



New rules on related party transactions

A summary of the proposed new Swedish legislation expected to enter into effect on 10 June 2019.

January 2019

New rules on related party transactions

As a result of the implementation of the EU directive on long-term shareholder engagement (the so called Shareholder Rights Directive, “EU SRD Directive”), new rules on related party transactions have just been proposed to the Council on Legislation and are expected to come into effect on **10 June 2019**.

	CURRENT RULES	NEW RULES
What companies?	<ul style="list-style-type: none"> Swedish companies listed on a regulated market (<i>Nasdaq Stockholm and NGM Equity</i>), and other trading platforms (<i>Nasdaq First North, Nordic MTF and Spotlight Stock Market</i>) and subsidiaries to such companies. 	<ul style="list-style-type: none"> Swedish companies listed on a regulated market (<i>Nasdaq Stockholm and NGM Equity</i>) and subsidiaries to such companies.
Who is a related party?	<ul style="list-style-type: none"> Owners of at least 10% of the shares or votes in the company, or Board members, senior management and other employees, including persons associated with such parties, within the company group. 	<p>More narrow definition based on IAS and IFRS:</p> <ul style="list-style-type: none"> Owners of at least 20% of the votes in the company, or Board members, senior management and persons that otherwise have a significant influence, including persons associated with such parties, in the company or in the group parent company.
What transactions?	<ul style="list-style-type: none"> Transfers of shares and/or other assets, to and from a related party that are not of insignificant importance to the company. Overall evaluation in relation to the company’s position and results. 	<ul style="list-style-type: none"> All arrangements with related parties, such as transfer of shares, assets, lease and service agreements. Limited to arrangements or transactions at a value of: <ul style="list-style-type: none"> at least SEK 1 million, and at least 1% of the company’s value.
How?	<ul style="list-style-type: none"> Approval by the General Meeting with simple majority excluding related party’s holding. Documentation to be presented at the general meeting: <ul style="list-style-type: none"> fairness opinion, report by the BoD. 	<ul style="list-style-type: none"> Approval by the general meeting with simple majority excluding related party’s holding. Documentation to be presented at the General Meeting: <ul style="list-style-type: none"> special statement by the BoD, including identification of the related party relation.
Legal status and sanctions?	<ul style="list-style-type: none"> Based on the statement AMN 2012:05 from the Swedish Securities Council (Sw. <i>Aktiemarknadsnämnden</i>). Violation of applicable listing rules on relevant marketplace. 	<ul style="list-style-type: none"> New chapter in the Swedish Companies Act. Sanctions will be enforced through existing rules in the Swedish Companies Act. Violation of applicable listing rules on relevant marketplace. New rules expected to imply revised statements by the Swedish Securities Council.

Key takeaways

- I. As a result of the implementation of the EU SRD Directive, new rules on related party transactions are expected to enter into effect on **10 June 2019**. The scope of the new legal requirements will be applicable to companies listed on a regulated market. The current rules or similar are expected to be subject to revised statements by the Swedish Securities Council.
- II. The rules will apply to transactions with a value of at least SEK 1 million and at least 1% of the company's value, or which equals such value when aggregated during a 12-month period, and cover all types of arrangements, not only transfers of shares or assets.
- III. A more narrow definition of a related party is suggested, based on IAS and IFRS, e.g. an owner of at least 20% of the votes for all shares in the company is deemed a related party compared to 10% under the current rules.
- IV. The so called "LEO-rules" in the Swedish Companies Act remains unchanged. This means, inter alia, that any issue or transfer of shares to employees or board members must be approved by the General Meeting with a 90% voting majority.
- V. Vinge's capital markets team continuously advise a large number of Swedish listed companies on various transactions, including related party transactions, and has the relevant experience and knowledge that can make a difference.

Selected references

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