

Carl-Henrik Wigren  
Legal Counsellor  
Tel +46 (0)8 787 82 70

Anna Fryklund  
Legal Counsellor  
+46 (0)8 787 83 65

Annika von Haartman  
Head of Unit  
Tel +46 (0)8 787 83 15  
Mob +46 (0)76 127 59  
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## **Unregulated offers on the stock market – Follow-up 1**

### **Conclusion**

Written share offers not covered by prospectus rules improved slightly over the past year. The information contained in these offers is generally still of low quality, but the total value of unregulated share offers continues to be relatively small. The results of this study have not led FI to propose an increase to the prospectus obligation threshold or national regulations for offers not covered by the prospectus rules.

### **FI will take the following measures**

The review resulted in one decision to impose a sanction of a special fee totalling SEK 200,000 on a firm that carried out without a prospectus an offer not exempted from the prospectus obligation.

We will continue our efforts to actively inform consumers about the requirements they should place on the content of share offers not covered by the informational requirements set out in the prospectus rules ([www.fi.se/konsument](http://www.fi.se/konsument)).

Offers that are suspected to contravene the provisions in the Marking Act will be forwarded to the Swedish Consumer Agency for possible action.

### **The study**

The purpose of this study was to determine if it is appropriate to propose an increase in the threshold for the prospectus requirement and to implement national regulations for offers not covered by the prospectus rules.

In Sweden, a prospectus is required for offers exceeding EUR 1 million. This threshold is low in comparison with the rest of Europe. Twenty-eight EEA countries were contacted and twenty-five responded, of which three answered that they opted to lower the threshold to approximately EUR 100 000. The remaining 22 countries have a threshold of EUR 25 million. However, ten of these countries have national regulations under this threshold.

The prospectus requirement makes financing on the capital market more expensive for small, Swedish companies. One argument for raising the threshold is that a higher threshold would make it easier for smaller companies to finance themselves via the stock market. On the other hand, the information in unregulated offers is often of poor quality and smaller firms often target consumers, who, in comparison to professional investors, find it harder to ask the right questions and place the proper demands on the companies.

National legislation would probably increase the quality of the offers, increase consumer protection and decrease the number of dishonest actors. However, the disadvantages of national regulation are that it would probably increase costs for companies and further complicate existing legislation. In addition, the Government has proposed an action plan to reduce regulatory burden for companies by 25 percent.

During the first six months of 2007, Finansinspektionen reviewed the quality of the information in written share offers that are exempted from the prospectus obligation. The review was based on the most central parts of the prospectus rules and included public offers for the acquisition of or subscription to shares under EUR 1 million. These offers do not require that a prospectus be drawn up and approved, and FI has no supervisory responsibility for such offers. The study is a follow-up of our report Unregulated offers on the stock market, 2006:15. The results of the 2006 report indicated that there were considerable deficiencies with regard to the quality of the information.

## The results of the study

During the first six months of 2007, 15 public issues without a prospectus pursuant to the threshold exemption and 4 private issues were conducted. There were 10 public issues in 2006.

### Outcome of the review of the informational material from 19 issues, H1 2007

Section	Good	Average	Poor
Description of risk	10	3	6
Responsibility of the Board of Directors	11	2	6
Financial history	2	10	7
Basis of forecast	0	2	15
Description of operating capital	4	2	13
Motive for the issue	10	8	1

The deficiencies are so serious that it was only possible to make an informed assessment of 2 of the 19 offers. However, in general the quality was slightly better than in the study conducted last year.