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Summary of Government Interventions
Sweden

Overview

The Swedish government has established a number of measures in response to the global financial crisis. Swedish banks have suffered little direct impact from the credit crisis because they had little subprime exposure, but are now suffering from short-term liquidity pressures and longer-term concerns over the slowdown in the Nordic and Baltic economies.

Similar to other European Union countries, the Swedish measures include the implementation of a general framework for giving state support to ailing credit institutions, the creation of a stabilisation fund, a temporary guarantee program and, most recently, a recapitalisation scheme. The guarantee program is governed by the Ordinance (2008:819) on State Guarantees for Banks and the National Debt Office's Regulations (2008:1) concerning State Guarantees for Banks.

State guarantee scheme

General

Pursuant to the Ordinances that came into effect on 30 October 2008, the Swedish government has instituted a guarantee scheme where it will guarantee up to SEK 1,500bn of debt instruments issued by eligible institutions. The scheme is administered by the National Debt Office.

The guarantee will apply to debt instruments with a term of more than 90 days and less than five years. Initially, the maturity limit was three years, except that guarantees in a maximum aggregate amount of SEK 500bn could be allocated to covered bonds with terms of three to five years. The Swedish government amended the scheme with effect from 2 May 2009 to allow for guarantees of up to SEK 500bn of qualifying debt instruments (not only covered bonds) with maturities between three and five years.

Initially open until 30 April 2009, the scheme has also been extended until 31 October 2009, with an option of further extension if the Swedish government considers this necessary.

The European Commission has been notified of the changes in the guarantee scheme and approval is expected before the changes come into effect on 2 May 2009.

The institutions participating in the guarantee scheme are Swedbank AB (publ), Swedbank Hypotek AB (publ), Sveriges Bostadsfinansieringsaktiebolag, SBAB (publ), Volvofinans Bank AB (publ) and Carnegie Investment Bank AB.

Eligible institutions will have the option to enter into an agreement with the Swedish state which will guarantee the institutions' new issues of debt instruments in exchange for a fee. The fee payable is based on market benchmarks and will take into account institution-specific risk with a mark-up of typically 50 basis points (for covered bonds, the add-on fee will be 25 basis points).

More information on fees payable is available on the National Debt Office's website:

https://www.riksgalden.se/templates/RGK_Templates/TwoColumnPage____17106.aspx

The Swedish government guarantee scheme has been notified to and approved by the European Commission (State Aid No. 533/2008).

Requirements and restrictions

The Swedish government guarantees are only available to Swedish banks and mortgage institutions. Credit institutions that are oriented towards local government authorities may also apply.

There are certain capital adequacy requirements that institutions must satisfy in order to participate in the scheme. Only institutions with at least six per cent. tier 1 capital and at least nine per cent. combined tier 1 and tier 2 capital will be eligible for guarantees.

Further, there is a limit on how much can be guaranteed for each institution. Guarantee undertakings that are issued to an individual bank may not from time to time exceed the higher of (i) the total amount of the institution's debt instruments with a maturity of more than 90 days that mature between 1 September 2008 and 30 April 2009, and (ii) 20 per cent. of the deposits from the public with the institution as at 1 September 2008.

Restrictions are also placed on remuneration to senior management, specifically to the top five executives receiving the highest total remuneration at the relevant institution. In summary, the state guarantee will impose restrictions with respect to wage increases, bonus payments, increases in board remuneration and bank executives´ severance packages during the guarantee period. Further, a participating bank will have to undertake not to significantly expand its activities – particularly if the expansion would not have been possible without the state guarantee.

Instruments and currency

Instruments covered by the guarantee are bonds, certificates of deposit and other debt instruments which are not subordinated and have maturities between 90 days and five years, but no more than SEK 500bn of the guaranteed obligations may have maturities longer than three years. Complex and structured products such as share index bonds and guaranteed equity bonds are excluded from the scheme.

The scheme is not subject to any currency restrictions, which means that even loans in currencies other than SEK can be guaranteed.

Deposit guarantees

The deposit guarantee represents a form of consumer protection for savings in accounts. On 6 October 2008, the initial government guarantee of SEK 250,000 for deposits was increased to a maximum amount of SEK 500,000. The government has the option of widening the guarantee to credit institutions with branches in Sweden in cases where the home country's deposit guarantee is not honoured in full.

Stabilisation fund

The government is providing an initial SEK 15bn to the so-called stabilisation fund. Further contributions will comprise charges for guarantees issued, stabilisation charges, deposit guarantee charges and recoveries regarding support measures provided. The fund acts as a support mechanism for institutions whose situation involves systematic risks that may have serious consequences for society as a whole. It also represents a long-term safeguard to underpin the guarantees. The aim is to accumulate a sum within 15 years corresponding to 2.5 per cent. of GDP (an estimated SEK 150bn) and use these sums to reduce the Swedish national debt.

Stability fee

To strengthen the stabilisation fund, an obligatory stability fee initially announced in 2008 is being re-introduced. Under the proposal, which will be presented in a bill submitted to the Riksdag, the fee will be payable at half the full rate in 2009 and 2010, after which it will be raised to the full rate from 2011 onwards. Institutions participating in the state guarantee scheme for medium-term debt will also be able to deduct part of the guarantee fee they pay from the stability fee.

Recapitalisation measures

On 10 February 2009, the European Commission gave an approval (see IP/09/241) to Sweden's plan to inject up to SEK 50bn (EUR 4.7bn, US$ 6.0bn) into the country's banks to help boost lending. The scheme came into force on 17 February 2009 and will apply until 17 August 2009. The Swedish government can extend this period up to 31 December 2009 subject to approval by European Commission. The measures are limited in time and require a significant proportion of private investment alongside the state intervention. Any Swedish banks participating in the programme would have to freeze executive and board salaries for two years and halt all bonuses while limiting lay-offs. To safeguard the interests of the taxpayer, the banks will pay fees and returns on capital injections to the stabilisation fund.

The institutions that will be offered the possibility of receiving such capital injections are the same institutions that are entitled to participate in the state guarantee scheme for medium-term debt, i.e. banks, mortgage institutions and credit market companies serving municipalities, incorporated in Sweden. The total limit for the recapitalisation scheme is SEK 50bn. The capital provided to a particular institution may amount to no more than the equivalent of an increase of two percentage points in the institution's capitalisation.

Under the terms of the Ordinance, the injection of capital can be provided in the form of share capital or hybrid instruments. To be included in an institution's own funds as tier 1 capital, the instrument must fulfil the conditions in the *Finansinspektionen* (the **"FI"**) (Swedish Financial Supervisory Authority) regulations.

Restrictions on remuneration to senior management to apply during 2009 and 2010 will be included in the National Debt Office's agreement with the institutions. The agreement will also include conditions aimed at preventing increases in remuneration to board members in 2009 and 2010.

Notable developments with commercial banks

Swedbank:

On 4 November 2008, Swedbank (the country's largest savings bank) became the first Swedish bank to seek state help to lower its funding costs by signing up for the Government's SEK 1,500bn guarantee scheme.

Kaupthing Bank hf.:

The Riksbank lent SEK 5bn (US$ 700m) to Kaupthing Bank Sverige AB, the Swedish entity of Kaupthing Bank hf., after the subsidiary failed to meet payment obligations and was put up for sale.

Carnegie Investment Bank:

On 28 October 2008, the Swedish central bank extended a credit facility to Carnegie totalling SEK 5bn (US$ 607m). Carnegie's investment banking arm and its insurance brokerage were pledged as collateral. The credit facility was subsequently assigned to the Swedish National Debt Office. Sweden's Financial Supervisory Authority removed Carnegie's licence in November 2008 due to management lapses, before immediately reinstating when the National Debt Office took on ownership of the company. The company has now been sold to private investors.

Other developments

Loan to Iceland

In October 2008, Nordic countries - Denmark, Finland, Norway and Sweden - agreed to lend Iceland US$ 2.5bn to help it recover from its bank failures, bolstering a US$ 2.1bn aid package from the International Monetary Fund.

Short selling

Unlike many other jurisdictions, the Swedish government has not introduced a ban on short selling. According to the FI, the use of short selling to unlawfully influence the price of a security is already prohibited through the regulation contained in the Financial Instruments Trading (Market Abuse Penalties) Act (SFS 2005:377).

Instead, the use of short selling is continuously monitored and checked by the FI. It has increased its focus on market surveillance of trading in financial companies and suspected market manipulations are immediately reported to the Swedish National Economic Crimes Bureau.

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