



Financial Market Report

1 • 2009

- Finnish banks' profitability declined but capital adequacy is still good
- Pension insurers' overall financial results tumble
- First central counterparty for Nordic securities markets
- De Larosière Group recommends substantial changes in EU financial supervision and regulation



Bank of Finland

Financial Markets and Statistics

15.4.2009

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1 Financial intermediation

1.1 Housing and property markets

Karlo Kauko

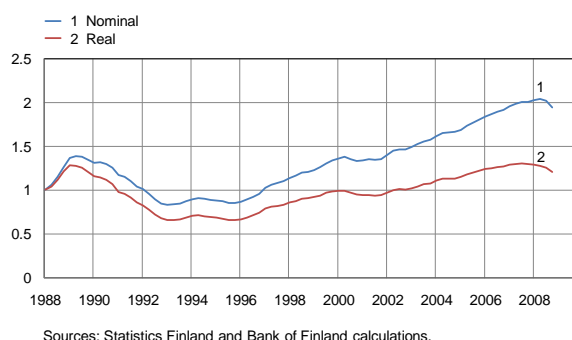
Housing and property prices started to decline in 2008. Growth in the stock of housing loans has slowed. Office property prices will also probably decline. Real estate investment trusts' share prices fell in the second half of 2008.

Finnish housing prices started to fall in 2008.

According to preliminary data from Statistics Finland, nominal prices of old flats and row houses peaked in the second quarter of 2008, after which they fell by nearly 5% by the fourth quarter of 2008.

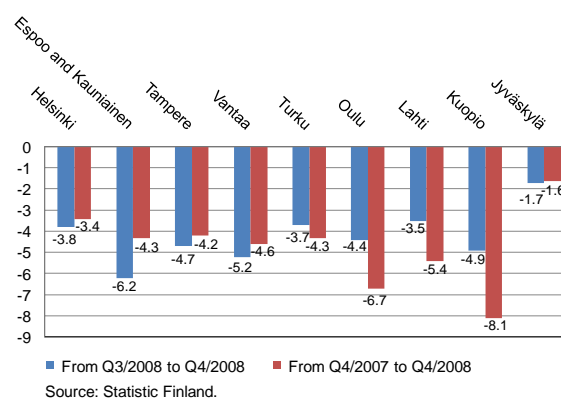
The decline in prices has so far been modest, compared to the persistent price rises of previous years. If nominal housing prices are converted to real prices, using Statistics Finland's cost-of-living index, housing prices are approximately as high as in the housing market upswing of the late 1980s.

Chart 1. Nominal and real housing prices since 1988



Developments in housing prices differ significantly between cities. In Greater Helsinki, prices have declined slightly more than in other parts of Finland on average. Preliminary data released by Statistics Finland on 30 January 2009 show that in the fourth quarter of 2008, housing prices in Greater Helsinki were 4.3% lower than in the third quarter, and 3.6% lower than in the year-earlier period. In Espoo and Vantaa, the price decline was sharper than in Helsinki.

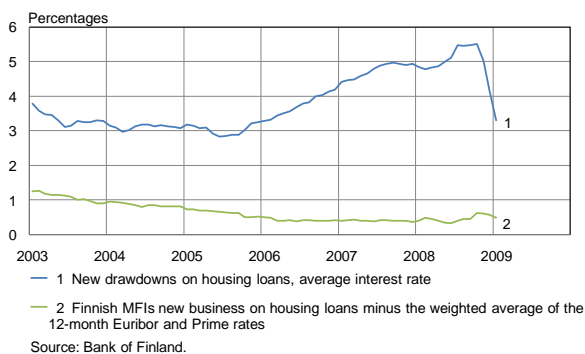
Chart 2. Changes in housing prices in selected cities



Housing prices and the stock of housing loans have traditionally been highly correlated: rapid growth in the stock of housing loans has been accompanied by sharp rises in prices, and a decrease or slow growth in the stock of housing loans has been accompanied by declining prices. This trend has continued. According to Bank of Finland statistics, growth in the stock of housing loans has slowed significantly. In January 2009, the stock of housing loans granted to households was ca 8% higher than a year earlier. In early 2007, the stock of housing loans grew by more than 12%. Due to the longer maturity of the stock of loans, the growth has been faster than could be assumed based on the

amount of new loans granted. The amount of repayments on old loans is less than in previous years. The interest rate margin on new business on housing loans has narrowed substantially in recent years (Chart 3). In autumn 2008 the margin began to widen again but only for a short time.

Chart 3. New business on housing loans; average interest rate and margin



Developments in rents are mixed. According to a recent survey by the Finnish Association of Building Owners and Construction Clients, the rents on small dwellings are expected to rise further, whereas in many cities, the supply of large rented dwellings exceeds demand.

In Greater Helsinki, the supply of commercial property has increased as new projects are completed. Commercial property includes office, retail, warehouse and industrial property. In 2008 significantly more new office property was completed than in previous years on average. In the other large cities, the utilisation rate of commercial property has not fallen as much. In Tampere, the vacancy rate of premises has remained stable; in Turku the vacancy rate of office property has even decreased. In Oulu, there is still a lack of retail property in the city centre.¹

Construction has receded.² The number of building starts decreased in the last quarter of 2008 by 20% on

the year-earlier period. Only the number of started public service buildings increased. The number of started retail and office buildings declined the most, by ca 30% on the previous year. According to a review by the Institute for Real Estate Economics³, at least in Greater Helsinki, office construction activity continues to decline sharply in 2009.

The supplementary budget presented by the Government to Parliament includes measures that will stimulate construction. In 2009 and 2010, loans granted for the construction of rental flats will be supported with an interest subsidy and a deficiency guarantee. In addition, subsidies will be granted for redevelopment projects on residential buildings initiated between the start of February and end of December 2009.⁴

Shares of real estate investment companies listed on the Helsinki Stock Exchange declined in the fourth quarter of 2008 more than the All-Share Index. These shares continued to decline in early 2009, albeit at a slower rate than at the end of 2008.

¹ Market Review, spring 2009, Catella Property Group.

² Statistics Finland, press release, 27 February 2009.

³ Finnish Property Monthly, January 2009.

⁴ Ministry of the Environment, press release, 3 February 2009.

2 Banks and insurance corporations

2.1 Weaker results in international banking

Mervi Toivanen

Banks' weaker performance in 2008 followed a similar trend in the United States, Europe and the Nordic countries. Impairment losses grew and fee income declined, which was reflected in lower operating profits. By contrast, net interest income made a positive contribution to the financial results.

In 2008 the results for international banks generally deteriorated. For almost all banks, the weaker performance was due a decline in income from trading and investment activities and higher impairment losses. The decrease in profits was however slowed by the reasonable profitability of core business. The growing volume of lending stock boosted interest income and net interest income.

In the United States, year 2008 was record weak. According to the FDIC⁵, the banking sector's combined net income was the lowest since 1990. Nearly every fourth bank recorded a loss and ca two-thirds of the banks reported a decline in income compared to 2007. Moreover, 25 banks went bankrupt, the highest number in the past 15 years.

⁵ Federal Deposit Insurance Corporation supervises the operations of 8,300 commercial and savings banks in the USA and manages the closure of problem banks. See the FDIC Quarterly Banking Profile, fourth quarter 2008.

The weaker results for US banks were due to impairment losses, in particular, which doubled or even tripled (Table 1). Banks recorded losses particularly on real estate-backed securities. They also incurred loan losses on mortgage lending. In addition, banks had to write down the goodwill on their balance sheets. The decrease in results was also driven by the decline in fee income from securitisation.

In Europe, the situation in the banking sector was mixed. The majority of banks posted weaker results. Some banks were however able to improve their results (Table 1). Impairment losses rose also in Europe. In contrast to US banks, European banks' impairment losses were mainly due to write-downs on their securities portfolios. Direct losses on mortgage lending were recorded mainly in the United Kingdom, Ireland and Denmark. Banks also prepared for the economic downturn by increasing their loan loss provisions. The decline in operating profit was also affected by lower income from trading and investment banking activities.

Nordic banks' results were eroded by impairment losses and the decline in income (Chart 4). Many banks recorded loan losses from operations in the Baltic countries and Denmark. Some of the losses were due to mortgage lending in Ireland and Lehman Brothers' filing for Chapter 11. Loan losses are nevertheless still small relative to the lending stock, particularly in comparison with international banking groups.

Table 1. Large European and US financial groups' results in 2008, EUR m

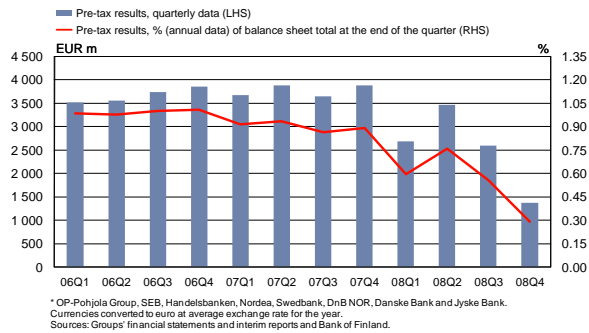
	Pre-tax results		Net interest income		Other income		Expenses		Impairment losses	
	1-12/2008	Change, %	1-12/2008	Change, %	1-12/2008	Change, %	1-12/2008	Change, %	1-12/2008	Change, %
Bank of America	3 360	-79	34 416	32	20 806	-15	31 509	11	20 353	220
Citigroup	-32 711	..	40 737	18	-682	..	46 428	2	26 338	94
JPMorgan Chase	2 104	-88	29 423	47	21 603	-37	33 005	4	15 917	206
Wells Fargo	2 720	-69	19 077	20	12 961	-7	17 193	-1	12 124	224
FDIC banks*	17 316	-84	271 442	1	-121 905	..	..	..	132 219	152
AIB	1 029	-59	3 867	13	1 368	-20	2 357	-7	1 849	1 768
Barclays	7 632	-21	14 403	3	14 626	-25	18 041	-6	6 805	67
BBVA	7 490	-12	11 891	22	7 424	-4	8 798	12	3 026	56
BNP Paribas	3 924	-65	13 498	39	14 578	-33	18 400	-2	5 752	233
Credit Agricole	1 172	-76	15 956	-5	..	..	12 635	-1	3 165	67
Credit Suisse	-9 388	..	5 377	5	461	-98	14 714	-5	512	251
Commerzbank	-403	-116	4 729	18	1 704	-61	4 956	-8	1 855	287
Deutsche Bank	-5 741	..	12 453	41	1 037	-95	18 155	-15	1 076	76
Dexia	-3 877	-234	3 556	-48	..	..	..	..	3 314	1 849
HSBC	6 370	-64	29 132	6	32 625	-13	38 319	10	17 068	36
ING	-786	..	9 001	-18	54 632	-16	65 078	3	1 383	998
Royal Bank of Scotland	-10 206	-178	20 017	11	13 734	-56	27 544	-11	16 413	233
Santander	11 370	4	18 625	22	12 313	6	13 431	8	6 138	73
Societe Generale	4 008	113	21 866	0	..	..	15 528	-19	2 655	193
UBS	-16 312	..	3 908	20	-1 046	-106	17 411	-19	1 887	1 203

* Combined data on banks supervised by US supervisor FDIC.

.. = Data not available or change not meaningful.

Source: Banks' interim reports and the FDIC's report "Quarterly Banking Profile, fourth quarter 2008".

Chart 4. Large Nordic financial groups*



For many banking groups, income was dampened by the weak results of insurance operations, which in turn, was due to a fall in prices of equities and bonds in their investment portfolios. Some banks recorded one-off capital gains from selling their shares in NCSD, the Nordic central securities depository.

2.2 Finnish banks' profitability declined but capital adequacy remained good

Hanna Putkuri

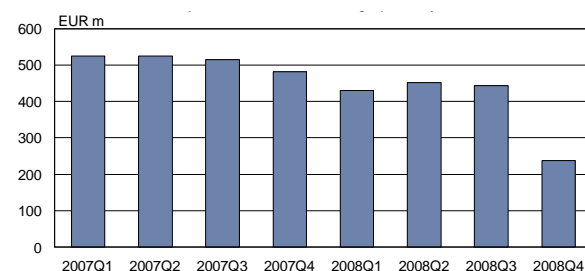
Finnish banks' profitability declined in 2008 from the record level in 2007. Results nevertheless remained reasonably good, considering developments in the operating environment. Capital adequacy remained strong by international standards.

Aggregate pre-tax profits of Finnish banking operations declined in 2008 by nearly 25% on the previous year (Table 2). The fourth quarter was clearly the weakest in 2008 (Chart 5). The decline in results was mainly due to the shrinking of net fee income and income from trading and investment activities, as well as higher loan losses. Banks' aggregate income fell, despite continued robust growth in net interest income. At the same time, expenses increased substantially. As a result, the expenses-to-income ratio (cost-effectiveness indicator for banking) increased significantly for the majority of banks.

Financial groups offering insurance services and banks specialised in investment services were most adversely affected by the global financial crisis. Net income from life insurance operations was negative, due to large losses in investment activities.

Net impairment losses on loans and other receivables grew towards the end of the year. Relative to the lending stock, the amount of loan losses (ca EUR 250 million) remained fairly small, ie less than 0.15%. The majority of loan losses were due to lending to domestic non-financial corporations.

Chart 5. Pre-tax profits in Finnish banking, quarterly data*



* Nordea's banking operations in Finland, Danske Bank's banking operations in Finland, OP-Pohjola Group's banking and investment services, Aktia's retail banking, savings banks, local cooperative banks, Bank of Åland, Evli Bank, and eQ.
Sources: Banks' interim reports and financial statements and Bank of Finland.

Finnish banking groups' nonperforming assets (repayment more than 90 days in arrears) increased significantly over the year. At the end of 2008, nonperforming assets totalled ca EUR 762 million (EUR 430 million at the end of 2007). They nevertheless accounted for only ca 0.4% of the lending stock. Nearly 60% of the nonperforming asset total was due to loans to domestic households and slightly over a fifth was due to domestic corporate loans.⁶

Finnish banks' capital adequacy was high by international standards (over 12% at the end of 2008). According to the Financial Supervisory Authority (FIN-FSA, former Financial Supervision Authority), banks' notional loss buffers have however shrunk, which is due to the growth of banks' balance sheets, and partly also to a decrease in own funds.

According to the FIN-FSA, Finnish banks have been able to acquire short-term market funding (under 12 months), whereas long-term funding has become scarcer. This has shortened the average maturity of market funding.⁷

⁶http://www.rahoitustarkastus.fi/Eng/Statistics/Credit_market/etusivu.htm

⁷ Financial Supervision Authority's Annual Report 2008.

Table 2. Key items from income statements of banks operating in Finland, 2008 and changes on the previous year

	Net interest income		Other income, net		Total expenses		Loan losses, net		Profit before tax	
	EUR m	Change	EUR m	Change	EUR m	Change	EUR m	Change	EUR m	Change
Nordea Group	5 093	19 %	3 107	-14 %	4 338	7 %	466	..	3 396	-13 %
Nordic Banking	4 206	15 %	2 083	-9 %	3 107	3 %	402	..	2 780	-8 %
Banking in Finland	1 146	8 %	542	-14 %	772	3 %	65	..	851	-15 %
*Nordea Bank Finland Group	1 812	18 %	1 010	-6 %	967	5 %	133	..	1 722	1 %
Danske Bank Group	3 622	11 %	2 151	-22 %	3 853	15 %	1 621	..	299	-88 %
Banking	3 611	11 %	1 440	-7 %	3 359	19 %	1 144	..	547	-71 %
Banking in Finland	451	19 %	181	-7 %	529	17 %	69	..	34	-60 %
*Sampo Bank Group	481	23 %	261	-72 %	508	3 %	52	..	182	-77 %
OP-Pohjola Group	1 189	13 %	634	-47 %	1 392	13 %	58	..	372	-63 %
Banking and investment services	1 121	9 %	489	-20 %	1 029	14 %	48	..	532	-26 %
*Pohjola Bank	174	51 %	442	-28 %	471	7 %	28	..	119	-59 %
Savings banks	163.8	3 %	36.5	-36 %	131.9	10 %	0.9	..	67.5	-29 %
Aktia Group	101.0	14 %	102.1	-46 %	195.9	-8 %	0.7	..	6.6	-90 %
Retail banking	62.7	1 %	34.4	4 %	82.8	15 %	0.7	..	13.6	-41 %
Local cooperative banks	111.9	3 %	19.9	-28 %	75.5	3 %	3.1	..	52.9	-10 %
Bank of Åland plc (Group)	42.1	7 %	32.3	-11 %	52.1	13 %	2.3	..	20.0	-30 %
Evli Bank Group	2.8	833 %	53.4	-33 %	56.9	-11 %	0.0	..	-0.7	..
eQ Group	5.2	-30 %	22.0	-48 %	33.2	-7 %	0.0	..	-6.0	..
1. Finnish banking	3 106	9 %	1 411	-18 %	2 762	10 %	189	..	1 564	-24 %
2. Finnish financial groups	3 909	16 %	2 171	-41 %	3 413	7 %	250	..	2 416	-36 %
3. Financial groups operating in Finland	10 331	15 %	6 158	-23 %	10 128	10 %	2 152	..	4 207	-46 %

Other income includes eg net fee income, capital gains/losses from sale of tangible and intangible assets, capital gains from sales of wound-up operations, and shares in profit/losses of associated companies. Expenses include depreciations and write-downs on tangible and intangible assets, refunds to shareholders and profit distributions to staff.

.. = change not meaningful.

1. Savings banks, Aktia Group's retail banking, local cooperative banks, Bank of Åland Group, Evli Bank Group, eQ Group, OP-Pohjola Group's banking and investment services, Nordea Group's banking operations in Finland, and Danske Bank Group's banking operations in Finland.
2. Savings banks, Aktia Group, local cooperative banks, Bank of Åland Group, Evli Bank Group, eQ Group, OP-Pohjola Group, Nordea Bank Finland Group, and Sampo Bank Group.
3. Nordea Group, Danske Bank Group and the Finnish banking groups listed in this (excl. Nordea Bank Finland and Sampo Bank).

Sources: Banks' financial statements and Bank of Finland.

2.3 Employee pension insurers' total results plummet

Pertti Pylkkönen

As a result of the financial market crisis and exceptionally sharp fall in equity prices, employee pension insurers' return on investments and total results plummeted in 2008.

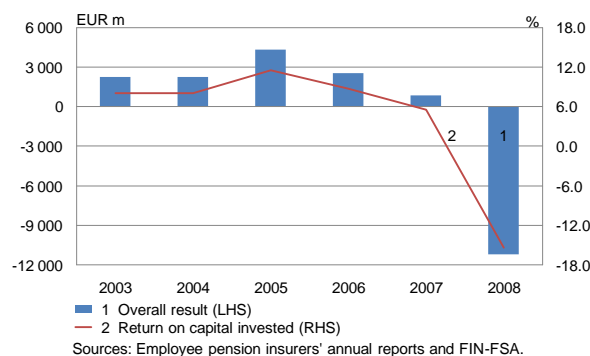
Year 2008 was mixed for employee pension insurers. They recorded considerable losses on investment activities while premium income (over EUR 10 billion) was up by 11%. Payrolls continued to grow robustly in 2008 and employment remained high until the autumn. Changes in the market shares of employee pension insurers, based on annual premium income, were larger than usual in 2008. Of the large insurance corporations, Ilmarinen Mutual Pension Insurance Company expanded its market share via shifts in the insurance portfolio. Of the smaller insurance corporations, Etera lost market share in 2008.

Employee pension insurers' earnings on technical account remained good. The insurance corporations however recorded exceptionally large losses on investment activities, as a result of which their total results turned negative.

Employee pension insurers have posted good overall results for several years. In 2007 they however started to weaken, and with the slump in equity prices 2008 was the worst year in the history of the employee pension scheme. In addition to equity investments some other investments, such as hedge fund and capital investments, generated low returns.

Employee pension insurers' total results were over EUR 11 billion negative in 2008, compared to profits of nearly EUR 0.9 billion in 2007.

Chart 6. Employee pension insurers' total results and net income from investments



The financial crisis was reflected eg in large changes in the composition of insurance corporations' investment portfolios in 2008. Many employee pension insurers reduced the weight of the equity portfolio considerably over the year by transferring assets into fixed-income and real estate investments.

The proportion of equities in the total investment portfolio of employee pension insurers decreased over the year, from 47% to slightly less than 30%. The market value of equity investments and investments in equity funds dropped in 2008, from EUR 35 billion to EUR 20 billion. Equity sales accounted for ca one-fourth of the reduction in market value of the equity portfolio.

The amount of bond investments increased by slightly less than EUR 1 billion while their share in the total investment portfolio grew considerably, to 41% at year-end. The value of bond investments totalled EUR 27 billion at the end of 2008. Although employee pension insurers last year purchased more bonds issued by Finnish non-financial corporations, their investments in these bonds remain minor. At the end of 2008, employee pension insurers' investments in bonds issued by domestic non-financial corporations

totalled EUR 0.6 billion. Domestic commercial paper accounted for EUR 0.4 billion of the investment portfolio.

As a result of higher market interest rates and financing difficulties, non-financial corporations started to increasingly withdraw premium loans in the last quarter of 2008. The amount of premium loans increased within a couple of months from slightly over EUR 0.5 billion to EUR 3 billion.

Assets invested in hedge funds decreased slightly, and at the end of 2008, employee pension insurers' hedge fund investments totalled EUR 4.5 billion. Capital investments remained at ca EUR 2 billion, of which slightly over one-tenth was in Finland.

The real estate portfolio of employee pension insurers had remained stable for a number of years. The value of the portfolio increased in 2008 by a couple of million euro, to slightly over EUR 9 billion. The proportion of real estate investments in the total investment portfolio increased last year to 14%.

In 2008, two legislative reforms affecting employee pension insurers entered into force. The new Insurance Companies Act took effect at the start of October, and at the end of December, provisions on employee pension insurers' investment activities and solvency were amended. Solvency requirements were eased for the years 2008–2010, one aim being to avoid forced sales of shares.

3 Securities markets

3.1 Is the mutual fund market recovering?

Pertti Pylkkönen

The 18-month outflow of capital from Finnish mutual funds stopped in February when net investments in funds turned positive. The decline in equity prices continued to erode the market value of assets.

The Finnish mutual fund market started to decline in August 2007 when investors began withdrawing assets from mutual funds as a result of the financial market crisis. Finnish funds' net subscriptions were negative for 18 consecutive months, altogether in the amount of nearly EUR 15 billion. At the same time, the market value of mutual fund assets decreased by ca EUR 15 billion, due mainly to the equity market collapse.

In 2008 Finnish mutual funds' assets declined by ca EUR 25 billion. Balanced funds' assets fell by over 60% to just under EUR 4 billion at the end of 2008. Balanced funds have consisted mainly of equities. Negative net subscriptions accounted for only ca one-third of the decrease in assets. Equity fund assets declined in 2008 from slightly over EUR 17 billion to EUR 8 billion. Negative net subscriptions accounted for EUR 1.6 billion of the decline.

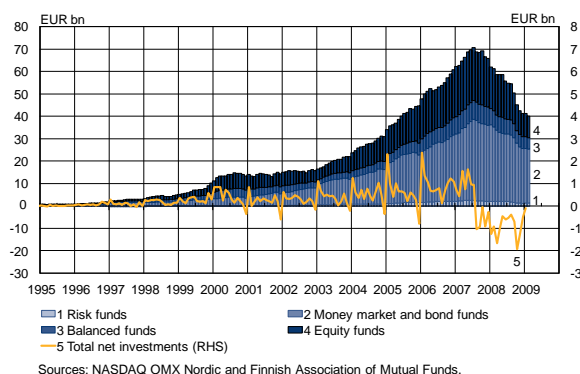
Short-term funds' assets decreased by slightly over EUR 6 billion as investors exited from these funds, especially households and non-financial corporations. In the autumn, households transferred some assets

from short-term funds to fixed-term deposit accounts, due to the rise in interest rates and the poor returns on some of the short-term funds. Also non-financial corporation's prepared for tighter financing conditions by transferring funds to deposit accounts. In the autumn, non-financial corporation's also used assets withdrawn from mutual funds to fund their working capital as the commercial paper market run into trouble.

February 2009 was the first month since July 2007 in which mutual funds' total net subscriptions were positive. Despite the decline in asset prices, investors returned cautiously to the mutual fund market. Among the competing investment instruments, the interest rates offered by banks on fixed-term deposits have fallen rapidly as a result of the fall in short-term market rates.

In February, the majority of assets were in bond funds. Their assets accounted for ca one-third of the total fund assets (EUR 40 billion). The amount of short-term funds' assets was slightly less. As a result of the collapse in equity prices, the share of equity funds in the mutual fund market has decreased considerably. Prior to the crisis, equity funds' assets accounted for one-third of total fund assets; they currently account for only slightly less than one-fourth of total assets.

Chart 7. Mutual funds registered in Finland by type



In Finland, the collapse of mutual fund assets was more drastic than in Europe on average. In 2008, Finnish mutual funds' assets declined by over 37%, whereas in Europe assets declined by ca one-fifth. In the other Nordic countries the assets of mutual funds in Norway and Sweden declined in 2008 at the same rate as in Finland. Denmark was an exception, as fund assets there declined by only ca one-fourth.

The flight of fund assets has changed the holdings of fund shares in the past year. The share of households in fund-share holdings decreased from one-fourth to slightly over one-fifth. The importance of mutual funds as an instrument for investing non-financial corporations' liquid assets also decreased over the year. At the end of 2008, foreign investors held 15% of Finnish funds' assets, after a gain of a couple of percentage points.

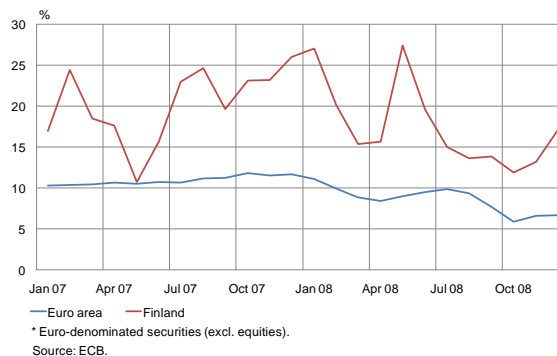
3.2 Bond markets still sluggish

Mervi Toivanen

The uncertainty caused by the financial crisis continues to hamper the acquisition of long-term funding and raise the price of funding. This has caused problems particularly for monetary financial institutions (MFIs).

Bond issuance is a key part of MFIs' funding and funding strategy. The uncertainty caused by the financial crisis has however made it more difficult for MFIs to acquire and renew particularly longer-term funding, due to investors' continuing risk aversion. Growth of the stock of securities issued by euro area MFIs accordingly slowed in 2008 (Chart8). In December 2008, the stock of securities issued by euro area MFIs totalled EUR 4,376 billion.

Chart8. Annual growth in the stock of securities issued by MFIs*



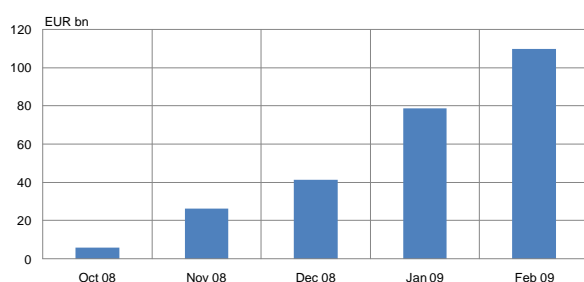
Net issuance by MFIs has also decreased and the maturities of securities have been shortened.

The financial crisis has not had a major direct impact on Finnish MFIs, so they have not encountered the same difficulties as many European banks in obtaining funding. The stock of securities issued in

Finland has thus grown at a faster pace than in the euro area on average.

To facilitate MFIs' funding, many governments have introduced government guarantees.⁸ The stock of government-guaranteed bonds has grown rapidly in the past six months; they nevertheless still account for only a minor proportion of the total stock of securities issued by MFIs (Chart 9). By the end of February 2009, the stock of government-guaranteed euro-denominated bonds issued by MFIs totalled EUR 113.5 billion; that of pound Sterling-denominated totalled GBP 24 billion, and that of US-dollar-denominated totalled 208.4 billion.

Chart 9. Stock of government-guaranteed euro-denominated bonds in Europe*



*The data include banks that issue government-guaranteed bonds in the following countries: Austria, Denmark, Belgium, France, Germany, Ireland, Netherlands, Portugal, Spain, Sweden, and the United Kingdom. Note: the chart only includes euro-denominated bonds issued in Europe.

Sources: Bloomberg and BNP Paribas.

⁸ To obtain a government guarantee on new bond issuances a MFI must pay a fee. The hope is that government-guaranteed bonds would be more attractive to investors in the current market situation than bonds without such a guarantee.

4 Infrastructure

4.1 Central counterparty – a new player in the securities trading infrastructure

Marko Myller

A new entity will be introduced into the value chain of Nordic securities trading – the central counterparty (CCP), located between the stock exchange and the central securities depository. A solution is also being sought for a reliable credit derivative infrastructure.

A central counterparty (CCP) is an entity that in the value chain of securities trading is located between the trading facility and central securities depository. A CCP interposes itself between the transacting parties – becoming buyer to the seller and the seller to the buyer – and guarantees transaction execution by managing the counterparty risk on behalf of the parties. A CCP safeguards its operations by requiring guarantees from the parties to the transaction. Another key service provided by a CCP is security-by-security netting of transactions, which in turn enhances market participants' liquidity usage and may reduce the number of clearing transactions.

CCPs have long been used in the Nordic derivatives exchanges, since their use is essential to the functioning of those derivative markets. In the equity market, developments have been slower than in

the other European markets, and Nordic countries are among the last to introduce a CCP.

CCPs launched in phases in the Nordic countries

Nasdaq-OMX, which operates the Nordic exchange in Helsinki, Copenhagen, and Stockholm, announced in October 2008⁹ that it will introduce a central counterparty clearing mechanism for its marketplaces. The services will be provided by the Dutch company European Multilateral Clearing Facility N.V. (EMCF)¹⁰, of which Nasdaq-OMX has since acquired a 22% stake. The Nordic exchanges are the first regulated marketplaces among EMCF's customers. EMCF's other customers include many multilateral trading facilities, such as Chi-X, BATS, Nasdaq-OMX Europe, and Burgundy (which will be launched later and will focus on Nordic securities) and Quote MTF, a Hungarian multilateral trading facility.

Central counterparty clearing for cash equity trading will be launched in phases. The first phase was launched on 20 March¹¹. Since then, equities previously traded on multilateral trading platforms are cleared via the CCP only if both parties to the trade have opted for the CCP.

The terms and conditions as well as date for launching the second stage were agreed in January 2009¹² between Nasdaq-OMX and the securities

⁹ Nasdaq-OMX press release, 16 November 2008.

¹⁰ See: <http://www.euromcf.nl/>.

¹¹ Nasdaq-OMX press release 19 March 2009.

¹² Nasdaq-OMX press release 26 January 2009.

dealers associations of each of the marketplaces¹³. In the second phase, set to commence in October, the situation will change so that all securities trades made with agreed instruments will be cleared via the CCP. The terms and conditions agreed for stage two are as follows:

- The CCP must be a direct member of the local central securities depository and must be an account holder with the central bank.
- Nasdaq-OMX is committed to seeking an additional CCP and start cooperating with it without delay.
- Instruments cleared by the CCP will be decided jointly at a later stage.

The introduction of a CCP will entail significant changes to current operating processes. The realisation of the jointly agreed timetable thus requires considerable effort by all the market participants.

A CCP for credit derivatives

There is significant global pressure for creating a sufficiently reliable clearing infrastructure for credit default swaps (CDS). Finding a solution has at times culminated in a question of the CDS clearer's location – Europe or the United States. At the beginning of December 2008, the Ecofin Council supported urgent measures to establish one or several European clearing infrastructures for OTC derivatives¹⁴. The Governing Council of the ECB welcomed initiatives by the European Commission aimed at introducing European central counterparty clearing facilities for OTC credit derivatives. The Governing Council also confirmed that there was a need for at least one European CCP for credit derivatives and that, given the potential

systemic importance of securities clearing and settlement systems, this infrastructure should be located within the euro area¹⁵.

In February 2009, nine leading dealers in credit default swaps announced their commitment to using a European central counterparty clearing solution, which is scheduled to be launched in July at the latest¹⁶.

¹³ In Finland, the organisation is the securities brokerage executive committee of the Federation of Finnish Financial Services (formerly: the Finnish Association of Securities Dealers).

¹⁴ ECOFIN Conclusions 2 December 2008.

¹⁵ ECB Governing Council decisions, 19 December 2008.

¹⁶ See: <http://www.finextra.com/fullstory.asp?id=19659>.

4.2 New service providers take old regulatory status just before the new payment institutions act takes effect

Timo Iivarinen

The first Finnish service provider licensed as a payment institution as referred to in the existing Credit Institutions Act, has commenced operations. Authorities are also currently processing the authorisation of another player. New domestic players are important because, with the realisation of the Single Euro Payments Area (SEPA), traditional payment instruments will disappear.

The two Finnish players are very different from each other. ACH Finland¹⁷ provides settlement services to its customer banks and acts as their gateway to other banks, whereas Itella Payment Services provides various services related to electronic invoicing for businesses.

The Financial Supervision Authority (FIN-FSA) on 18 December 2008 granted ACH Finland credit institution authorisation for operating as a payment institution, as referred to in the Credit Institutions Act¹⁸. ACH Finland started operations on 1 March 2009.

ACH Finland provides its customer banks clearing and settlement services. Its customers include Aktia

Bank, local cooperative banks, and savings banks, currently totalling 81. The payment transfers include invoices paid by banks' customers, recurring payments, direct debits, express payments by companies and other entities, and salaries and pensions paid by companies or other entities. ACH Finland thus provides the same domestic services as the interbank payment systems PMJ and POPS, which have been used by all Finnish banks for several years. In the near future, ACH Finland will start providing its customer banks with SEPA clearing services, after which customer banks will have access to fairly extensive domestic and European payment services, via a single service provider.

The launch of ACH Finland is a significant event because, with the introduction of SEPA, the PMJ and POPS systems will be phased out, as these cannot transfer SEPA payments. Other Finnish banks have prepared for the shutdown of PMJ and POPS by arranging corresponding services via the STEP2 system provided by EBA CLEARING, an association of European banks.

Without ACH Finland, Finnish SEPA payments would be cleared and settled only by a foreign entity. It is a good thing that there are several players in this area, as it ensures healthy competition and thus promotes efficiency. And in a crisis situation, having a domestic operator may be important.

The other player is Itella Payment Services¹⁹, which differs considerably from ACH Finland. On 6 February 2009, Itella Payment Services filed an application with the Financial Supervisory Authority for authorisation as a payment institution.

¹⁷ See: <http://www.achfinland.fi>

¹⁸ For more information, see paragraph 4 of the Credit Institutions Act <http://www.finlex.fi/fi/laki/kaannokset/1993/en19931607.pdf>.

¹⁹ See:

http://www.itella.fi/tiedotteet/2009/20090206_itellaipsoy.html (in Finnish only).

Itella Payment Services provides private customers with electronic invoicing information and corporate customers with electronic invoicing solutions.

Payment institution status would however better enable it to integrate electronic invoices with its customer companies' financial administration systems.

Itella Payment Services' key partners are the above mentioned ACH Finland and Aktia Bank. Itella Payment Services will provide private and corporate customers with electronic invoicing services. Their payments will be transferred in electronic form from invoice recipient (payer) to payee in both Finland and Europe, regardless of which bank's customers the payer and the payee are.

Payment institutions, as defined in amendments made to the Credit Institutions Act in 2003(69/2003), will soon be replaced. This is because the new act on payment institutions²⁰ will take effect in the autumn of 2009. Consequently, the emerging payment institutions will have to apply for credit institution status or the new status of payment institution. In practice, this amendment does not affect the services provided by these companies. The reform is motivated by the need to ensure the stability and reliability of the entities providing payment services.

It is a somewhat unfortunate coincidence that the translation of the existing Act dating back to 2003 used the same term as the Payment Services Directive.²¹

²⁰ The act is part of the transposition of the Payment Services Directive into Finnish legislation.

²¹ In Finnish the terms are maksuliikenneyhteisö and maksulaitos. The former being the one used in the Credit Institutions Act.

5 Key regulatory and supervisory initiatives

5.1 De Larosière Group recommends reform of regulation and supervision

Jukka Topi and Jyrki Haajanen

A high-level group studying ways to develop financial regulation and supervision in the EU is proposing that macroprudential supervision be organised under the auspices of the European Central Bank and that institutional supervision be partially reformed. The regulation of financial markets and international cooperation must also be clarified.

The President of the European Commission, Jose Manuel Barroso, in October 2008 called on a high-level expert group (de Larosière Group) to come up with a proposal for developing European financial regulation and supervision. The Group's report was published in February 2009.

Reform of financial supervision

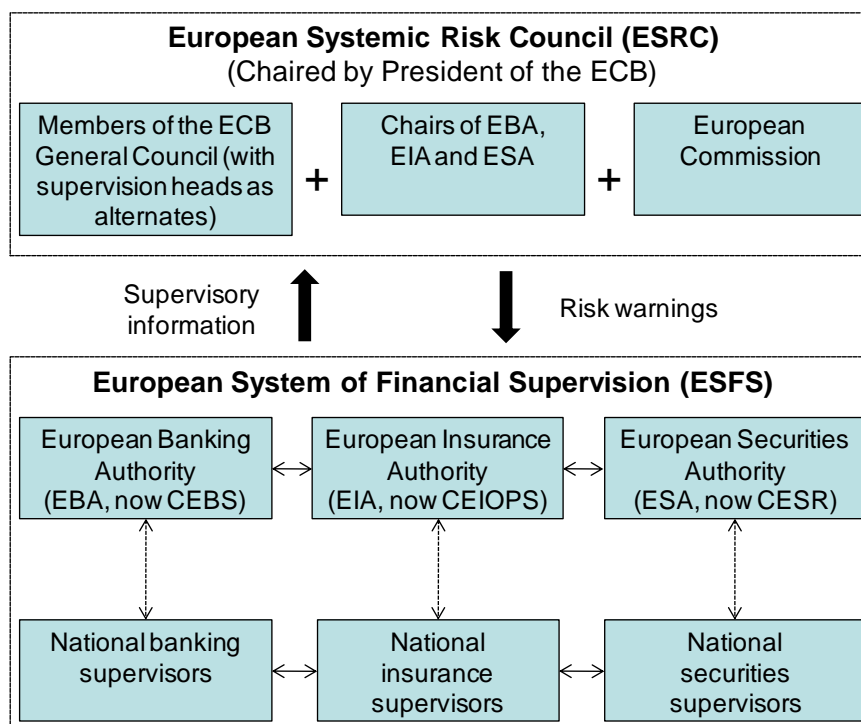
Recommendations for improving the structure of EU financial supervision form a key part of the report by the de Larosière Group. The Group recommends strengthening macroprudential supervision of the entire financial system and reforming the micro-level

supervision of financial institutions (Chart). The European Commission has announced its support for the key recommendations of the Group.

To improve macroprudential supervision, the Group proposes that a European Systemic Risk Council (ESRC) be established under the auspices of the European Central Bank. The ESRC would be composed of the members of the ECB General Council, Chairpersons of the current level 3 committees²², and a representative of the European Commission. The President of the ECB would chair the ESRC. The ESRC should seek to identify at an early stage macroprudential risks and issue warnings and guidance (early warning system). Relevant authorities are expected to observe the recommendations of the ESRC. If necessary, the ESRC would report to the Economic and Financial Committee (EFC) and, in case of global problems, to the IMF and the Financial Stability Forum (FSF). To ensure efficient macroprudential analysis, the Group recommends that the ESRC be given sufficient competencies for obtaining firm-level supervisory information from microprudential supervisors.

²² Committee of European Banking Supervisors (CEBS), Committee of European Securities Regulators (CESR), and Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).

Chart10. Proposal for new EU framework for financial supervision



To develop microprudential supervision, the Group proposes the establishment of a European System of Financial Supervision (ESFS) having a decentralised structure largely based on current supervisory structures. The ESFS would be formed by replacing the current level 3 committees with three European Authorities. The new authorities would not have direct responsibility for supervising banks or other financial institutions. In accord with the principle of home country supervision, national authorities would still be responsible for supervision. Cross-border cooperation of national authorities would be enhanced in colleges of supervisors. The new authorities would be responsible for supporting supervisory cooperation (eg binding mediation of disputes between national supervisors), interpreting regulations, developing common supervisory standards and practices, coordinating crisis management, and possibly for licensing and direct supervision of some specific EU-

wide institutions such as credit rating agencies and post-trading infrastructures.

The Group proposes that the level 3 committees be replaced by three separate EU-level authorities (European Banking Authority, European Insurance Authority and European Securities Authority). In future, consideration should be given to merging these authorities so as to improve supervisory consistency and interaction between supervisors. The Group proposes that the European System of Financial Supervision be established in two stages. In the first stage (2009–2010), preparations for institutional changes would be made by strengthening the competences and powers of the current level 3 committees and national supervisors, by establishing supervisory colleges for all major cross-border financial firms in the EU, and by initiating measures to harmonise regulatory and supervisory powers. In stage 2 (2011–2012), new European Authorities would be

established and legislative initiatives for developing crisis management would be implemented.

Improving regulation and international cooperation

The Group's report also discusses development needs and the functioning of international cooperation.

According to the Group, financial market regulation is not fully up-to-date and the weaknesses of the regulatory framework have contributed to the onset of the present crisis. Better regulation and supervision cannot even in future fully prevent financial crises; the scope of crises can however be constrained via regulation and supervision.

The Group recommends a reform of eg banks' capital adequacy framework (Basel 2)²³, International Financial Reporting Standards (IFRS)²⁴ and corporate governance, and the regulation of securitisation and derivatives markets. The Group also proposes that regulation be extended to areas that are currently less regulated, such as credit rating agencies and certain types of financial and investment activities conducted outside the banking sector.²⁵

The Group wants to develop crisis management by increasing authorities' powers to intervene in the operations of distressed banks at an earlier stage. Further harmonisation of deposit guarantee schemes (in the European Union) and agreeing on burden-sharing in crisis resolution are also considered key areas for reform.

The need for international cooperation continues to increase. The financial markets are so integrated that no country or region can insulate itself from possible market disruptions or try to regulate on its own, even

²³ Minimum capital requirement, liquidity risk, banks' internal risk management, procyclicality, off-balance sheet items, etc.

²⁴ Particularlry a review of the mark-to-market principle.

²⁵ Eg hedge funds, certain off-balance sheet product groups.

its own financial markets. It is therefore increasingly important that financial market regulation and supervision are developed in a coordinated way, based on common objectives. The Group considers that the EU can, by remaining active, be at the forefront of many initiatives on supervision and regulation. It however needs the support of the international community. Most of current national regulations are based on internationally agreed principles.²⁶ Possible amendments should also in future be agreed in cooperation, to ensure the consistency of regulation.

The current crisis has brought many parties responsible for developing regulation and supervision closer together. But we still lack a common framework within which to efficiently develop global regulation and supervision. The Group thus proposes the strengthening of international cooperation in several areas.

One area of particular importance is the reinforcement of supervisory cooperation in connection with cross-border banking groups. The EU is considering a proposal for a directive that will strengthen the supervision of cross-border banking groups in the EU by eg establishing colleges of supervisors. The Group proposes that the same model be introduced on the global level, along the principles drafted by the Financial Stability Forum (FSF). International macroprudential supervision and crisis prevention measures should be enhanced and the roles of the IMF and the FSF should be strengthened. In addition, the Group recommends that the EU act in an increasingly coordinated manner in dialogue with non-EU countries. The EU has much to offer in the drafting of international rules and plays a significant role in the development of global cooperation.

²⁶ Eg Basel 2, IFRS, corporate governance.

5.2 Public recapitalisation of banks

Jarmo Pesola

Public recapitalisation of banks has been utilised to varying degrees: in some countries, extensively, in some countries not at all.

The ongoing global downturn has rapidly boosted banks' write-downs and loan losses, which has weakened banks' capital adequacy, ie their equity-to-receivables ratio. This, in turn, forces banks to cut lending, which hampers the funding of investments and even companies' day-to-day operations. This phenomenon, referred to as a credit crunch is particularly damaging when it spurs the decline of the economy as a whole.

Banks have two means for strengthening their capital adequacy. Firstly, they can reduce the amount of receivables by eg granting less new loans, in other words, by letting their balance sheet shrink. The pressure to shrink the balance sheet is also increased by the fact that banks have fewer opportunities for acquiring market funding.²⁷

Another means to replace capital destroyed by loan losses is to acquire additional capital. Banks' capital adequacy outlook is however subject to such extensive mistrust globally that many banks have considerable difficulties in acquiring new equity funding from the market.

Consequently, several governments prepared last autumn support packages which, among others, included the recapitalisation of solvent banks with public funds. In the Paris Declaration issued by euro

²⁷ See Section 3.2 of Financial Market Report 4/2008.

area countries on 12 October 2008, recapitalisation of banks was justified as a means of maintaining or even increasing banks' lending capacity. Public funding must also be market-priced so as not to distort competition. The euro area countries also agreed that, to safeguard the interest of taxpayers, government investments should have preferred status in the event of a bankruptcy.

In a Communication issued in January, the EU Commission gave specific guidance on the terms and conditions of state aid to banks. The rate of return on recapitalisation instruments for fundamentally sound banks should fall within a price corridor, in line with Eurosystem recommendations. The lower bound of the corridor is the required rate of return on subordinated debt²⁸ and the upper bound is the required rate of return on ordinary shares²⁹. The average price corridor is indicative. Governments should also take into account the various specific characteristics of individual banks and member states.

Recapitalisation instruments include preferred or ordinary shares and capital loans – all of which are part of Tier 1 capital. The French government has also acquired subordinated bonds.

Globally, governments have made commitments/pledges to recapitalise banks for over EUR 600 billion.³⁰ The biggest amount of recapitalisation commitments have been made by governments in the United States (2.4% of GDP), Germany (3.3% of GDP), and the United Kingdom (5.6% of GDP). As a proportion of GDP, the largest recapitalisation commitments have been made in Ireland, the Netherlands, Belgium, and Denmark, where the proportions of GDP vary between slightly

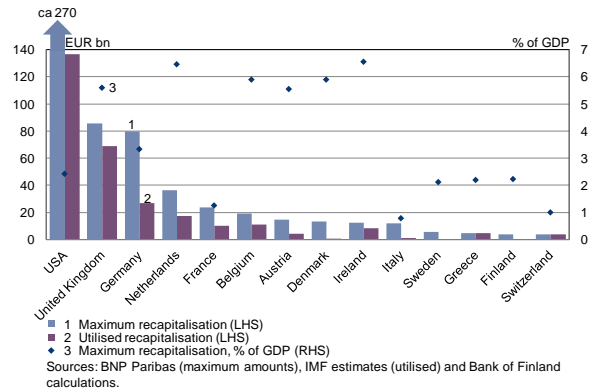
²⁸ Eg on preferred shares with features similar to those of subordinated debt, the average rate of return is 7%.

²⁹ On shares of euro area banks, on average 9.3%.

³⁰ Source: BNP Paribas.

under 6% and slightly over 6.5% (Chart 11). The structure of various support measures (size of recapitalisation relative to other measures) however varies across countries.

Chart 11. Banks' public recapitalisation and maximum recapitalisation in selected countries

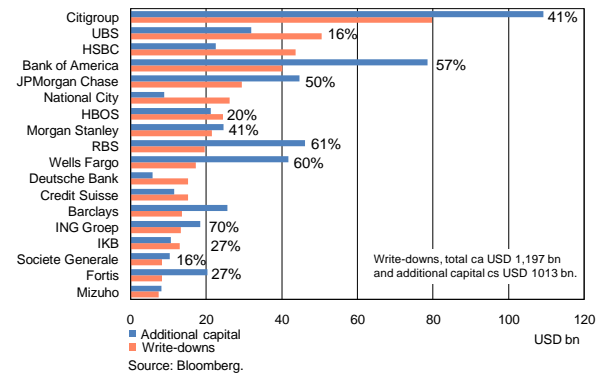


Banks have however not fully utilised the amounts of money reserved for recapitalisation. For example, in Germany recapitalisation has thus far been fairly minor, whereas in the United Kingdom and Ireland banks have utilised the recapitalisation measures extensively. In both countries, the amount of money used for recapitalisation corresponds to ca 4.5% of GDP. In the United States, measures to support banks are still being formulated, due to the change in administration.

Since 2008, the biggest write-downs on securities and loans have been made by US banks (Chart 12). The largest banks' total losses – nearly USD 700 billion – exceed their acquisition of additional capital by ca USD 50 billion.³¹ The public recapitalisation of the banks included in Chart 12 accounts for over one-third of their additional capital.

³¹ Figures include the large merged American banks such as Merrill Lynch, and also the collapsed Lehman Brothers.

Chart 12. Banks' write-downs, additional capital and ratio (%) of public capital to additional capital



From the perspective of multinational banks' crisis management, the solution for Fortis, an international financial conglomerate, is interesting, as it was essentially divided into three banks, among the Belgian, Dutch, and Luxembourg governments. The governments have individually recapitalised the banks which they now own.

For a few banks³² the recapitalisation process continues so that preferred shares are being converted into ordinary shares in connection with government guarantees. This gives the governments better control of the banks.

The recapitalisation measures have not been fully utilised. High costs and the strict terms and conditions of the funding have been given as reasons for this. The fear of stigmatisation may also dampen the interest of banks not in acute need of funding.

³² Eg Citigroup, Royal Bank of Scotland, and Lloyds Banking Group.

5.3 Financial regulation is not working – how to fix it?

Jukka Vauhkonen

Financial regulation has in fact increased the economy's tendency to occasionally overheat and cause a crisis. Future financial regulation and supervision must dampen business cycles and help prevent systemic financial crises.

Regulation and supervision of financial institutions and markets has failed to meet one of its key objectives, to prevent banking and financial crises. The ongoing financial and economic crisis has created a consensus that financial regulation must be thoroughly reformed – extensive reform programmes have already been started.³³ This article examines proposals by some influential expert groups for amending financial regulation.³⁴

In reforming financial regulation, we must first identify the shortcomings of prior regulation. In the initial stages of the current crisis, much attention was paid to the holes in financial regulation and supervision immediately revealed by the crisis – such as a lack of supervision of investment banks, lack of transparency in the complex subprime-mortgage products, and distorted incentives of credit rating agencies. Recently, the discussion has however extended to the deeper problems of financial regulation which might explain the inability of regulation to prevent recurring crises.

³³ See Section 5.1 of this issue of the Financial Market Report.

³⁴ Brunnermaier et al (2009), G30 (2008), New York University Stern School of Business (forthcoming).

Economic history shows that most financial crises are preceded by excessive growth in debt, asset price bubbles, distortion of risk pricing, and the widespread euphoria associated with economic booms. The bursting of a bubble is typically followed by a steep downturn as asset prices plummet, the financial system is paralysed, and economic growth suddenly slows. Financial regulation has failed to smooth economic upturns and downturns; it has instead increased the economy's tendency to occasionally overheat and cause a crisis.

The need for countercyclical macroprudential financial regulation and supervision

Many proposals for reforming financial regulation are based on the premise that financial regulation should be *countercyclical* in order to reduce the above-mentioned cyclicity of the economy. In other words, financial regulation should be at its tightest in an upturn when the seeds of the next downturn are sown, and at its loosest in a downturn. Banks' capital requirements, which are tighter during an upturn and looser during a downturn, are an example of this type of regulation.

Countercyclical regulation would arguably be highly unpopular in the financial industry. Efficient countercyclical regulation would restrict financial corporations' excessive risk taking and borrowing in an upturn when their profitability is good and risks seem small. In order to function, this type of regulation would have to be based mainly on rules and regulations agreed in advance, rather than authorities' discretionary regulatory and surveillance decisions.

Current financial regulation and supervision is also criticised for its' inability to prevent the creation of massive 'systemic risks' in the financial systems. Current micro-level regulation has been aimed at restricting individual financial corporations' risk

taking, while hardly taking into account their links with other financial corporations or markets. Micro-level supervision, on the other hand, has focused mainly on examining individual financial corporations' safety and soundness. The current crisis shows that this approach is insufficient because it does not sufficiently take into account the macro-level risks that form or are exacerbated in the financial system, such as asset price bubbles in an economic upturn or financial corporations' exposure to these risks, and in a downturn, financial corporations' harmful herd behaviour or the risk of collapse of entire markets.

Concrete proposals for improving regulation and supervision

Nearly all new proposals for regulation involve more extensive powers for 'macroprudential supervision', which would include eg identification of systemic risks and warnings of systemic risk. As financial crises can be international, we need also regional and global macroprudential supervisors. The EU is considering handing this task over to a new authority that may be established under the ECB, the European Systemic Risk Council.³⁵ The US Federal Reserve System has announced that it is willing to take on the same task in the United States.³⁶

According to the new proposals, current micro-level regulation and supervision would be not only improved but also supplemented by macroprudential regulation and supervision. The aim of macroprudential regulation would be to minimise the risks to the entire financial system in the possible collapse of a financial corporation or other serious

³⁵ See Section 5.1.

³⁶ See speech by Fed Chairman Ben Bernanke, 10 March 2009, <http://www.federalreserve.gov/newsevents/speech/bernanke20090310a.htm>

problems. From this premise, all systemically important financial corporations, irrespective of the nature of their operations, would be subject to prudential regulation and supervision. If such a regulatory and supervisory framework had been in place eg before the current crisis, the giant investment banks would have been more closely regulated and supervised.

Most financial crises have been preceded by a price bubble in the housing, securities or some other market. Bubbles are often due to excessive lending by banks and excessive use of short-term market funding. Brunnermaier et al (2009) propose that macroprudential regulation of a bank should be the tighter, the higher the bank's leverage (assets-to-capital ratio) and rate of growth of lending. This could be done eg by setting higher capital requirements for banks that are growing and incurring debt more rapidly than other banks.

One of the most important lessons of the current crisis is that the size of a systemic risk depends crucially on the structure of banks' funding. For example, the problems of Northern Rock, Lehman Brothers and Bear Stearns were not due to loan losses but to their difficulties in renewing short-term funding. Current regulation does not however consider adequately how financial corporations finance their operations. To reduce banks' liquidity risks, it has been proposed eg that banks' capital requirements should be linked to the maturity mismatch of a bank's assets and liabilities. It has also been proposed that the current mark-to-market accounting and valuation of financial corporations' balance sheet items be revised so as not to force unnecessary fire sales of assets in an economic downturn.

6 Key corporate arrangements and events in the financial sector

<i>Date</i>	<i>Event and description</i>
October 2008	<p><i>Wells Fargo announces it will buy Wachovian.</i></p> <p><i>Kaupthing Bank and Landsbanki Island taken over by the government.</i></p> <p><i>Fitch lowers Iceland's ratings. Short-term: from F2 to F3, and long-term from A-to BBB-.</i></p> <p><i>The deposits of Kaupthing Bank's Finnish branch saved by Finnish authorities and Nordea Bank Finland, OP Group, and Sampo Bank.</i></p> <p><i>Banco Santander announces it has acquired the remaining 75.7% ownership stake in Sovereign Bancorp for USD 1.9 billion. Santander already held a 24.3% stake.</i></p> <p><i>PNC Financial Services announces it will purchase the troubled National City Corp bank.</i></p> <p><i>Euroclear acquires NCSD and its subsidiaries APK and VPC.</i></p> <p><i>NASDAQOMX announces it has signed a letter of intent to purchase a 22% stake in the Dutch central counterparty clearing house European Multilateral Facility N.V. It also announced that it has chosen EMCF as the central counterparty on the Nordic stock exchange.</i></p>
November 2008	<p><i>The Sweden-based Carnegie Investment Bank is taken over by the Swedish National Debt Office.</i></p> <p><i>Latvian government takes over Parex Banka AS.</i></p> <p><i>American Express converts to a bank holding company, subject to supervision by the Federal Reserve System.</i></p> <p><i>Citigroup runs into trouble and receives additional share capital from the US government and a guarantee covering more than USD 300 billion of problem assets.</i></p>

<i>Date</i>	<i>Event and description</i>
November 2008	<p><i>The listed paperboards company Stromsdal files for bankruptcy.</i></p> <p><i>The Finnish Association of Securities Dealers and the Federation of Finnish Financial Services to merge on 1 January 2009.</i></p> <p><i>Aktia Real Estate Mortgage Bank plc chooses Luxembourg as its' new home Member State, as per the European Transparency Directive.</i></p> <p><i>IMF approves financial rescue package for Iceland.</i></p> <p><i>Standard & Poor's lowers Iceland's long-term rating from BBB to BBB-, outlook negative.</i></p>
December 2008	<p><i>Moody's lowers Iceland's rating. Short-term from P-1 to P-2, and long-term from A1 to Baa1.</i></p> <p><i>Aktia Bank acquires the asset management unit of Kaupthing's Finnish branch.</i></p> <p><i>Giant pyramid swindle uncovered in US investment market. Securities and Exchange Commission (SEC) estimates that investor losses may reach EUR 38 billion.</i></p>
January 2009	<p><i>Aktia Plc and Veritas Non-Life Insurance Company merged on 1 January 2009.</i></p> <p><i>The operations of Kaupthing Bank hf., Finnish Branch are terminated. The Branch repaid the loan, arranged by Finnish banks, which enabled the Branch to redeem its customer deposits.</i></p> <p><i>S&P revises Nokia's rating (A-1/A) outlook from positive to stable.</i></p>
February 2009	<p><i>The Council of State takes a decision, with the approval of Parliament, that the Finnish State can under certain conditions and without collateral grant state guarantees to Finnish deposit banks. The total state guarantee cannot exceed EU 50 million.</i></p> <p><i>Ålandsbanken acquires Kaupthing Bank Sverige for SEK 414 million.</i></p> <p><i>Finnish central securities depository (APK) joins the Euroclear Group as Euroclear Finland Oy.</i></p>

Date	Event and description
February 2009	<p><i>Moody's and S&P lower Danske Bank's ratings as follows: Moody's lowers the long-term rating from Aa1 to Aa3, outlook stable; and S&P lowers the short-term rating from A-1+ to A-1 and the long-term rating from AA- to A+, outlook negative.</i></p> <p><i>S&P lowers Skandinaviska Enskilda Banken's long-term rating from A+ to A, outlook negative.</i></p> <p><i>Moody's lowers Swedbank's long-term rating from Aa2 to A1, outlook negative.</i></p> <p><i>S&P lowers Jyske Bank's long-term rating from A+ to A, outlook negative.</i></p> <p><i>S&P lowers Metso Corporation's short-term rating from A-2 to A-3, outlook negative. Long-term rating remains unchanged (BBB). Moody's had revised the company's rating outlook to negative in January.</i></p> <p><i>S&P lowers forest industry ratings globally. The ratings of Finnish companies were lowered as follows: UPM-Kymmene (A-3/BBB-), placed on watch for possible downgrading, Stora Enso's ratings were confirmed, outlook revised to negative; M-Real's short-term rating lowered from B to C and long-term from B- to CCC+.</i></p> <p><i>Moody's lowers Stora Enso's long-term rating from Ba1 to Ba2, outlook negative; UPM-Kymmene's long-term rating from Baa3 to Ba1, outlook stable; M-Real's long-term rating from B3 to Caa1, outlook negative.</i></p> <p><i>The Swedish National Debt Office sells its shares in Carnegie Investment Bank AB and Max Matthiessen Holding AB to Altor Fund III and Bure Equity AB.</i></p> <p><i>French banks Caisse d'Epargne and Banque Populaire announce plans to merge.</i></p>
March 2009	<p><i>Straumur-Burdaras Investment Bank, the last major Icelandic bank, is taken over by the authorities. eQ Bank (part of the Straumur Group) and Straumur-Burdaras Investment Bank's subsidiaries continue operations.</i></p> <p><i>Reykjavik Savings Bank (SPRON) and Sparisjodabanki (former Icebank) are taken over by Icelandic authorities.</i></p> <p><i>Finnish mutual funds net subscriptions turn positive in February, for the first time since July 2007.</i></p> <p><i>Sampo Group announces that it has increased its ownership in Nordea to 15%.</i></p>

<i>Date</i>	<i>Event and description</i>
March 2009	<p><i>NASDAQ OMX Europe announces that it will launch Neuro Dark, a new trading platform for institutional investors, in April.</i></p> <p><i>Moody's announces it will keep the Swedish banking sector's rating outlook negative. It still considers the Swedish banking sector stable, due to the strength of domestic retail banking and a good capital base.</i></p>