



PROFICIENCY REQUIREMENTS  
LICENSING EXAMINATION

*Management and  
control functions 2022*

1 JANUARY 2022

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# Introduction

## Background

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SwedSec's purpose is to create a high level of proficiency and regulatory compliance among employees on the securities market by requiring licensing, as well as compliance as a condition for continued licensing. SwedSec's vision is to maintain a high level of confidence in the securities market. A prerequisite for such confidence is that personnel working on the securities market possess adequate knowledge and skills to carry out their duties. The licensing requirement covers various categories of employees with various work duties and roles at companies affiliated to SwedSec.

## Target group

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The proficiency requirements for the licensing examination for management and control functions have primarily been determined based on the knowledge that should be demanded of professional groups who engage in various types of management and control functions within the finance market with special focus on banks, fund operations and securities business, e.g. managing directors and other responsible managers, compliance officers, as well as certain positions within risk control and other control functions. More information about the target group is available in Chapter 3, section 1, category A of SwedSec's Rules and Regulations.

The proficiency requirements constitute a basic level of knowledge which must be possessed by all licence holders in the target group. An employee's work duties and position may, of course, result in the employee requiring more in depth and/or additional knowledge, over and above that covered by these proficiency requirements. It is the responsibility of the affiliated company to assess what is sufficient based on the employee's work duties.

## Structure and function of the proficiency requirements

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The proficiency requirements are divided into sections (subject areas), subsections, and checkpoints. A checkpoint specifies what the licence holder is expected to master within a given, relatively small field of knowledge. Every single item in the licensing examination is directly linked to a checkpoint in this document.

The proficiency requirements are intended to function as a support when developing relevant syllabuses and also to serve as a basis when setting examination questions. In addition, they are designed to give an overview of what is expected of a licence holder. It is the task of each professional training provider to interpret the proficiency requirements and develop a relevant and instructive course based on such interpretation.

## Changes to the proficiency requirements

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The currently applicable proficiency requirements are available on [www.swedsec.se](http://www.swedsec.se). A review is conducted annually. Between such reviews, adjustments may take place as required. Changes in the proficiency requirements are published on [www.swedsec.se](http://www.swedsec.se) after a decision has been taken. It is the responsibility of each individual professional training provider to stay abreast of the most recent version.

## Structure of the proficiency requirements

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The three sections (subject areas) included in the licensing examination are:

1. Governance and internal control
2. Financial economy, risks and capital adequacy
3. Rules and regulations and ethics on the securities market

The section ‘Ethics and rules and regulations’ covers knowledge of the rules applicable to the operations as well as ethical issues such as integrity, maintaining a distance from impermissible activities, and deciding what may be appropriate. In contrast to the area of rules and regulations, the ethics area is not suitable in all respects for a proficiency examination based essentially on questions with multiple-choice answers. Therefore, as a supplement to the examination the annual proficiency update will normally include ethics/practical cases where the licence holder is given the opportunity to discuss and take decisions regarding ethical issues and the dilemma, where there is not always any obvious right or wrong answer.

## Examination structure

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The licensing examination for management and control functions comprises 90 standard questions. Testing takes place by including five as yet unapproved questions from each section, the answers to which do not influence the final score. The candidates’ answers to these questions will be stored for statistical analysis and, following careful assessment, may thereafter be included in tests as ordinary questions. It is not evidence from the test which questions are standard and which are being trialled. The candidate thus answers a total of 105 questions, 90 of which determine the candidate’s score. To pass the licensing examination, a candidate must have an overall score of at least 70% correct answers.

## Cognitive levels, weight and size

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The cognitive levels describe the degree of complexity of the questions.

<b>Level</b>	<b>Definition</b>
Recall (R)	A candidate is required to recognise and remember concepts, definitions, and facts.
Comprehend (C)	A candidate is required to understand and be able to explain various connections and contexts.
Apply (A)	A candidate is required to be able to apply, for instance, formulae, rules, statutes, and methods

For each checkpoint, there is a mark defining the cognitive level that the candidate must achieve regarding the knowledge in question. The level is denoted by the initial letter in the name of the level: *R*, *C*, or *A*. The cognitive levels are interrelated and closely connected. If, for instance, a checkpoint refers to the cognitive level Apply, it is thus assumed that if the licence Holder is able to apply a certain piece of knowledge, he/she is also able to understand and explain it.

In the matrix for each checkpoint, the checkpoint's size and weight are stated. A major checkpoint has more extensive proficiency requirements, and consequently the licensing examination probably contains more questions on such checkpoints. A checkpoint can either have weight 1 or 2, with weight 2 indicating the highest weight, which also affects the number of questions in the licensing examination.

## Section 1 - Governance and internal control

Section 1 covers knowledge of the way in which responsibility for the institution's management is allocated between different functions and bodies prescribed under company law. This involves, among other things, general knowledge regarding the allocation of roles and responsibilities between owners and management in accordance with the Principal-Agent theory, and how roles and responsibilities are allocated between the owners (through representation at the general meeting) and the board of directors and managing director pursuant to the Swedish Companies Act and, where relevant parts, legislative requirements on the finance market as well as regulations issued by the Swedish Financial Supervisory Authority and self-regulation.

The section also includes detailed knowledge concerning internal governance and control in financial undertakings. This includes knowledge of the more important internal governance documents, among other things what they must contain and by whom they are decided. An important aspect involves knowledge of the requirements applicable to internal control, including more in-depth knowledge of the requirements applicable to independent control functions, and how the internal control should be organised in accordance with the "three lines of defence" principle.

Finally, this section includes specific knowledge regarding the conditions under which outsourcing may take place and the requirements governing bonuses and other variable remuneration to employees of financial undertakings, and the measures financial undertakings are required to take to manage any crisis situation which may jeopardise the company's future.

### Corporate Governance

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#### **The managing director's role and responsibilities**

The licence holder must understand the role played by the managing director relative to other bodies and functions in accordance with the Swedish Companies Act, as well as the managing director's responsibility for the company's operations.

#### **The role of the board of directors, board committees, and the responsibility of the board of directors**

The licence holder must understand the role of the managing director relative to other bodies and functions in accordance with the Swedish Companies Act, as well as the responsibility of the board of directors as a whole, and individual directors, in relation to the company, the shareholders, the market, and public authorities such as the Swedish Financial Supervisory Authority. The licence holder must be familiar with the most commonly occurring board committees and their relationship to the company under company law.

#### **The role of the general meeting**

The licence holder must be familiar with the role of the general meeting according to the Swedish Companies Act, as well as the most important issues which normally must be decided upon at the general meeting.

### **The responsibilities of the board of directors and management of financial undertakings**

The licence holder must understand the special responsibility applicable to managing directors and directors of financial undertakings in accordance with the specific provisions governing such undertakings, both statutory and in accordance with the Swedish Financial Supervisory Authority's regulations and general guidelines and – where applicable – guidelines issued by the EBA or ESMA. The licence holder must also understand the application of such regulations by the Swedish Financial Supervisory Authority, as expressed in sanctions matters involving important matters of principle.

### **Important internal governance documents**

The licence holder must understand the applicable requirements generally pursuant to the Swedish Companies Act (such as rules of procedure for the board of directors, instructions for the managing director, and reporting instructions), and also specifically pursuant to relevant legislation on the finance market (e.g. instructions for managing conflicts of interest and remuneration policy) regarding the drawing up and adoption of various internal governance documents. The licence holder must understand how such documents are implemented so that they become practical governance documents in the day-to-day operations, and which procedures should apply to monitoring, evaluation and control.

### **Overarching requirements regarding internal governance and control**

The licence holder must understand the main principles behind, and be able to apply, the more important requirements in the Swedish Financial Supervisory Authority's regulations and general guidelines regarding governance, risk management and control in credit institutions (FFFS 2014:1); the Swedish Financial Supervisory Authority's regulations and general guidelines regarding management of operational risks (FFFS 2014:4), the Swedish Financial Supervisory Authority's regulations and general guidelines regarding IT systems, information safety and deposit insurance systems (2014:5); as well as the Swedish Financial Supervisory Authority's general guidelines regarding governance and control of financial undertakings (FFFS 2005:1).

<b>Checkpoint</b>	<b>Weight</b>	<b>Size</b>	<b>Cognitive level</b>		
The managing director's role and responsibilities	2	Small		C	
The role of the board of directors, board committees, and the responsibility of the board of directors	2	Large	R	C	
The role of the general meeting	2	Small	R		
The responsibilities of the board of directors and management of financial undertakings	2	Small		C	
Important internal governance documents	2	Large		C	
Overarching requirements regarding internal governance and control	2	Large		C	

## Control functions

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### **The risk control function**

The licence holder must understand the organisational requirements applicable for establishing an independent risk control function and the requirements otherwise applicable to such a function pursuant to law and other statutes.

### **The compliance function**

The licence holder must understand the organisational requirements applicable for establishing an independent compliance function and the requirements otherwise applicable to such a function pursuant to law and other statutes.

### **Internal audit**

The licence holder must understand the organisational requirements applicable for establishing an independent internal audit function and the requirements otherwise applicable to such a function pursuant to law and the basic requirements set forth in International Professional Practices Framework (IPPF).

<b>Checkpoint</b>	<b>Weight</b>	<b>Size</b>	<b>Cognitive level</b>		
The risk control function	2	Small		C	
The compliance function	2	Small		C	
Internal audit	2	Small		C	

## Outsourcing

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### **Outsourcing**

The licence holder must be familiar with what is meant by outsourcing and when outsourcing is of such scope or nature that it must be notified to the Swedish Financial Supervisory Authority. The licence holder must be familiar with the service provider's responsibility for the outsourced operations and the requirements imposed regarding monitoring of the service provider and the manner in which the service provider discharges its duties.

<b>Checkpoint</b>	<b>Weight</b>	<b>Size</b>	<b>Cognitive level</b>		
Outsourcing	2	Large	R		



## Remuneration rules

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### Remuneration rules

The licence holder must understand the applicable rules regarding remuneration to employees within financial undertakings pursuant to Chapter 9, section 10 of the Securities Market Act (2007:528) and the Swedish Financial Supervisory Authority's regulations regarding remuneration structures in credit institutions, investment firms and fund management companies licensed to conduct discretionary portfolio management (FFFS 2011:1). In addition, the licence holder must understand the requirements for analysis of the risks associated with the undertaking's remuneration policy and remuneration system, and the way in which "employees whose work duties have a material impact on the undertaking's risk profile" are identified on the basis of such an analysis. The licence holder must also understand ESMA's Guidelines on remuneration policy and practices, and the purpose behind those guidelines.

Checkpoint	Weight	Size	Cognitive level
Remuneration rules	2	Small	C

## Section 2 – Financial economics, risks and capital adequacy

Section 2 covers financial economics, risk analysis and capital adequacy requirements. The objective is that the licence holder shall possess basic proficiency regarding identification and management of different types of risks to which financial institutions are exposed. This requires understanding of how risks are measured on both an instrument level and portfolio level; familiarity with typical sources of risk for different segments of the capital market; and knowledge of how financial derivative instruments can be used in order to manage risks. The licence holder is also expected to possess knowledge regarding the financial system in general and capital adequacy and liquidity rules in particular. This requirement covers both the regulatory framework as well as specific methods for calculating capital requirements.

### Financial economics and financial instruments

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#### **Probability and risk concepts**

The licence holder must understand the concept of probability, be familiar with the characteristics of normal distribution, and how this is used when calculating probability. The licence holder must understand and be able to explain the concepts of variance and standard deviation, and understand how these measurements can be used to quantify the concept of risk.

#### **Diversification and portfolio risks**

The licence holder must understand and be able to explain diversification (risk spread), and the way in which correlations affect the possibilities for risk spread in a portfolio of securities. The licence holder must understand how risk, measured as standard deviation, is calculated in a portfolio comprising risk-filled assets.

#### **Concepts within asset management**

The licence holder must understand the meaning of the concepts of strategic and tactical allocation, active and passive management, alpha-beta separation, core/satellite investment, enhanced indexing, ALM and ESG. The licence holder must understand the meaning of the alpha valuation measurement, Sharpe ratio and tracking error as well as the concept of active risk.

#### **Shares**

The licence holder must understand the meaning and the differences between ordinary shares, preference shares, class A and class B shares, subscription rights and convertible instruments. The licence holder must understand what constitutes a regulated market, an OTF platform and an MTF platform, as well as the principal legal differences between these types of trading venues. The licence holder must be familiar with the principle requirements concerning best order execution, including that companies that execute client orders must take all measures required to achieve the best possible result for the client and that, upon request by the client, the company must be able to show that the order was executed in accordance with the company's guidelines for best order execution.

### **Fixed income instruments**

The licence holder must be familiar with the most important types of money market instruments, such as certificates of deposit, STIBOR, treasury bills and fixed income certificates and understand their basic characteristics. The licence holder must be familiar with the most common types of long fixed income investments, such as treasury bonds, FRN bonds, inflation-linked bonds and corporate bonds with different credit risks and understand their basic characteristics. The licence holder must understand and be able to explain how treasury bonds are valued, and what is meant by the concept of ‘yield to maturity’. In addition, the licence holder must understand the concept of duration and be able to explain under which assumptions duration is a suitable measurement of interest rate sensitivity. The licence holder must be familiar with what so-called labelled bonds, e.g. green and social bonds are and why they are issued. The licence holder must be familiar with how trading is conducted on the Swedish fixed income market, including the trading that takes place on the interbank market and the trading in which all categories of investors have a possibility to participate.

### **Futures instruments**

The licence holder must be familiar with common interest rate-related futures instruments that are traded on the market, such as interest forward contracts, interest futures, and FRA contracts. The licence holder must also be familiar with common equity-related futures contracts that are traded on the market, such as index futures. The licence holder must understand how long or short positions in futures contracts change the risk exposure in a position in the underlying asset, and must understand how futures instruments can be used to manage risks. The licence holder must be familiar with the way in which interest rate-related futures and share futures are traded on the Swedish derivatives market.

### **Interest rate swaps**

The licence holder must understand how a plain-vanilla interest rate swap is structured, understand in principle how it is valued and be familiar with how it can be used for risk management in different situations.

### **Options**

The licence holder must be familiar with the basic characteristics of call and put options. The licence holder must understand how different positions in options change the risk exposure in a position in the underlying asset, and how options can be used to manage risks. The licence holder must understand how, in general terms, the value of an option is affected by the price of the underlying asset, the strike price, the term and the volatility of the underlying asset. The licence holder must be familiar with how call and put options are traded on the Swedish derivatives market

### **Currency and commodities markets**

The licence holder must be familiar with how currencies and currency derivatives are traded on the Swedish and international currency markets. The licence holder must be familiar with the functioning of, and pricing on, the commodities market, and the types of commodity-based financial instruments traded on different markets.

Checkpoint	Weight	Size	Cognitive level		
Probability and risk concepts	2	Small		C	
Diversification and portfolio risks	2	Large		C	
Concepts within asset management	1	Small		C	
Shares	2	Large	R	C	
Fixed income instruments	2	Large	R	C	
Futures instruments	2	Large	R	C	
Interest rate swaps	1	Small	R	C	
Options	2	Large		C	
Currency and commodities markets	1	Small	R		

## Funds

### Unit value calculation, fees and risk measurement in funds

The licence holder must understand how a fund's NAV (Net Asset Value) is calculated. The licence holder must understand different fee concepts associated with fund investments, e.g. annual fee, management fee and the so-called Norman amount. The licence holder must be familiar with how fees affect the return over time and that fees are always deducted when return is shown. The licence holder must be familiar with the most common risk measurements that are used regarding funds.

### Fund categories and types of funds

The licence holder must be familiar with the characteristics of different categories of funds, such as equity funds, mixed funds, fixed income and hedge funds, what distinguishes them from each other, and which regulations govern them. The licence holder must also be familiar with the characteristics of non-UCIT funds, alternative investment funds (AIF) and other funds. In addition, the licence holder must understand the difference between exchange traded funds and traditional funds and how the exchange traded funds are structured.

Checkpoint	Weight	Size	Cognitive level		
Unit value calculation, fees and risk measurement in funds	2	Large	R	C	
Fund categories and types of funds	2	Large	R	C	

## Monetary policy, banks and finance market

### Monetary policy and finance market

The licence holder must be familiar with the instruments at the disposal of a central bank in order to conduct active monetary policy. The licence holder must be familiar with the monetary policy objectives

of the Central Bank of Sweden and also, in general terms, the monetary policy objectives of the ECB and Federal Reserve.

**The interbank market**

The licence holder must be generally familiar with how the interbank market functions, which instruments or contracts are typically traded on that market, how trading is conducted, and the identity of the major players on that market.

**Bank funding and lender of last resort**

The licence holder must be generally familiar with the stylised structure of the balance sheets of commercial banks and central banks. The licence holder must be familiar with the way in which banks obtain financing in normal market conditions; what is meant by liquidity risks in this context; and what the role of the central bank as lender of last resort entails. The licence holder must also be familiar with the concept of bank run, and the way in which a bank run can jeopardise the survival of the financial system.

**Moral hazard (increased risk-taking) and adverse selection**

The licence holder must understand what is meant by moral hazard and adverse selection, provide examples of situations in which these phenomena occur, and be able to explain why moral hazard and adverse selection can cause problems for the financial system.

Checkpoint	Weight	Size	Cognitive level		
Monetary policy and finance market	2	Small	R		
The interbank market	2	Small	R		
Bank funding and lender of last resort	2	Small	R		
Moral hazard and adverse selection	2	Small		C	

**Capital requirements – credit institutions**

**Statutory minimum requirements regarding capital, liquidity and leveraged ratio (Pillar I)**

The licence holder must be familiar with the statutory minimum capital adequacy requirements for institutions pursuant to the Capital Requirement Directive (2013/36/EU) and Regulation 575/2013 of the European Parliament and the Council of 26 June 2013 on prudential requirements for credit institutions. The licence holder must understand the purport of the various methods permitted pursuant to the Regulation for calculating capital requirements in respect of credit risks, market risks and operational risks.

The licence holder must understand which capital buffers institutions must maintain pursuant to the Capital Buffers Act (2014:966) and understand how these different buffers are structured.

The licence holder must know the requirements in place as regards institutions' liquidity and understand with the manner in which the liquidity coverage ratio (LCR) is calculated pursuant to Regulation 575/2013. The licence holder must also be familiar with the concept of a net stable funding ratio (NSFR). Finally, the licence holder must understand the requirements imposed as regards institutions' leverage ratios and understand how this is to be calculated pursuant to Regulation 575/2013.

### **Capital and liquidity assessment (Pillar 2)**

The licence holder must understand what institutions are expected to do in their internal capital (ICAAP) and liquidity management (ILAAP) assessment processes and understand the aim of the Swedish Financial Supervisory Authority's supervisory and assessment process (Sw. ÖUP).

### **Transparency (Pillar 3)**

The licence holder must be familiar with the rules governing disclosure of information with respect to capital requirements, capital base, risk management, etc. (Pillar 3) and the purpose of these requirements.

### **Large exposures**

The licence holder must understand what constitutes a large exposure pursuant to Regulation 575/2013 and when the exposure becomes impermissibly large. Furthermore, the licence holder must know which measures must be taken when an exposure becomes impermissibly large.

<b>Checkpoint</b>	<b>Weight</b>	<b>Size</b>	<b>Cognitive level</b>		
Statutory minimum requirements regarding capital, liquidity and leveraged ratio (Pillar 1)	2	Large	R	C	
Capital and liquidity assessment (Pillar 2)	2	Small	R	C	
Transparency (Pillar 3)	2	Small	R		
Large exposures	2	Small	R	C	

## **Capital requirements – other undertakings**

### **Investment firms**

The licence holder must know which requirements are imposed as regards an investment firm's start capital and that the capital base of investment firms that are not subject to Regulation 575/2013 and the Capital Buffers Act may not, during ongoing operations, be less than the amount required upon commencement of the operations (Chapter 3, sections 6 and 7 of the Securities Market Act (2007:528)).

### **Fund management companies**

The licence holder must know the requirements imposed as regards a fund management company's start capital and that the fund management company's own funds may not, during ongoing operations, be less than the start capital (Chapter 2, sections 4 and eight of the Securities Funds Act). The licence holder must also be familiar with the own funds requirements that are imposed depending on the managed fund assets and that the company's own funds may never be less than an amount corresponding to 25% of fixed costs (Chapter 2, sections 9 and 10 of the Securities Funds Act (2004:46)).

## AIF managers

The licence holder must know which requirements are imposed as regards an AIF manager's start capital and that the manager's own funds may never be less than the start capital during ongoing operations (Chapter 7, sections 1 and 2 of the Alternative Investment Funds Managers Act (2013:561)). The licence holder must also be familiar with the own funds requirement which is imposed depending on the managed fund assets and that the manager's own funds may never be less than an amount corresponding to 25% of the fixed costs (Chapter 7, sections 3 and 4 of the Alternative Investment Funds Managers Act). In addition, the licence holder must be aware that the AIF manager must either have extra funds in the capital base or liability insurance to cover liability in damages due to error or negligence (Chapter 7, section 5 of the Alternative Investment Funds Managers Act).

Checkpoint	Weight	Size	Cognitive level		
Investment firms	2	Small	R		
Fund management companies	2	Small	R		
AIF managers	2	Small	R		

## Risks

### Market risks

The licence holder must understand what is meant by market risk. The licence holder must also understand the various ways in which market risks can be managed, reduced or eliminated entirely.

### Sources of risk other than market risk

The licence holder must understand the concepts of counterparty risk, liquidity risk, credit risk and operational risk. The licence holder must also understand how these risks can be managed, minimised or eliminated entirely.

### Value at Risk or Expected Shortfall

The licence holder must understand the measurements 'Value at Risk' (VaR) and Expected Shortfall (ES). The licence holder must understand the two most common methods for VaR calculations, namely historic simulation and analytical method. In addition, the licence holder must be familiar with the most common strengths and weaknesses associated with VaR, focusing particularly on the problem of extreme results. The licence holder must understand which additional information about risk exposure, in addition to VaR, is provided through the measurement ES.

Checkpoint	Weight	Size	Cognitive level		
Market risks	1	Small		C	
Sources of risk other than market risk	2	Large		C	
Value at Risk and Expected Shortfall	2	Large	R	C	

## Section 3 –Regulation and ethics on the securities market

Section 3 covers certain rules that affect the securities market in which the licence holder should be proficient. The area covers knowledge of the various types of regulation on the securities market, and how these various types of regulation are structured. Here, the licence holder is expected, among other things, to be aware that regulation may take place through statutes of differing status issued by different public authorities in Sweden and within the EU, but also through self-regulation by various industry organisations.

The area also includes knowledge of basic client protection rules, e.g. rules concerning investment advisory services, as well as more important rules concerning undertakings' client-related activities in general, e.g. rules regarding conflicts of interest. The area also includes knowledge of the intervention measures and sanctions which may be taken by the Swedish Financial Supervisory Authority and various bodies which supervise the operations of undertakings on private law grounds. Proficiency in the area also requires basic knowledge of what is required in order to be granted authorisation by the Swedish Financial Supervisory Authority to conduct certain types of financial operations that are subject to a licence requirement. Finally, through the area a requirement is imposed for sound knowledge regarding certain information and reporting requirements such as flagging (threshold notification) and reporting of OTC derivatives.

### Regulation

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#### **Regulation within the EU**

The licence holder must be familiar with the regulatory process within the EU: who does what, what is the result, and how this affects regulation in the Member States. The licence holder must also be familiar with the difference between an EU regulation and an EU directive. The licence holder must also be familiar with the extent to which the Commission and the European authorities (ESMA, EBA and EIOPA) can adopt rules and how such rules apply in the Member States. In addition, the licence holder must be familiar with the role of the Basel Committee in the regulatory process.

#### **Public regulation in Sweden**

The licence holder must be familiar with the regulatory process in Sweden: who does what, and what is the result. The licence holder must also be familiar with the role of the Government and the Swedish Parliament in the legislative process, and the importance of a committee report or a Government Bill when interpreting an Act. The licence holder must also be familiar the way in which the issuance of regulatory provisions by the Swedish Financial Supervisory Authority functions, and the difference between regulations and general guidelines issued by the Authority.

#### **Self-regulation and important players**

The licence holder must be familiar with the most important industry associations on the securities market, such as SwedSec, the Swedish Securities Markets Association (formerly the Swedish Securities Dealers Association), the Swedish Investment Fund Association, the Swedish Bankers' Association, the Swedish Society of Financial Analysts and the Association for Generally Accepted Principles in the



Securities Market, and their aims. The licence holder must also be familiar with the role of the Swedish marketplaces as self-regulators. The licence holder must also be familiar with how self-regulation is structured and how it differs from laws and other statutes. The licence holder must also be familiar with the most important advantages and disadvantages associated with self-regulation.

Checkpoint	Weight	Size	Cognitive level
Regulation within the EU	1	Large	R
Public regulation in Sweden	1	Large	R
Self-regulation and important players	1	Large	R

## Ethics and the regulatory framework on the securities market

### Fundamental ethical values and reporting of the company's regulatory violations

The licence holder must understand the principal features of the Swedish Securities Markets Association's (formerly the Swedish Securities Dealers Association) Guidance on ethical guidelines at investment firms (18 June 2013) – i.e. what it means to act ethically, the concept of improper transactions, and how secondary activities and other side activities are to be handled. The licence holder must also understand how to act and to whom to lodge a complaint upon discovering irregularities at the company. The licence holder must also understand the regulations concerning whistleblowing.

### Sustainability

The licence holder must be generally familiar with the regulations set forth in Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (SFDR or the Disclosure Regulation) regarding information by fund management companies and investment firms concerning their sustainability work, including:

- whether, and in such case how, the sustainability risks are integrated in investment decisions for financial products
- whether the financial products promote environmentally-related or social characteristics (Art 8) or have sustainable investment as an objective (Art 9)..
- What regular reporting is received by clients regarding the outcome of the sustainability work.

### Rules regarding conflicts of interest

The licence holder must be able to apply the rules regarding conflicts of interest as set forth in the Securities Market Act, Commission Delegated Regulation (EU) 2017/565 and in the Swedish Financial Supervisory Authority's regulations 2013:9.

### Rules regarding third-party remuneration

The licence holder must be familiar with the requirements imposed so that investment firms and insurance distributors are entitled to receive and retain remuneration from a party other than the client.

### **Rules regarding securities transactions by employees and related parties**

The licence holder must be able to apply the rules regarding securities transactions by employees and related parties. These are set forth both in statute, in Commission Delegated Regulation (EU) 2017/565 and in rules issued by the Swedish Securities Markets Association (formerly the Swedish Securities Dealers Association) and the Swedish Investment Fund Association.

### **Rules regarding bribery and corruption**

The licence holder must understand the basic rules prohibiting bribery and corruption. This assumes that the licence holder understands that, in order for that to be a question of corruption, there must be a connection with the employee's performance of his or her duties or the performance of services by a service provider; must understand the circumstances which determine whether a benefit is improper; and must understand which benefits are always considered improper and must be familiar with the most important case law from courts of law and the Anti-Corruption Institute.

### **The offence of market abuse and the reporting obligation**

The licence holder must understand the definitions of insider dealing and market manipulation and the prohibition on market abuse; cf. the Market Abuse Regulation (EU no 596/2014, see Articles 7-10, 12, 14 and 15) as well as Chapters 2 and 3 of the Market Abuse on the Securities Market (Penalties) Act (2016:1307). The licence holder must also generally understand the rules governing market soundings pursuant to Article 11 of the Market Abuse Regulation and Commission Delegated Regulation (EU 2016/960) and how these relate to the prohibition on disclosing inside information. The licence holder must understand the purport of the reporting obligation pursuant to Article 16 of the Market Abuse Regulation.

### **Notification obligation for persons discharging managerial responsibilities and persons closely associated with them, the 30-day rule and insider lists**

The licence holder must understand the basic rules regarding the notification obligation for persons discharging managerial responsibilities and persons closely associated with them pursuant to Article 19 of the Market Abuse Regulation. The licence holder must understand which obligations issuers have to notify persons discharging managerial responsibilities at the issuer, which persons discharge managerial responsibilities within the meaning of the Market Abuse Regulation, and which obligations they and persons closely associated with them have to notify the transactions to the Swedish Financial Supervisory Authority and the issuer. The licence holder must also understand the rules in Article 19(12) of the Market Abuse Regulation regarding the so-called 30-day rule and exemptions from that rule. The licence holder must understand the rules in Article 18 of the Market Abuse Regulation and Commission Implementing Regulation (EU) 2016/347 regarding insider lists.

### **Analyses and investment recommendations**

The licence holder must understand the basic rules regarding investment recommendations as set forth in Commission Delegated Regulation (EU) 2016/958.

Checkpoint	Weight	Size	Cognitive level		
Fundamental ethical values and reporting of the company's regulatory violations	2	Small	R	C	
Sustainability	2	Large	R		
Rules regarding conflicts of interest	2	Large			A
Rules regarding third-party remuneration	1	Small	R		
Rules regarding securities transactions by employees and related parties	1	Small			A
Rules regarding bribery and corruption	2	Small		C	A
The offence of market abuse and the reporting obligation	2	Large	R	C	
Notification obligation for persons discharging managerial responsibilities and persons closely associated with them, the 30-day rule and insider lists	2	Large		C	
Analyses and investment recommendations	1	Small		C	

## Measures against money laundering and terrorist financing

### Client due diligence, etc.

Sufficient knowledge about the customers is a prerequisite for undertakings' possibilities to prevent and impede the operations from being exploited for money laundering or terrorist financing and to be able to report suspected activities and transactions.

### The licence holder must be able to apply

- the measures that must be taken to obtain customer due diligence, i.e. information about the client which must be compiled (including identification, beneficial owner and the purpose and nature of the commercial relations).

### The licence holder must understand

- which situations require that client due diligence measures be taken;
- situations in which simplified or enhanced client due diligence measures may/must be taken;
- the consequences of failing to achieve sufficient knowledge about the client;
- the obligation to review transactions and report suspected transactions to the Financial Intelligence Unit (*Sw. Finanspolisen*)
- the purpose of the money laundering rules.

### Risk assessment

The rules to counteract the money laundering and terrorist financing mean that undertakings must apply a risk-based approach. This, in turn, means that the undertaking must conduct a risk assessment of its business and also classify its clients in terms of risk. The risk assessment must then constitute the basis for determining the measures, e.g. routines and client reception, monitoring, etc. that must be taken to mitigate the risks.

The licence holder must know how a general risk assessment is to be carried out and that it must be documented and followed up. The licence holder must also know how clients are to be classified in terms of risk.

**Organisation, etc.**

An undertaking must have in place the routines and guidelines necessary so that the business operator is able to uncover and correct deficiencies with respect to measures to prevent money laundering in the business as well as routines and guidelines with respect to the undertaking's “specifically appointed person discharging managerial responsibilities” (if such has been appointed), central function manager and independent audit function (if such is in place).

The licence holder must be familiar with the functions “specifically appointed person discharging managerial responsibilities” (if such has been appointed), central function manager and independent audit function, when such functions must be in place and what they must do.

**Monitoring and reporting**

Regular commercial relations and individual transactions must be monitored and assessed with the aim of uncovering activities and transactions which deviate from what is normal or which may otherwise be assumed to constitute an element in money laundering or terrorist financing. If there are reasonable grounds to suspect money laundering or terrorist financing, or that property is derived from criminal conduct, this must be reported to the Police Authority.

The licence holder must know how monitoring of activities and transactions is carried out, what reports regarding suspected transactions must contain, and that there is a duty not to reveal that reporting has taken place.

**Sanctions**

The licence holder must know which sanctions may be imposed on the undertaking in the event of shortcomings in compliance with the rules to counteract money laundering and terrorist financing as well as the conditions for board members and the managing director also being subject to sanctions in respect of such shortcomings (see, e.g. Chapter 15, section 1 a, item 15 of the Banking and Financing Business Act (2004:297).

Checkpoint	Weight	Size	Cognitive level		
Client due diligence, etc.	2	Large		C	A
Risk assessment	2	Small	R		
Organisation, etc.	2	Small	R		
Monitoring and reporting	2	Small	R		
Sanctions	2	Small	R		

**Intervention and sanctions**

**Penal and administrative sanctions**

The licence holder must understand and be able to explain the difference between penal and administrative sanctions and how they are handled and decided upon. The licence holder must also be

familiar with the areas on the securities market to which penal sanctions apply, and on whom they may be imposed. The licence holder must also be familiar with the more important sanctions at the disposal of the Swedish Financial Supervisory Authority, i.e. the possibilities to enjoin a party to take or refrain from taking certain measures, the issuance of a reprimand or a warning, administrative fines, enjoining someone from serving as a director or managing director, and the revocation of licences – and when these may become relevant.

**The Swedish Financial Supervisory Authority’s supervisory tools**

The licence holder must be familiar with the more important tools at the disposal of the Authority in its supervision – the right to demand information and to conduct site visits, as well as requirements regarding regular reporting.

**Sanctions applied by trading venues**

The licence holder must be familiar with the sanctions systems at the major trading venues in Sweden, namely NASDAQ Stockholm, Spotlight Stock Market and NGM. The licence holder must also be familiar with the sanctions that are available, on whom they may be imposed, and how they are decided upon.

**SwedSec’s disciplinary procedure**

The licence holder must understand SwedSec’s disciplinary system. The licence holder must understand the sanctions which may be issued by SwedSec and how they are decided upon. The licence holder must also understand the role of the affiliated companies in the disciplinary procedure and be familiar with how the various sanctions have been used – i.e. the main aspects of why different violations have resulted in different sanctions.

Checkpoint	Weight	Size	Cognitive level		
Penal and administrative sanctions	2	Large	R	C	
The Swedish Financial Supervisory Authority’s supervisory tools	2	Large	R		
Sanctions applied by marketplaces	1	Small	R		
SwedSec’s disciplinary procedure	1	Small		C	

**Operations subject to licensing requirements**

**Banking and financing business**

The licence holder must be familiar with the basic requirements in order for an undertaking to be granted a licence to engage in banking and financing business, including the requirements imposed regarding its board of directors, managing director (and deputy therefor) and as regards owners with a qualified holding. The licence holder must also know what is meant by banking business and financing business. The licence holder must also know which operations may be conducted by a credit institution (banks and credit market companies) and be familiar with the restrictions in place as to which property may be held by a credit institution.

## Securities business

The licence holder must be familiar with the basic requirements in order for an undertaking to be granted a licence to engage in securities business, including the requirements imposed regarding its board of directors, managing director (and deputy therefor) and as regards owners with a qualified holding. The licence holder must also know which operations constitute securities business subject to a licensing requirement and which ancillary operations may be conducted by a securities institution. The licence holder must also be familiar with the restrictions in place as to which property may be held by a securities institution.

## Fund operations

The licence holder must be familiar with the basic requirements in order for an undertaking to be granted a licence to engage in fund operations pursuant to the Investment Funds Act (2004:46) or management of AIF funds pursuant to the Alternative Investment Funds Managers Act (2013:561). The licence holder must also be familiar with the requirements imposed regarding a board of directors, managing director (and deputy therefor) as well as on owners of a qualified holding in such undertakings. The licence holder must also be familiar with the main concepts in the Investment Funds Act and the Alternative Investment Funds Managers Act, and possess general proficiency in the respective roles of the fund management company/AIF manager and the depository in relation to the fund.

## Insurance distribution

The licence holder must be familiar with what is meant by the Insurance Distribution Act (2018:1219) and which undertakings may engage in such operations. The licence holder must be familiar with the basic requirements in order for a natural or legal person, as an insurance intermediary, to be granted a licence to engage in insurance distribution, including the requirements imposed on the natural person and, with respect to legal persons, the requirements imposed on the board of directors, managing director (and deputy) and employees.

## Cross-border operations

The licence holder must be familiar with the conditions required in order that a bank, a securities institution, an insurance intermediary, a fund management company, or an AIF manager may conduct operations in countries other than its home country, whether from a branch office or without establishing a branch office. The licence holder must also be familiar with the differences between cross-border operations which take place within or outside the EEA. The licence holder must also be familiar with the difference between conducting operations from a branch office and conducting operations from a subsidiary in the host country.

Checkpoint	Weight	Size	Cognitive level		
Banking and financing business	2	Large	R		
Securities business	2	Large	R		
Fund operations	2	Large	R		
Insurance distribution	2	Large	R		
Cross-border operations	2	Small	R		

## Client protection rules

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The licence holder must be familiar with the general rules regarding key investor information documents with respect to funds and PRIIP (packaged retail investment and insurance-based investment products) and the type of customers and products covered by the rules. The licence holder must also be familiar with which information must be stated in the key investor information document. The licence holder must also understand the difference between key investment information documents, marketing materials, product sheets and other information produced for products. In addition, the licence holder must understand how and when different types of information must be presented to the client.

### **Product monitoring**

The licence holder must understand the rules regarding product monitoring set forth in the Securities Market Act, the Swedish Financial Supervisory Authority's regulations regarding securities business (FFFS 2017:2) and in the Insurance Distribution Act.

### **Fundamental rules regarding investment advisory services**

The licence holder must understand the main features of the regulations regarding investment advisory services. The licence holder must understand when an advisory situation arises and what distinguishes the provision of advisory services from general advice, marketing and the provision of other information. In addition, the licence holder must understand the types of information about the client that the advisor must obtain; that the advice given must be appropriate based on the obtained information; and the main requirements imposed with respect to the provision of written statements of fitness to clients.

### **Fundamental rules regarding insurance distribution**

The licence holder must understand what is meant by generally accepted insurance distribution standards, what information an insurance distributor must always provide to his or her clients, what is meant by an impartial and personal analysis, what is meant by fitness and appropriateness assessments, and the main requirements imposed regarding written statements of fitness to clients.

### **Protection and safekeeping of clients' funds and financial instruments**

The licence holder must be familiar with the rules set forth in the Securities Market Act and Commission Delegated Regulation (EU) 2017/565 regarding protection of clients' financial instruments and funds, as well as the safekeeping of a client's financial instruments.

### **Deposit insurance and investor compensation**

The licence holder must be familiar with which accounts are covered by the deposit insurance scheme; when the insurance scheme becomes applicable; what compensation a client can obtain; and which party administers the scheme. In addition, the licence holder must be familiar with what is covered, and who is covered, by the investor compensation scheme; when it becomes applicable; what compensation a client can obtain; who administers the investor compensation scheme; and what right the clients enjoy to exclude their assets from the bankruptcy estate.

### **Duty of confidentiality**

The licence holder must be able to apply the duty of confidentiality (secrecy) rules applicable to employees and service providers in financial undertakings, and must be able to apply the confidentiality rules in specific situations.

## Complaints management and notices of complaint

The licence holder must understand how complaints must be handled at financial undertakings. The licence holder must be familiar with the various roles of the Swedish Consumers' Banking and Finance Bureau, the Swedish Consumers' Insurance Bureau, the National Board for Consumer Complaints and courts of general jurisdiction regarding handling of complaints and information about practice.

Checkpoint	Weight	Size	Cognitive level			
Key investor information documents	2	Large	R	C		
Product monitoring	2	Small		C		
Fundamental rules regarding investment advisory services	2	Large		C		
Fundamental rules regarding insurance distribution	2	Large		C		
Protection and safekeeping of clients' funds and financial instruments	1	Small	R			
Deposit insurance scheme and investor compensation scheme	1	Small	R			
Duty of confidentiality	2	Small				A
Complaints management and notices of complaint	2	Small	R			

## Information and reporting requirements

### Flagging (threshold notification) rules

The licence holder must understand the following elements of the applicable threshold notification rules in Sweden: which persons (including closely related parties) are covered by the statutory threshold notification rules; the applicable threshold levels; the parties to whom reporting must take place and the reporting deadlines; as well as the main rules as to which instruments are subject to the notification obligation rules.

With respect to cash-settled instruments, the licence holder must be generally familiar with the main features on which delta adjustment is based and how the delta value is calculated. The licence holder must also be familiar with the fact that the rules apply only to long positions; what is meant by a passive threshold notification obligation; and the obligation of listed companies to publicly disclose corporate events which result in a change in the number of shares in the company; and that the Swedish Financial Supervisory Authority may impose a special fine on a party which violates the threshold notification rules. The licence holder must also be familiar with the fact that certain countries within the EEA may have adopted different rules.

### Transaction reporting

The licence holder must be familiar with the fact that transactions in financial instruments must be reported to the Swedish Financial Supervisory Authority or other regulatory authorities within the EEA, and must be familiar with the requirements governing transaction reporting.



### Short selling and reporting of short selling transactions

The licence holder must understand what constitutes short selling and how short selling is carried out in practice. The licence holder must know what is meant by a short net position; which financial instruments must be included in the calculation of a short net position as regards equities or government securities as well as credit derivatives thereon; what is required in order for short selling in equities traded on a trading platform within the EU to be permissible; and what is meant by liquid shares. The licence holder must also know when a short net position in equities and government securities, and credit derivatives thereon, must be reported to the Swedish Financial Supervisory Authority or must be made public; the applicable deadline for notification/public disclosure; and the fact that the Swedish Financial Supervisory Authority is entitled to impose a special fine on a party which violates the short selling rules.

### Reporting of derivative trades and transactions for securities financing

The licence holder must know that derivative positions and transactions for securities financing must be reported to so-called Trade Repositories. The licence holder must be generally familiar with the applicable requirements regarding content and reporting date and with the more important Trade Repositories.

### Reporting of minimum requirements

The licence holder must be familiar with the fact that regular reporting to the Swedish Financial Supervisory Authority must take place regarding capital adequacy, liquidity, leverage ratio and large exposures. The licence holder must be generally familiar with which information must be reported.

Checkpoint	Weight	Size	Cognitive level		
Flagging (threshold notification) rules	2	Large	R	C	
Transaction reporting	2	Small	R		
Short selling and reporting of short selling transactions	1	Large	R	C	
Position reporting of derivatives	2	Small	R		
Reporting of minimum requirements	2	Small	R		

## General Data Protection Regulation

### The General Data Protection Regulation (GDPR)

The licence holder must be familiar with the General Data Protection Regulation and its purpose and be familiar with the lawful grounds for processing of personal data, what is meant by sensitive personal data, and the rights of the data subject.

Checkpoint	Weight	Size	Cognitive level		
The General Data Protection Regulation, GDPR	2	Small	R		