Amelie von Haertmian is Head of Surveillance at NASDAQ OMX Nordics.

Division of roles among the Board, the Swedish Securities Council and the Stockholm Stock Exchange

The Association for Generally Accepted Principles in the Securities Market is a non-profit organisation that coordinates self regulation on the Swedish securities market. The tradition of self regulation in Sweden stretches back to the late 1960s and performs a vital function in maintaining and promoting confidence in the Swedish securities market. The Swedish Corporate Governance Board and the Swedish Securities Council are two of the Association’s three autonomous bodies. The Stockholm Stock Exchange is one of the principals of the Association.

The Board sets norms for good corporate governance and administers the Code. The Securities Council promotes generally accepted principles in the securities market through statements, advice and information. The Council can also bring up relevant issues on its own initiative. Neither the Board nor the Securities Council has a supervisory or adjudicative role with regard to individual companies’ application of the Code. Application of the Code is a component of generally accepted principles in the securities market, to which companies are obliged to adhere as part of their listing requirements. Responsibility for monitoring that the companies apply the Code lies therefore with the Stock Exchange.

What does “applying the Code” mean?

The Code is a collection of guidelines that constitute generally accepted principles in the securities market with regard to corporate governance. Through the principle of “comply or explain”, companies can choose to deviate from individual rules in the Code. Companies are to report each case of non-compliance openly, describe the solution they have chosen instead and justify their decision.

The Stock Exchange monitors companies’ application of the Code by checking that companies issue a corporate governance report annually and that any non-compliance with Code rules is described and explained clearly. The readers of corporate governance reports must be able to understand the reasons for non-compliance and what the company has chosen to do instead. It is not the role of the Stock Exchange to consider whether the explanations are acceptable from an investor perspective. That responsibility lies with the readers of the corporate governance reports, i.e. the companies’ shareholders and other actors in the securities market.

How does the Stock Exchange monitor this in practice?

The Stockholm Stock Exchange carries out annual inspections of companies using risk and rotation based sampling. The rotation based sample ensures that all listed companies are inspected within a five year period. The Stock Exchange then examines whether the companies have produced and published corporate governance reports and that any non-compliance has been reported and explained.

The inspection results in a letter to each company. There are three kinds of letter:

1. Information that the inspection has not found grounds for Stock Exchange action.
2. Information that the inspection has found certain details that the company should consider in its next corporate governance report, but that the Stock Exchange does not intend to take any action on the issue.

3. Information that the inspection has resulted in certain observations that may constitute breaches of the Code. The Stock Exchange asks the company to respond with its opinion on the observations. If the Stock Exchange finds the companies explanation acceptable, it sends a final letter containing the equivalent of letters 1 or 2 above. If the Stock Exchange considers that the company has committed a serious breach of the existing rules, the matter is forwarded to the Stock Exchange Disciplinary Committee for assessment.

About the Code
The aim of the Swedish Corporate Governance Code is to promote good corporate governance in Swedish listed companies. Good corporate governance maintains and reinforces market actors' confidence in companies. This in turn improves companies' access to risk capital. In other words, all market actors benefit from a well-functioning code.

For a code to function well, all actors need to take responsibility. The Board needs to manage the Code actively and monitor developments in the market, companies need to adapt their application of the Code to business conditions, the Stock Exchange needs to monitor carefully that companies apply the Code correctly and, on request, the Securities Council needs to issue statements on how Code rules are to be interpreted.

Finally, and perhaps most importantly, the target group for corporate governance reports, i.e. shareholders and other actors on the securities market, need to consider and decide whether the deviations from Code rules that companies report are acceptable from an investor perspective.

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Stockholm Stock Exchange Surveillance Function

The primary goal of the Surveillance function within the Stockholm Stock Exchange is to maintain and enhance public confidence in the securities market. The Stock Exchange monitors around 280 listed companies and 170 trading members. Intrusions of Stock Exchange regulations can be forwarded to the Stock Exchange Disciplinary Committee for rulings on possible sanctions. Suspected breaches of the Market Abuse Penal Act are reported to Finansinspektionen, the Swedish Financial Supervisory Authority, which in turn can pass these on to the Swedish Economic Crime Authority.

The Surveillance function is divided into Issuer Surveillance and Trading Surveillance.

Issuer Surveillance

The listing process
Issuer Surveillance is responsible for the rigorous scrutiny of companies prior to an initial public offering. It is also responsible for the listing process for other financial instruments.

Information monitoring
Issuer Surveillance monitors that listed companies fulfill their information obligations to the market. Normally, the companies are to announce information that may affect share prices in a press release as soon as possible.

Report monitoring
Issuer Surveillance is responsible for the continuous monitoring of financial reporting, e.g. that listed companies have produced the regular financial information in accordance with International Financial Reporting Standards (IFRS).

Monitoring of generally accepted principles in the securities market
Issuer Surveillance is responsible for 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

Trading Surveillance contributes to 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 halt trading of individual shares.

The Swedish Stock Exchange's Surveillance function engages in regular dialogue with the companies and members. It also provides training and advice to listed companies and trading members.