

COUNTRY REPORT SWEDEN 2008

1. Economic and financial background

Table 1: Key Economic Indicators		
	2006	2007
Population (million)	9.1	9.2
GDP (USD billion)	422	475
Real GDP growth (%)	4.1	2.7
Inflation rate (%)	1.4	2.2
Unemployment rate (%)	7.1	6.2
Stock market capitalisation (USD billion)	622	612
Stock market capitalisation (% of GDP)	147	129
Bond market capitalisation (USD billion)	269	307
Bond market capitalisation (% of GDP)	64	65
Household gross savings ratio (%)	7.1	8.3
Household financial wealth (USD billion)	724	783
Average per capita financial wealth (USD)	79,413	85,217

The Swedish economy grew by 2.7 percent during 2007, about the same level as the European average but below world average. GDP growth for 2008 is predicted to go down to 1.7 percent.

The inflation rate has risen during 2007 and amounted to 2.2 percent. For each of the last nine months the 12 months rolling inflation has been above 3 percent and in June 2008 the inflation was as high as 4.2 percent.

2. Data on funds under management and portfolios

Table 2: Total assets by fund type, US\$ Billion			
	2007-06-30	2008-06-30	As a % of total
Equity funds	154,0	135,5	55
Balanced funds	35,4	33,4	14
Bond funds	17,5	21,0	9
Money Market funds	31,1	37,8	15
Fund-of-funds	9,3	9,1	4
Other funds	7,0	7,8	3
TOTAL	254,2	244,7	100

For the first time since 2002 total assets decreased. The decrease amounted to US\$ 10 billion, or 3.7 percent, during the period. The net sales during the same period amounted to -1.6 billion, hence the decrease is mainly explained by negative developments on the stock markets.

Notable is that equity funds share of total assets was 55 percent at the end of the period, compared to 61 percent the year before. This decrease is partly explained by the stock market decline but also by the fact that equity funds suffered the most from net outflows.

3. Key trends in flows and assets under management

Table 3: Total net sales by fund type, US\$ Million		
	July 2006 - June 2007	July 2007 - June 2008
Equity funds	4 240	-3 795
Balanced funds	1 528	278
Bond funds	-1 048	625
Money Market funds	-1 402	1 003
Fund-of-funds	1 366	134
Other funds	1 696	153
TOTAL	6 380	-1 602

Net outflows of equity funds dominated during the period. The turbulence on the stock market that started in the summer of 2007 continued in 2008 and affected the net sales. After nearly five consecutive years of positive development some investors have sold equity funds in order to realize profits. In 2007 households' investments in savings accounts reached record levels.

4. Regulatory and self regulatory developments (including tax)

4.1 Capital Requirements Directive:

The CRD has been implemented on 1 February 2007. It is only applicable to fund managers with a license to manage individual portfolios.

The possibility given to investment firms to calculate their minimum capital requirements using the so-called Expenditure Based Requirement is implemented but so far it is too early to say how it will work in practice.

4.2 MiFID implementation:

MiFID Level 1 legislation is implemented as from November 1, 2007.

MiFID Level 2 legislation has also been implemented, in the form of guidelines from the Swedish Financial Supervisory Authority.

No actions have been taken by our national regulator at Level 3.

4.3 Eligible assets for UCITS:

The Commission Directive implementing the UCITS Directive regarding the clarification of certain definitions of eligible assets (2007/16/EC) has come into force on the 23 of July. Most of the directive is implemented through regulations by the Swedish Financial Supervisory Authority. The main impact on the fund industry is the possibility to use other instruments than derivatives for the purpose of efficient portfolio management. It will also be allowed to generate additional capital or income for the UCITS with derivatives used for the purpose of efficient portfolio management. It is too soon to assess the full impact of the directive on the fund industry but so far the industry is pleased with the amendments.

In connection with the implementation of the eligible assets directive the regulator has taken the opportunity to allow for risks of the underlying financial instrument of a derivative to be appropriately represented by another financial instrument as long as it is highly liquid.

4.4 Pensions:

Due to the ruling of the Court of Justice of the European Communities against Denmark (C-150/04) the Swedish government previously decided to change the law in Sweden so that transfers from an old pension policy to a new one was no longer possible. These rules were changed as of 1 May 2008. This allows for pension savings throughout Europe since the premiums paid are deductible irrespective of where in the EU the insurance has been issued. A prerequisite is however, that the insurance provider sends tax statements to the Swedish Tax authorities.

4.5 Tax rules:

The Swedish Government finally abandoned the wealth tax as of 1 January 2007. The wealth tax has been considered very harmful to the Swedish financial sector and to enterprise. The Swedish Tax Agency has estimated that assets equivalent to at least SEK 500 billion may be invested outside Sweden's borders.

In order to finance the abolition of wealth tax the deduction allowance for private pension savings was limited to savings of SEK 12 000 per year. This new regulation came into force on 1 January 2008.

No new tax rules having a direct or indirect impact on fund management have been introduced in 2007-2008. This includes changes/adaptations of guidelines regarding the Taxation of Savings Directive.

We do not believe that the implementation of the Savings Directive have impacted the sales of funds and led Swedish investors to buy other products (e.g. unit-linked life insurance and/or structured bonds). Fund savers have however preferred to invest in funds through unit-linked saving due to other tax reasons.

5. Corporate governance - major developments

Since 2005 there is a Swedish Code of Conduct for Fund Management Companies, and also special Guidelines for Investment Fund Managers as shareholders. During the last years there has been more activity in general from Fund Managers in the area of corporate governance.

6. Fund governance

Due to MiFID implementation, the Associations' Code of Conduct has been revised regarding agreements between management companies and distributors on financial advice, information and marketing.

7. Product developments

8. Other major issues and developments

Main issues/activities

The association is striving to lower or abolish the tax on the fund itself (for Sweden registered funds). The tax is believed to drive many fund managers to register funds abroad. Another important issue on the agenda is to try to get a referral of tax payment in situations where one fund holding is switched to another.

Educational seminars & training courses

During the past year the Association has arranged seminars on fund marketing rules and regarding amended regulations by the Swedish Financial Supervisory Authority.

Surveys

The Association has commissioned a survey on fund saving and fund savers. This is a semi-annual survey where we seek information on how investments in funds are made and the opinion of the investors. This year's survey was published in May. The results from the survey show that 98 percent of the Swedish population own funds, 74 percent if the Premium pension is excluded. This indicates that the interest for fund saving, despite the debate in media, is on almost the same high level as in 2006 when a corresponding survey was made. At that time 97 percent owned funds and the figure excluding the Premium pension was 77 percent.

During the year a study focusing on investor preferences of men and women was also published.

Publications

In April the Association published a study over fund saving during the previous 10 years (1998-2007). It showed, for example, that investments in equity funds in average have generated a yearly return of 8.2 percent, which was well above the average savings account, 1.6 percent.

The Association publishes, together with the Swedish Bankers' Association, Swedish Securities Dealer's Association and the Swedish Insurance Federation, a quarterly publication on the relevant legislative progress made on the EU level. The publication is published publicly on each Association's website.

The Association has also published a new version of "Fondspara", an information booklet aimed for the unit-holders. The interest in the publication has increased the last couple of years and is being used by financial advisors and in customer service departments. The booklet is complemented with a website www.fondspara.se administered by the Association but kept separate from the Associations' other website.