



Summary and recommendations

The Swedish state sold its shareholdings in Nordea Bank AB over the course of three separate sell-offs in 2011 and 2013. The total sales revenue amounted to approximately 60 billion SEK. The divestments were decided upon by the Swedish Government following authorisation by the Riksdag. In connection with the authorisation, the Riksdag declared that the sales should be conducted in a commercial manner, that is to say that no other considerations than high sales revenue should be pursued. The practical work of planning and implementing the sales was handled by the Government Offices of Sweden, with the assistance of hired advisers.

The Swedish National Audit Office has audited the state's sale of shares in Nordea, with a focus on the preparation and planning work, the implementation of the sales, and the documentation of the deals, including the Government's reporting to the Riksdag. The main motives of the audit were twofold. The sales were significant to state finances, and experience gained from the sales work may be applied in advance of any divestitures of other state holdings in the future.

The purpose of the audit was to examine whether the state's sales of the Nordea shares in 2011–2013 were implemented in a commercial manner (based on the requirements of the

Riksdag (the Swedish Parliament) and of the Budget Act that any sale of state property be conducted in a commercial manner). The aim has not been to audit sales performance in and of itself.

The audit has focused on the following issues:

1. Were the sales planned and carried out in a commercial manner, and were they otherwise in accordance with parliamentary requirements and the Government's basis for the sales?
2. Have the Government Offices of Sweden and the Government documented and reported the sales to the Riksdag so that the experiences gained can be applied in advance of any future changes in state company holdings?

The results of the audit

The overall conclusion of the Swedish National Audit Office is that in numerous respects, the state's sales of shares in Nordea were planned and conducted in a commercial manner. The sales were planned and implemented within the pre-determined deadlines, and in a manner which took into account the prevailing market environment. Certain critical procedures were progressively improved over the course of the three sell-offs. Among other things, the Government developed and applied a strategy for marketing communication and for the prevention of information leakage risks. The Swedish National Audit Office has also received documentation from the divestment of SAS shares in 2016. The dossier indicates that the Government Offices of Sweden continued to develop their sales work following the audited period.

The audit also reveals deficiencies in some aspects of the Government Offices of Sweden's sales work, as well as in the Government's reporting to the Riksdag. A summary of these findings is presented below.

No continuous support from independent advisers

The large-scale sale of shares is an unusual task for the state. Thus, the Government Offices of Sweden lack continuously proven procedures for managing the large number of possible courses of action and decision-making situations faced by the seller of substantial shareholdings. Nevertheless, as a seller the state must be able to actively respond to advisers, transaction banks, and the market in order to be capable of making informed decisions and meeting the parliamentary requirements regarding commercialism. The Swedish National Audit Office notes that the Government Offices of Sweden have not engaged independent financial advisers in the course of the sales work,

aside from a certain amount of contact with hired academic experts in connection with the first transaction. The primary financial advisors who were hired were also assigned a separate role as a transaction bank in their respective sales, and may therefore have had interests in the business dealings that do not comply with the state's sales objectives.

No documented position on Nordea's value based on the company's state of affairs

In successful commercial sales work, before the sale begins the seller should take a position on whether the share price reflects the company's value, based on the seller's own assessment of company-specific facts. Although the Nordea share has been subjected to ample scrutiny, the Swedish National Audit Office can establish that the market's valuations, appraisals and buy-and-sell recommendations varied significantly ahead of the implementation of the respective sales. In their sales work, the Government Offices of Sweden did not document their assessments of the value of the Nordea holdings based on company-specific facts. There is no documentation of any comparisons with the assessments of market analysts.

Unclear reasons for the chosen method of sale

There are many established methods for selling a large block of shares. Several methods can be combined and conducted in different ways. The sales methods have different advantages and disadvantages and place different demands on sellers and transaction banks. In advance of the Government's decision regarding the choice of the method of sale, a number of guiding criteria were identified. The Government Offices of Sweden compared the methods with the assistance of the financial adviser who was hired. An academic background report that describes and compares the sales methods was also commissioned.

The method of sale on which the Government decided is known as an accelerated book build procedure. The Swedish National Audit Office finds that the Government Offices of Sweden's documentation fails to clearly elucidate why this approach was recommended (based on the selected criteria and other data). It is also unclear which of the determining criteria were considered most important by the Government when deciding on the method of sale. The academic background report was submitted after the first partial sale had been implemented, by which time significant decisions regarding the settlement as a whole had already been made. All in all, the Swedish National Audit Office finds that the reasons for the Government's decision to use the chosen method are

unclear and that full advantage was not taken of the information provided in the background reports.

No target for the size of the discount

In large share sales, the seller must usually offer a discount, i.e., a lower price per share than the current market value, in order to ensure that demand for the shares will be sufficient. The background material from the adviser included detailed information on the discounts achieved for previous sales of a similar nature. Despite the wealth of data and evidence about the factors which influence the size of the discount, the sales work lacked an established target for the size of the discount and the implementation of the sales has only partially been adapted to the objective of achieving a low discount.

Deficiencies in documentation and reporting to the Riksdag

The Government has not followed up on or assessed the individual sales, nor the sale of the Nordea shares as a whole. One consequence of this is that it is more difficult to glean and apply experience and knowledge from the sales work to any future sales of state-owned companies. The Government Offices of Sweden's documentation of the sales work is scanty. In general, it is difficult to trace the decisions and considerations made during the course of the work. The documentation from the sales contains few statements from the Government Offices of Sweden. An account of the discount is not provided by the Government in the reporting cases designated by the Riksdag, despite the fact that this was the largest expense related to the sales and the most important performance indicator.

Recommendations

The Swedish National Audit Office believes that it is important to capitalise on the lessons learned from this and other major sales of state-owned company, in preparation for any future alterations in the state-owned company shareholdings. The audit pertained to the sale on the open market of state-owned shares in a listed company. The lessons that can be drawn from the audit therefore relate mainly to possible future sales in the two remaining listed state-owned companies, i.e., Telia Company AB and SAS AB.

In the event of future sales, the Swedish National Audit Office recommends that the Government:

- develop its reporting to the Riksdag on how sales have been prepared and implemented. An account of key performance indicators (such as discount relative to the share price) should be provided.

In the event of future sales, the Swedish National Audit Office recommends that the Government Offices of Sweden:

- enlist the assistance of independent experts for supplementary assessment of the principal adviser's dossier
- set measurable targets for the sales, for example, discount relative to the share price
- document the planning and implementation of any future sales of companies, so that progress in the sales work can be tracked, with clear positions and their motives.