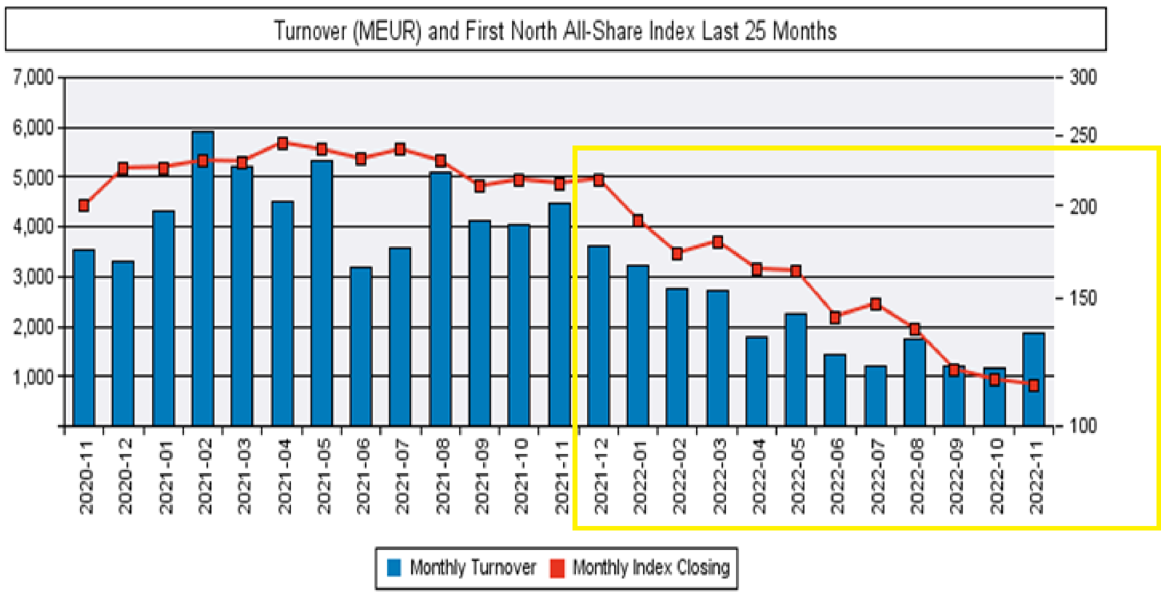
## A changing stock market

*A New Year's chronicle with a statistical look back and a regulatory look ahead.*

**What a year 2022 turned out to be. We've seen Russia attack Ukraine, interest rates accelerate, food prices increase and electricity prices skyrocket. As the icing on the cake, our private assets have decreased in value as the stock market has declined and real estate prices have fallen. If we have had money to spend anyway, it has not always been possible to buy what we want, as the year also offered up a shortage of components. The life for the listed companies has not been easy either. Many companies on First North have seen their market capitalization plummet, trading levels in the share decline and financing possibilities deteriorate sharply. It has indeed been a challenging year for most. In this New Year's chronicle, we will zoom out and see what the listing climate looks like globally, and we will also look at the changes in the stock market rules that the EU as well as Nasdaq are contemplating.**

But let's start by looking at some trading statistics. As expected, Nasdaq's latest trading statistics was no happy reading. By the end of November, a total of 551 companies were listed on First North in Sweden, Finland, Denmark, and Iceland. This corresponds to an increase of 11 companies compared to the same time the year before. Despite an increased number of listed companies, total share trading on First North decreased by a whopping 56 percent in one year. Share price-wise, there was no positive development either. Nasdaq's First North All-Share Index (which reflects the performance of all companies on First North) has halved in value during the first 11 months of the year. An average company on First North has thus had its market value halved this year. It is no wonder that investors are worried and it is no wonder that the listed companies had difficulty attracting risk capital. The red "downhill" in the image below shows how the First North index has developed, while the blue increasingly lower bars show the reduced share trading levels in the First North companies.




This negative development has caused Nasdaq to initiate a project with measures to stimulate liquidity in the trading. According to an article in Dagens Industri on November 14, Nasdaq's CEO Fredrik Ekström states that the stock exchange is in the middle of the project and that proposals for measures will be presented in the beginning of 2023. In the article, Nasdaq's CEO mentions that, among other things, there may be **more auction procedures and increased use of liquidity providers**.

The way an auction procedure works is that the trading system collects all the buy and sell orders that exist on the market and then calculates the price at which the most shares can be traded. Today, Nasdaq applies auction procedures at the opening of the stock market between 08:45-09:00 and at the closing of the stock market between 17:25-17:30. Now there may be more such auctions during a trading day. For example, there may be auctions every hour or two during the trading day.

Today, companies on First North that does not have at least 300 shareholders who each own shares worth at least 500 euros must, according to Nasdaq, hire a liquidity provider. A liquidity provider is a bank or stockbroker firm who, on behalf of the company, regularly issues buy and sell orders in the trade. Should Nasdaq now expand the use of liquidity providers, it appears that Nasdaq's criteria for when liquidity providers must be engaged may change.

We will return with more information when Nasdaq has determined what the liquidity-promoting measures will be.

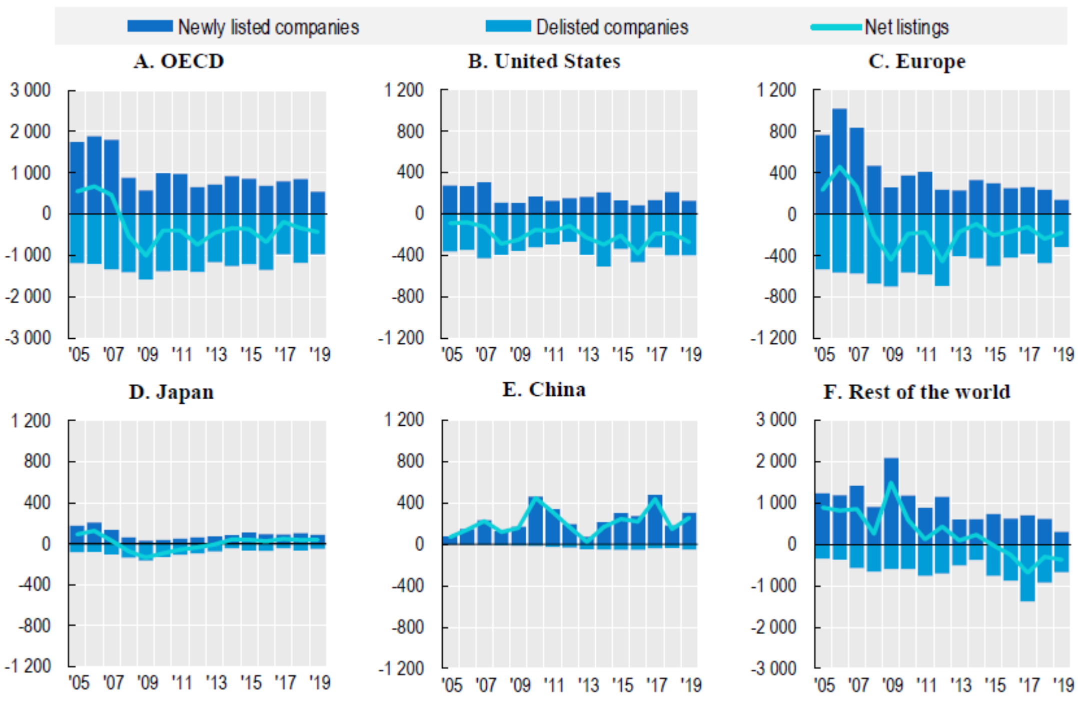
**The interest for the Swedish stock market has developed phenomenally over time**

Now, for this chronicle, we will put individual years aside and zoom out a bit. Anyone who has followed the Swedish stock market over a longer period of time has seen that the number of listed companies has grown year after year. If we go back as far as 1975, there were 103 listed companies in Sweden. At that time, few new companies were listed and there were few listed companies that carried out any new issues of shares. The total market capitalization as a share of GDP was below 10 percent at the time. But then it really picked up speed. Until today, the number of listed companies has increased tenfold, and we now have more than 1,000 listed companies in Sweden. The companies' combined market capitalization as a share of GDP at the beginning of 2022 amounted to 280 percent. It thus corresponds to a relative increase compared to GDP of around 30 times compared to 1975. The trend towards more listed companies and more capitalizations has, on the whole, been constant over many decades. All in all, this is an absolutely outstanding development for a small country like Sweden. The Swedish stock exchange system must simply be regarded as a formidable success. The winners of this development are individual investors as well as society as a whole. In the article ”Ägarbeskattning, kontrollägande och marknadsnotering av svenska företag” in the newspaper ”Ekonomisk Debatt” from March 2022, the author Magnus Henreksson presents the figures above. Magnus Henreksson, who is a professor and senior researcher at the Research Institute Of Industrial Economics (IFN), highlights, among other things, implemented changes to the tax system as an important success factor. Henreksson believes that the abolition of inheritance and gift tax has been of great importance, as has the reduced taxation of individual share ownership. As a Swede, coloured by this development at home, it is easy to get the impression that the stock market activity expanded outside of Sweden's borders as well, but that is really not the case.

**The United States and Europe have lost their attractiveness**

In the spring of 2021, the OECD presented their report The Future Role of Corporate Governance and Capital Markets: Lessons from the COVID-19 Crisis. In addition to giving us a range of insights into the Covid crisis, the report also provides a vivid description of how the global stock market landscape has changed over time. Among other things, it can be deduced from the report that Europe, which during the 1990s was the world's centre for stock market listings, has lost much of its attractiveness. The many and large listings no longer take place as they did before in Great Britain, Germany, France, and Italy. Both the US and China have now overtaken Europe, and the European IPO market has declined in both absolute and relative terms. But the US has also had a negative development regarding the number of listed companies. According to the report, during the period from 2005 to 2019, 30,000 companies in the world were delisted, a large proportion of which were American and European companies. New companies have of course been listed, but the outflow has been much greater than the inflow. In fact, in both the US and Europe, the outflow of listed companies has been greater than the inflow every single year between 2008 and 2019. This is how the changes are illustrated in the report:

**Figure 1.18. Newly listed and delisted companies**




*Source*: OECD-ORBIS Corporate Finance dataset, see Annex for details.

On the Asian market, however, the trend is the opposite. There, the number of listed companies is increasing, and it is China that is the driving force. Today, there are just over 40,000 listed companies in the world, of which over half are listed in Asia. Globally speaking, there has thus been a strong shift in listings from Europe and the US towards Asia.

**The drought in the listing climate is a real problem**

The fact that the number of listed companies decreases sharply has negative consequences, not only for the range of investment opportunities for the individual investor, but also in the long term for the population at large. The reason for this is that a substantial part of the capital managed by pension funds, in which you, me and most others participate, is invested in listed companies. With fewer companies being listed, the number of companies that the pension funds can invest in is reduced, which has the consequence that the pension funds do not have the same opportunities to take part in the economic growth that is taking place in society. The consequence of that goes without saying – people's pensions will not be as high as they could be if more companies went public. The decreasing number of listed companies is a problem that has now been identified all the way up in the European Commission, which at the European level has looked at reasons why the stock market no longer attracts as many companies as it used to. What has been concluded is that the perceived regulatory burden for the companies has increased so much that the stock exchange is no longer perceived as attractive compared to other financing solutions. And there is of course a measure of truth to this, as several new comprehensive regulations, not least the Market Abuse Regulation (MAR) and MiFID II, have come into force in recent years.

**EU's solution – the listing Act**

In light of the negative listing statistics, the European Commission has published a package of proposals called the Listing Act. The package, published on December 7th, contains proposals for relief aimed at making public markets more attractive for companies within the EU and making it easier for small and medium-sized companies within the EU to carry out capitalisations. Here are some of the major proposed changes:

- A proposed and very extensive change is **to drop the requirement for so-called event-based insider lists**, that is, the logbooks that you as a listed company open every time insider information arises. The European Commission believes that it should be sufficient to have a permanent insider list, which only includes the people who are always expected to have insider information in the company.

- Another proposal is to raise the threshold value for which share transactions carried out by persons discharging managerial positions in the company (so-called PDMR persons) must be reported. In Sweden, all transactions carried out by PDMR persons above the threshold value of 5,000 euros during a calendar year must be reported to the Financial Supervisory Authority. The European Commission is now proposing to **raise the threshold value for insider transactions to 20,000 euros per calendar year**.

- In the so-called prospectus regulation, the threshold amount is proposed to be changed for when companies carrying out a new issue to the public are obliged to draw up a prospectus. Today, the threshold amounts vary between different EU countries. In Sweden, the threshold is 2.5 million euros. The European Commission is now proposing that **the threshold amount for prospectuses be raised to 12 million euros**. It would be a significant change that means that a large part of the new issues that are carried out will not have to be covered by a prospectus.

- The European Commission further proposes **a reduction of the requirement for free float from 25 percent to 10 percent**. Free float is the shares in a company that are considered to be held by the public. A lowering of the requirement thus means that fewer shares in the company must be available for trading. It should be mentioned that the requirement for free float on Nasdaq First North is already 10 percent today, while the requirement for First North Premier and the Main Market is 25 percent. There are many indications, however, that there will be a lowering of the limit also on Premier and the Main Market during the spring of 2023[1].

[1] In mid-December 2022, Nasdaq sent out information regarding proposals for upcoming changes in the rules for companies on the Main Market. One of the proposals is that companies that have a free float of at least 10 million Euros will only need to have a free float of 10 percent of the company's shares. Since Nasdaq has the principle that the First North requirements shall never be higher than those on the Main Market, it is reasonable to assume that the limits will be lowered on a similar way on First North Premier as well.

- A fifth proposal regards the **introduction of differentiation of voting rights for different types of shares**. For a long time, the EU has been negative towards the possibility of introducing share types with different voting rights, but now the EU has swung on the issue and it is proposed that it (as in Sweden) should be allowed throughout the EU. This particular measure could, when implemented according to the European Commission, potentially increase the number of IPOs by 20 percent.

**Reactions from the market participants**

The reactions from the Swedish authorities so far have been negative. According to Dagens Industri's article "EU:s nya börsregler sågas av svenska instanser" the proposals have been met with negative criticism from the Swedish Financial Supervisory Authority, the Swedish Economic Crime Authority (EBM) as well as the Swedish Consumer Agency.

With regard to PDMR transactions, the Financial Supervisory Authority believes that PDMR transactions constitutes an important basis for potential investments and that raising the threshold to a more limited selection of transactions risks damaging the investors' confidence and willingness to invest.

Regarding raising the prospectus limit from 2.5 to 12 million euros, the EBM assesses that this change in the rules will mean that most issues carried out by Swedish listed companies would be exempt from the prospectus requirements. This, EBM believes, is clearly negative from an investor protection perspective.

With regard to the abolition of event-based insider lists, both the Financial Supervisory Authority and the EBM warn of such a change. The EBM believes that event-based insider lists are of great value in criminal investigations regarding violations of MAR, while permanent insider lists often have no real value at all. According to the EBM, investigations of suspected insider crimes would thus be made significantly more difficult if the proposal becomes a reality.

As mentioned above, the Swedish Consumer Agency is also worried and believes that the proposals mean that the interests of the companies comes before a high level of investor protection.

However, Nasdaq has a different view of the proposed rule changes. In the telling DI article "Nasdaq gör tumme upp för nya börsregler" from December 20th, Adam Kostyál, who is Head of European Listings at Nasdaq, says, among other things, that Nasdaq is generally positive about these proposals. Furthermore, he says that Nasdaq thinks that focusing on the value of the public financing alternative and making it more accessible without lowering the quality is a step the right direction.

So, what do we at SKMG think of all of this? Well, we don't see it as our role to have opinions on this matter, so we don't have much we want to add. But overall, we believe that the opinions of all the parties that we have outlined above have valid points. When MAR was introduced, life as a listed company became more expensive as well as more time-consuming. SKMG's view is that it is good that the European Commission now reviews how the burden of being listed can be reduced for the companies so that it ends up at a reasonable level. At the same time, Sweden (despite MAR) has an exceptionally well-functioning stock market. The stock market is based on trust and that trust must be managed and taken care of. It is therefore in everyone's interest that the rule changes that are implemented do not damage the trust for the stock market. If that happens, it will affect both investors and companies, and it always takes a long time to repair damage caused by broken trust.

**Consultation round is in progress**

The European Commission's consultation round runs until February 13th, 2023. As there is a relatively long time left, we will hear more statements on the matter from market participants. For example, the Swedish government has so far declined to give its view on the matter, citing that it has not yet reviewed the documentation.

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In summary, there is a declining trend in the listing market, not least when looking outside of Sweden's borders. This is something that the European Commission as well as Nasdaq are working to counteract - but with different approaches, where Nasdaq's side focuses on improved liquidity (trading), and from the European Commission's side rather towards a reduced regulatory burden which, however, comes with a risk of eroded investor protection. Regardless of whether one, the other, or in particular, if both proposal packages go through, it will have a major impact on the stock market going forward. Should the European Commission's Listing Act package be implemented in Sweden, it is definitely something that will have a major impact for both listed companies, companies planning a listing and also for other participants in the financial market. In other words, there are good reasons to keep a close eye on the regulatory landscape going forward - which is something that we at SKMG are more than happy to devote ourselves to.

We hope that, despite a troubled world and turbulence on the stock market, you have had a good year. We look forward to continuing good collaborations in 2023, when we hopefully will also have slightly brighter times. If you have any questions, you are always welcome to contact us.

From the team at SKMG, we wish you a happy new year!

Best regards,

Ronny Farnebäck,

Head of Certified Adviser services

Ulf Rogius Svensson,

Partner & Certified Adviser