

## **Building a strong and inclusive capital market – the Swedish example**

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I have been asked to talk about how to build a strong and inclusive capital market, using Sweden as an example. This is obviously an overwhelming assignment in 30 minutes. But I will give it a try. Because I do believe that there is a story to tell. Particularly since Sweden has been referenced as a success story in several recent reports and papers, including the Economist and Financial Times. While these are my personal reflections, they are obviously tainted by having spent about 25 years at the OECD working on these issues.

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The Swedish journey is of course a complex interplay between different factors. But in terms of public policy, I would like to point at three principal ambitions or objectives that have influenced the Swedish development. All of them rest on a genuine understanding – across the political spectrum – of the unique role of equity and the need for a small open economy to constantly focus on competitiveness.

The first policy objective has been to facilitate the flow of public as well as private savings into the public equity market. The second has been to create incentives for owners and companies to allocate and oversee the use of this capital. And the third ambition has been to design a regulatory framework that supports market-based outcomes and where standard setting, interpretation and supervision, whenever possible, is kept close to the market and adaptable to new ways of doing business among companies and investors.

In the following I will give you some concrete examples of how these three policy ambitions have played out in practice. And I will end with a quick empirical glimpse of the Swedish public equity market today.

Starting with connecting public savings to equity markets – an early example is from 1974 when a new public pension fund was created for the sole purpose of providing equity to publicly listed companies. The title of the government bill was straightforward: “*The supply of risk capital to the business sector from the public pension funds*”. Since then, all funds in the public pension system have been allowed to invest in public equity.

And, from the very outset, they have operated with a mandate and a firm ambition to do their job as professional fund managers without any political interference. Today between 40 and 50 % of the buffer funds’ assets are allocated to public equity.

A distinct Swedish characteristic that also has contributed to the supply of equity financing is the long tradition of coordinated collective bargaining. Today almost 90 % of all blue-collar workers and 75 % of white-collar workers are covered by a centrally coordinated collective wage agreement. Over the years, the collective bargaining between employers and unions have also come to include agreements on occupational pension schemes that now cover almost seven million persons. As a result, the two main institutions

administering the occupational pension funds have more assets under management than the four public pension buffer funds combined.

The Swedish occupational pension funds are large also in an EU perspective and the allocation of investments to listed equity is considerably larger than in other countries.

Beyond public and collective savings, it has also been a longstanding policy objective to connect private savings with the equity market. In 1978 the government introduced tax advantages for dedicated savings accounts, where one option was to save in equity funds. In 1984 these dedicated savings accounts were made tax exempt.

Again, households could choose between ordinary bank deposits or equity funds on equal terms. And by the end of the 1980s, 1.7 million individual fund accounts had been opened.

Another important reform, that created a direct link between individuals and the equity market was the public pension reform in the mid-1990s, which introduced mandatory individual pension accounts in the form of investment funds. Since payments into the system are automatic and mandatory and participants can withdraw their savings only as a monthly payment from the age of 63, the system may indeed be characterized as a mandatory saving system. But with the big caveat that individuals, depending on their age, economic circumstances and risk attitude, are free to allocate their savings between different types of funds and asset classes.

A last example may be the highly popular Investment Savings Accounts (ISK) which are designed to simplify for retail investors to manage their holdings of financial products, including listed shares. A recent number I picked up was that about 3.8 million accounts have been opened, fairly evenly distributed between men and women.

While the share of the Swedish population with direct ownership stakes in listed companies has declined considerably during the past 25 years, their holdings of investment funds has increased fivefold, from 250 billion SEK to about 1.2 trillion SEK. And if political reforms have helped developing a rational equity culture among Swedish households, it is probably manifested in the much greater portion of equity-oriented funds than we see in many other European countries.

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While reforms I just mentioned have facilitated for public as well as private savings to reach the public equity market, a second – but much less discussed – policy objective has been to ensure that market participants can perform the all-important task of allocating this capital to its best use.

A good illustration of this objective was when the social democratic government in the mid-1980s asked the parliamentary committee on Ownership of Swedish Business to identify if there were *"any obstacles that may hinder a rapid transfer of capital from stagnant industries to expanding industries and companies"*.

The committee agreed that the ease with which such re-allocation of capital could take place was essential for competitiveness. And from that perspective, the committee looked for impediments, such as protective

cross-ownership and takeover defense mechanisms that may hinder the ability of shareholders and markets to scrutinize performance and allocate resources to their most productive use.

Since then, the role of shareholders for business dynamics has been widely acknowledged and influenced several aspects of legislation. Notably the modernization of the Swedish Companies Act that followed the work of the Ownership Commission I just mentioned.

One expression of the importance given to shareholder oversight is that Swedish company law recognizes the general meeting of shareholders as the supreme corporate body with extensive powers over the board and the management on almost any matter.

But in order to carry out this function properly and in a way that benefits the company and the economy at large, shareholders need to be informed. And to gather this information costs money, which some shareholders do not have the incentives to spend. For these shareholders, it may be perfectly rational not to vote their shares. Uninformed voting may even be detrimental to their investment strategy and to their ultimate beneficiaries if they are managing other people's money.

This means that in modern markets, with a variety of investment strategies and investment techniques, there is room for different levels of shareholder engagement. Some large shareholders assume a very active role, investing a lot in information and making themselves available to serve on the board of directors. Others, including some Swedish institutional investors, exercise informed ownership through voting and by providing certain key services such as participating in the committees that nominate the board of directors. Other institutions remain more passive.

In order for these different approaches to ownership engagement to co-exist, and indeed to complement each other, it is important that all shareholders can be sure about the corporate purpose.

Such assurances are therefore provided by the Swedish company law where the company has an unambiguous legal obligation to maximize the return on equity. Obviously within the boundaries of environmental law, labor law, etc. It is, and has always been, alien to Swedish company law to stipulate multiple company objectives. This focus does not only make it easier to hold the board and management accountable. It also aligns the interests of active and passive shareholders.

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But just as important as the letter of the law is how rules and regulations are implemented. This is particularly important with respect to capital markets, where we see a steady stream of innovative market practices when it comes to deal structures, ownership arrangements, capital structures, instruments and contracts. Such innovations, that constantly test the boundaries of existing practices, are actually an important part of a dynamic capital market, since they sometimes lead to more efficient market outcomes.

With this in mind, the third Swedish policy objective has therefore been to delegate important parts of standard setting, interpretation and supervision to the Swedish Association for Generally Accepted Principles in the Securities Market, which is an integral part of the Swedish regulatory framework. The Association hosts five executive bodies with different responsibilities, ranging from financial reporting to the Swedish Corporate Governance Code.

For the purpose of today's topic, we may take a closer look at one of these bodies, the Swedish Securities Council (*Aktiemarknadsnämnden*).

The Swedish Securities Council was established in 1986 modelled on – but with a broader mandate than – the UK Takeover Panel. The members of the Securities Council are highly qualified individuals with varying experiences and from different sectors in Swedish business and society. The Council is currently chaired by a former Supreme Court judge while the vice chair is a serving Supreme Court judge. Another measure of the Council's standing is that the Secretariat, together with the Financial Supervisory Authority, continuously participates in the work of ESMA.

The Securities Council issues rulings, gives advice and provides information on good practices in the Swedish stock market, including issues related to the EU Directive on public takeover bids; on incentive schemes; mergers; stock issuances; repurchase programs; changes in corporate statutes and corporate information to the market.

To meet the needs of modern capital markets, the Council's Secretariat is available 24 hours a day, seven days a week and 365 days of the year for consultations as well as formal cases. The processing times are generally very short, varying from one day to maximum a couple of weeks.

In today's business world, speed is often of essence and the ability to provide rapid, clear and informed rulings that you can rely on legally is of great value to business as well as to the economy as a whole. Saving months and maybe years of uncertainty and costly legal processes. Last year, the Securities Council (*Aktiemarknadsnämnden*) issued 81 rulings. None of them were appealed. Since the Council was established, it has issued more than 1,300 rulings. Four have been appealed and none have been overturned.

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So, where has the Swedish experience taken us?

Well, in relation to GDP Swedish companies have during the past 25 years raised almost three times as much equity capital through initial public offerings as the EU average.

Many smaller companies have first listed on a multilateral trading facility (MTF), which later has been used as a steppingstone for listing on the regulated market. During the past 10 years, on average 45 % of the companies that listed on a regulated market came from an MTF.

Another source of IPOs is from the private equity firms. Between 2019 and 2023, almost 30 % of all private equity exits in Sweden came in the form of an IPO compared to well below 10 % in France, Germany and the UK. In this way, the Swedish private equity industry has become an important part of the capital market eco-system.

However, an IPO is not the only way for equity markets to provide companies with capital. Another important way is through secondary offerings where companies that are already listed are given immediate access to the large pool of public equity investors. Also in this respect, Sweden stands out in a European context with companies raising more than twice the amount of the EU average during the past 24 years.

There may be different reasons for making a secondary offering. But one important reason is when otherwise viable companies need to bridge a temporary crisis caused by external factors. And if we look at the timeseries from 2000, we can see that during the two crisis periods around 2009 and 2020 when many economies came to a near halt because of the financial crisis and the Covid pandemic, Swedish companies that were already listed raised record amounts of equity from the stock market. Again, showing that closeness to the market can be important and the unique role of equity as the ultimate backstop.

To summarize the current situation in a snapshot Sweden has almost 1,000 listed companies today, which is more in terms of numbers than some European economies that are much larger. Also, market capitalization as percent of GDP exceeds that of both Germany and France.

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As I said at the outset, developing a dynamic capital market is obviously a complex process. And different countries will of course have different experiences.

What probably has helped Sweden to stay on the right reform path, is that the competitiveness of a small open economy requires that the purpose of investment must be to create rather than preserve. A role for which equity capital is well suited. But again, it is not only the absolute amount of capital that is important. Equally important is the quality of the regulatory framework in which investors and companies operate to make use of this capital.

This basic perspective is what has underpinned the three different strands of policies I have presented and that Swedish governments have pursued over the years with some consistency.

First: Governments of all colors have tried to facilitate the flow of capital from public and private savings into the public equity market, while the market participants have been trusted with the responsibility for allocating this capital.

Second: The regulatory framework has been designed to provide informed shareholders with the powers to carry out their role in scrutinizing business and allocating capital. And the agreed benchmark for this scrutiny, as formulated in company law, has always been an unambiguous legal obligation for companies to maximize the return on equity.

And last but not least, the Swedish experience is that standard setting, interpretation and supervision, whenever possible, should be close to the market and market participants. It is generally understood that the delegation to bodies such as the Securities Council represents the kind of enabling, adaptable and responsive regulatory framework that modern, global, capital markets require.

*The empirical findings build on a forthcoming SCGI/OECD study – The Swedish Equity Market – Institutional Framework and Trends – which will be published on April 29, 2025.*