Annual Report 2010

FINANSSIVALVONTA
FINANSINSPEKTIONEN
FINANCIAL SUPERVISORY AUTHORITY

The Financial Supervisory Authority (FIN-FSA) is the authority for supervision of Finland's financial and insurance sectors that took over most of the responsibilities of the former Financial Supervision Authority and Insurance Supervisory Authority, with effect from 1 January 2009. Administratively, FIN-FSA operates in connection with the Bank of Finland, but it makes independent decisions in its supervisory work.

FIN-FSA's activities are aimed at ensuring the stable operation of credit, insurance and pension institutions and other supervised entities whose stability is essential to the stability of the financial markets. Another objective is to safeguard the interests of the insured and maintain confidence in the financial markets. At year end, there were 1,100 supervised entities and other entities liable to pay supervision fees.

Mission

The Financial Supervisory Authority is responsible for supervising the operations of financial market participants, as specified in law. Its responsibilities also include fostering compliance with good practice on the financial markets and public awareness of the markets. FIN-FSA's mission and objectives are spelt out in the Act on the Financial Supervisory Authority.

Supervised entities

- credit institutions
- non-life, life and reinsurance companies
- employee pension insurance companies
- company pension funds
- industry-wide pension funds, sickness funds and other insurance funds
- local mutual insurance associations
- unemployment benefit funds
- insurance brokers
- other actors in the insurance sector
- investment firms
- fund management companies
- the Finnish Deposit Guarantee Fund
- the Finnish Investor Compensation Fund
- the central securities depository
- the stock exchange
- payment institutions

The Financial Supervisory Authority also supervises

- listed companies' compliance with disclosure obligation and IFRS regulations on financial statements
- securities trading
- compliance with the obligation to disclose major holdings
- securities offerings and public tender offers

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The texts refer to the review year 2010, unless otherwise indicated.

Anneli Tuominen

From financial crisis to debt crisis

During the year under review, the global financial crisis turned into a sovereign debt crisis in a number of euro area countries. The decline in investor confidence this caused was reflected in spring and late autumn in a strong increase in the risk premia on government bonds and high prices for respective credit derivatives. At the moment of writing, the crisis in confidence is still continuing. Since autumn 2007, the European Central Bank and other central banks have applied a number of non-standard monetary policy measures to calm the situation on the markets. In addition, euro area governments and the IMF have cooperated in supporting the most heavily indebted governments, Ireland and Greece. The restoration of confidence will, however, require strict austerity measures and the pursuit of generally credible economic policies, particularly in the affected countries.

Finnish financial sector remains stable

The Finnish financial sector has remained stable. Capital adequacy and profitability in the banking sector remain sound, and the level of loan losses has continued to be reasonably low. Despite the uncertainty on the financial markets, banks' access to refinancing has been good and market funding relatively inexpensive. Due particularly to the positive trend in the securities markets, insurance companies' and employee pension providers' solvency margins have increased, boosting their risk-bearing capacity and allowing them to pursue higher returns. This is important particularly in limiting the long-term pension payments burden.

In its financial sector assessment of spring 2010, the IMF confirmed that Finland's banking supervision is robust. The IMF added that its earlier recommendations on insurance and securities supervision had been heeded. These statements provide a good basis for future work.

Operating environment contains a number of potential threats

Despite the present good health of the Finnish financial sector, the uncertainties in the operating environment make it essential to prepare for a potential deterioration in the current situation. A deceleration in the pace of economic growth globally or in Europe would have a direct impact on the outlook for Finnish exports and hence on companies' earning capacity. A prolonged debt crisis and substantial refinancing requirements for governments and banks could raise the cost of refinancing and reduce its availability. Meanwhile, the long-sustained low level of interest rates is depressing banks' net interest income and poses challenges for the investment activities of insurance companies and employee pension providers – particularly with regard to covering the exposures on life-insurance companies' guaranteed return products. Low interest rates could encourage investors to seek earnings from higher-risk investments. In some countries this could also contribute to overheating in the economy.

The threat of inflation has, however, recently caused a change in market interest rate expectations, with rates now expected to rise more strongly than previously forecast. On the other hand, the expected rise in interest rates would place an additional burden on households with housing loans, most of which are linked to floating rates.

New European financial supervision system emphasises the need to be active internationally

The beginning of 2011 brought the establishment of new financial supervision authorities for Europe: the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) as well as the European Systemic Risk Board (ESRB), a cooperative body of central banks and supervisors established in connection with the European Central Bank.

The new authorities have much broader powers than the previous European supervisory committees. They can issue standards that are directly binding on Member

States. They will also work together to harmonise supervisory practices, for example in supervisory colleges relating to banks and insurance companies. In some cases, they will also be responsible for supervising individual market participants or systems, as with ESMA's responsibility for credit rating agencies. All three authorities will also have a specifically defined role in customer protection. National supervisory responsibility for banks, insurance companies and other supervised entities will, however, continue unchanged.

What will this change mean in practice? The European Supervisory Authorities will take on greater responsibility for regulation. Finland will be represented in this work by FIN-FSA. Our role will be to assess projects from the perspective of the Finnish markets and Finnish legislation and to influence them at as early a stage as possible. In the supervision of multinational groups, for example, it will still be important to retain sufficient powers with host country supervisors in respect of issues of key importance to financial system stability and safeguarding the interests of local customers.

There is, however, a risk, particularly in the early stages, that the new authorities will focus too much on drafting new regulations in a situation where the priority should be on harmonising supervisory practices and increasing supervisory cooperation. During the present spring, the major challenge for supervisors is to successfully conduct credible financial sector stress tests in order to strengthen confidence in the European financial system.

There are great expectations for the work of the ESRB. The aim of the Board is to prevent the emergence of systemic risks and ameliorate their effects when they do arise. On the Board, representatives of the central banks work together with supervisors. In light of the experiences with the recent financial crisis, it is important to increase such cooperation between 'macro' and 'micro' supervision. It is also vital to ensure a fluid flow of information between the various participants so that the ESRB can have at its disposal sufficient information to produce high-quality analyses and identify potential risks to the stability of the financial system.

Household overindebtedness a cause for concern

For some time, FIN-FSA has been expressing concern over the excessive level of household debt and households' lack of preparedness for a potential rise in interest rates. Last spring, we recommended to banks that they test the financial leeway of customers considering taking out a housing loan against an assumed 6% interest rate and a maximum loan maturity of 25 years. We further recommended that loans should, as a rule, not exceed 90% of the value of the house being purchased. Our concern has not been over the sustainability of the banking system; rather, we have wanted to protect housing loan customers from the risks if their debt-servicing ability were for some reason to deteriorate and housing prices decline. The household debt ratio has been growing since the second half of the 1990s. The most worrying feature, however, is the steep increase in the number of heavily indebted households since the turn of the millennium. Almost 10% of households have debt totalling over three times their annual income, and the total is equivalent to almost half the sum of household debt. House prices relative to rents and wages are at present higher than their long-term average levels. It is therefore important, when planning their finances, that borrowers take account of the possibility that house prices could come down at some point in time.

Since issuing the aforementioned recommendations, FIN-FSA has monitored changes in banks' internal lending guidelines. Towards the end of the review year we conducted a sampling study to determine whether banks had followed our recommendations when granting new housing loans. All banks granting housing loans in Finland provided details of each loan decision over a period of 1–5 days in the middle of November. The study revealed that banks are testing their customer's ability to pay as recommended, but are still granting very large loans relative to the value of the property being purchased. FIN-FSA is analysing the results of the study and is considering possible further steps.

Regulatory changes enhance risk-bearing capacity of supervised entities

Financial sector regulation has been extensively updated in recent years. A large proportion of the changes have been in response to the lessons of the financial crisis. With regard to the banks, the changes are aimed at enhancing their ability to withstand losses by boosting the quality and level of their capital. An additional objective is to use a variety of means – including countercyclical capital buffers – to prevent different sectors of the economy from overheating due to excessive lending activity.

The new capital adequacy requirements for banks do not present a significant challenge for most Finnish credit institutions, as their capital structure already meets both the quantitative and qualitative requirements. More challenging for Finnish institutions are the planned requirements relating to the size and quality of liquidity buffers and the requirement to expand the proportion of long-term refinancing. Stricter requirements would inevitably have an impact either on banks' profitability or on the loan margins they charge to their customers. The planned requirement to increase long-term funding is not particularly appropriate in the current economic situation. Preparing for the regulatory changes will require banks to raise the level of their long-term funding at a time when governments and banks also have considerable refinancing needs. Satisfying these could make it hard even for banks in good health to have access to the necessary funding sources.

Impact assessments on the new banking regulations have also been carried out at the level of the national economy as a whole. The results of different studies are to some extent contradictory, but most conclude that the new regulations will lead to faster GDP growth over the long term, as the stricter capital adequacy requirements will reduce the probability of banking crises. On the other hand, it is still unclear how the regulations will affect banks' operating models and volumes and the loan margins they charge to their customers. It is probable that lending, particularly to the housing sector and SMEs, will become somewhat more expensive.

For insurance activities, the most recent impact assessments suggest that Solvency II will not pose overwhelming problems for insurance companies operating in Finland, despite the undoubted increase in their solvency requirements. As with the liquidity regulation planned for the banks, however, Solvency II could lead to an increase in investment demand for government bonds at the expense of other investments. Solvency II could also affect the product portfolio of life insurance companies, in particular. The solvency requirements are to be further refined at EU level based on the impact assessments carried out to date. Some of the proposed calculation rules should in our opinion be simplified in this connection.

Applying the principles of Solvency II to the solvency regulations for employee pension providers and their supervision would be a positive development. The present system based on asset classification has been reasonably effective, but it is not as well adapted as Solvency II's stress test-based approach to advanced capital markets and an environment of complex financial instruments. It would be natural if employee pension providers' solvency calculations and corporate governance regulations were in line with the regulations governing life and non-life insurers, while still taking account of the special features of the pension system.

Detailed regulation cannot be allowed to lead to the development of unregulated financial activities such as shadowbanking. There are already signs around the world of this kind of circumvention of regulation.

Inspection activities sharpened

At FIN-FSA, we have put a lot of work into sharpening our inspection activities. The areas for inspection are now selected based on risk analysis (see page 23) and the selection process also utilises analyses by the Bank of Finland. In the inspections themselves we endeavour to go as deeply as possible into the subject being inspected in order to establish reliable findings about the true behaviour of the supervised entities. This has been shown to be the most effective approach for achieving results. In the aftermath of the crisis, other financial supervisors have also reassessed their supervision strategies and increased the depth of their inspection activities.

Inspections continue to be an intensive area of our activity in the current year as well. We are continuing to prioritise risk management inspections, special themes being entities' own stress tests and the management of business and entire balance sheet risks.

Customer protection remains a key priority

During the review year there was public discussion of several cases in which investors claimed to have received inaccurate information on investment risks. FIN-FSA inspected compliance with disclosure obligations with a particular eye to the clarity and adequacy of information given on the risks and costs of various investment products. The inspections revealed substantial deficiencies in the disclosure of costs to customers, particularly in respect of unit-linked insurance. In respect of other products, such as investment funds and structured loans, compliance with disclosure obligations is greatly improved, albeit still with some deficiencies.

At EU level, too, the adequacy of customer information and appropriateness of sales practices have been investigated and action taken, for example to harmonise customer information on similar packaged investment products. The 'PRIPs' working group of financial supervisors decided to propose the harmonisation of information requirements and sales practices. In addition, the Commission launched consultations on several proposals for improving the quality of customer information, among other initiatives.

As in FIN-FSA's own strategy, customer protection issues are also accorded high priority in the work programmes of the new European Supervisory Authorities and in the regulations governing their operation. An entirely new type of function accorded these new authorities is a special responsibility to monitor the marketing of financial products and services to consumers. They have also been given the right, where necessary, to restrict or even prohibit financial activities if it is considered these could endanger the smooth functioning of the financial markets. The regulations provide a much lower threshold than before for intervening in inappropriate service provision.

Market surveillance to be reinforced

The dispersal of share trading to other venues in addition to stock exchanges has made it much more difficult to investigate trading abuses. FIN-FSA has been actively involved in constructing a Nordic transaction reporting framework. Besides stock exchange trading, in the current year, reporting will also cover OTC derivatives. This represents a contribution to strengthening the supervision of dispersed trading. In the context of the new comprehensive reform of securities markets in Finland, it is proposed that domestic investors could also be able to nominee-register their holdings. This represents an effort to improve the cost-effectiveness of the equity market. As supervision is based on transaction reporting, nominee-registration does not really affect supervisors' investigative routines.

Common operational culture largely established

In the review year, a lot of work was done to make FIN-FSA a single, dynamic authority for financial supervision. Processes were updated, areas of responsibility were redefined and the internal flow of information was increased in order to enhance operational effectiveness and improve the working atmosphere within the organisation. Reducing the cost structure of FIN-FSA remains a challenge.

Towards the end of the year, the entire staff of FIN-FSA engaged in a joint discussion of values within the organisation. This resulted in a common understanding of the values of FIN-FSA and all our staff. The values settled on were 'dynamic', 'responsible', 'productive' and 'together'. These describe FIN-FSA's and our staff's way of working. Accountability is an absolute prerequisite for the work of a supervisory authority. It describes the consistency, high quality and constructive nature of our activities, while productivity describes our ability to create output and the focus on what is relevant. Regenerative abilities, too, are a prerequisite for success, as is the fact that, as a working community, we work as a team in cooperation with our stakeholders.

The FIN-FSA offers a vantage point for viewing developments in the entire financial sector, and as a workplace it is professionally challenging and intellectually stimulating. I would like to thank all present, and former, staff for the hard and productive work they have put in to achieve the objectives of FIN-FSA.

Helsinki, 17 February 2011

Anneli Tuominen

Strategy 2010–2012

Mission

Our primary objectives are the maintenance of financial stability and confidence in the wellfunctioning of financial markets. We also work for enhanced customer and investor protection.

To promote these objectives we focus our supervisory activities on

- the risk management of financial institutions, and their financial viability;
- the appropriateness of business practices observed in customer relationships and in financial markets, as well as the quality of investor and customer information.

Vision

The Financial Supervisory Authority is a dynamic and highly respected supervisor and promoter of a common European supervisory culture of high quality.

Our aim is to ensure

- sound development of Finnish financial markets and equal competitive opportunities for all market participants;
- regulation and supervision which is proportionate to the risks taken by supervised entities; and
- better understanding by customers of financial markets.

Strategic choices

Strengthening of risk-based supervision

- We conduct timely analysis of the main sources of risk and consequently focus supervisory activities on the business areas and specific financial market participants that entail the greatest vulnerability.
- We improve our financial market risk assessments and enhance our crisis management capabilities.
- We regularly inform the public of our supervisory priorities and supervisory findings.

Intensification of international supervisory and regulatory cooperation

- We support the creation of the EU's new supervisory framework.
- We strengthen cooperation especially amongst Nordic supervisory authorities in order to cover all relevant risk areas. We foster division of labour between supervisors and specialisation within international colleges of supervisors.
- We seek to influence those regulatory developments that are key to Finnish financial market stability, competitiveness and customer protection by actively participating in the preparatory work at an early stage.

Promotion of customer and investor protection

- We promote public awareness of the costs and risks of financial products and services.
- We react quickly and vigorously to inappropriate market practices.
- We focus on the supervision of product development and selling practises of savings and investment products.

Moving to a common culture

- We deepen our expertise on risk management regarding all supervised institutions and our knowledge of specific financial products and business activities.
- We increase the use of IT-tools and maintain a comprehensive, timely and reliable supervisory data warehouse.
- We ensure synergies from the integration of supervisory activities and utilise enhanced cooperation with the Bank of Finland. We enhance the efficiency and consistency of work flows and working processes.
- We are committed to maintaining a positive and productive working environment and good management.

The year in brief

In line with its strategy, FIN-FSA emphasised risk-based and proactive supervision.

- Banking, insurance and investment services functions were subject to broad-based inspection. Inspections focused on banks' impairment recognition policies and credit, interest rate and liquidity risks as well as insurance companies' investment activities and risk management.
- Supervisory processes – especially the inspection and supervisory review processes – were developed further, and risk analysis was enhanced in cooperation with the Bank of Finland. Reporting by supervised entities and analysis reports produced by FIN-FSA were improved further particularly in respect of the insurance sector.
- FIN-FSA was active in disseminating information and analyses in order to maintain confidence in the functioning of the Finnish financial markets. In April and September, FIN-FSA published comprehensive analyses on the situation of the Finnish financial sector. The results of FIN-FSA's own stress test concerning the entire Finnish financial sector were published in June, and the results of the EU-wide stress test were published in July.
- FIN-FSA incorporated amendments to European regulations into its own regulations and guidelines (including the second and third phase of banks' capital adequacy regulations). FIN-FSA issued recommendations on remuneration in the financial sector, emphasizing determination of remuneration on the basis of long-term performance and consideration of risks in remuneration policy.
- FIN-FSA withdrew Sofia Bank's authorisation and made the bank subject to winding up procedures. The Bank's own funds were below the minimum level required from credit institutions. The decision was also necessary to safeguard equitable treatment of depositors and other creditors. Further information on Sofia Bank is available on page 26.
- FIN-FSA outlined acceptability criteria for the transfer of liabilities between employment pension insurance companies and clarified conditions for approving liability transfers from the perspective of sound development of the business, fair competition and increasing risk.

In line with its strategy, FIN-FSA augmented customer information and supervision relating to customer and investor protection.

- FIN-FSA provided customer information on financial services, savings products and loan-related risks, and renewed its website for savers, investors and insurance policy holders Financialcustomer.fi, to be published later in 2011.
- FIN-FSA provided instructions on the provision of housing loans from the perspective of customer protection. In granting housing loans, banks should require a down-payment of at least 10%. The banks' loan servicing calculation procedure should test the customers' debt servicing ability at an interest rate of 6% and a maximum maturity of 25 years. Comprehensive information should be given to customers on interest rate cap and payment protection insurance policies.
- FIN-FSA analysed cost structures of savings products. The total price of investment-linked insurance in particular is presented to the customer ambiguously, and costs of complex products are not indicated clearly. With regard to fees charged by investment funds, formula for calculating performance fees are often complex and difficult to compare with each other or with funds charging fixed fees. FIN-FSA will issue instructions on insurance in 2011.
- FIN-FSA inspected and provided instructions on the quality of information provided to customers in connection with the sale of tied long-term savings (tied until pensionable age, so-called PS savings).

- Conduct of business supervision did not reveal extensive or substantial shortcomings in market practices, but there were a great number of disputes that had arisen earlier, which were pending for example in the Securities Complaints Board of the Finnish Financial Ombudsman Bureau (FINE). A number of supervisory measures were applied in reaction to detected shortcomings and to initiate corrective action.
- FIN-FSA published its first survey on the realisation of the statutory moderation principle in life insurance. Information provided by life insurance companies needs to be improved, but the moderation principle is regarded as having been achieved in respect of bonuses and rebates to customers.
- FIN-FSA recommended that banks improve their customer information regarding prime rates. According to the recommendation banks should improve customer information on the grounds for which reference rates are determined and possible changes to these grounds. Should they change customers must, for example, be given the possibility to change the reference rate without cost.
- FIN-FSA provided listed companies with instructions on the disclosure of prospects and inspected criteria for impairment testing. In the field of trading supervision, several cases of suspected abuse were investigated.
- FIN-FSA inspected unemployment benefit funds' internal control and required some funds to react better to changes in unemployment.
- FIN-FSA issued three public reprimands and imposed one administrative fine. The reprimands concerned neglect of obligations relating to the holding of insider register and neglect of a listed company's disclosure obligation. The administrative fine was imposed on the basis of breach of investment fund rules. In addition, FIN-FSA made three requests to the police for investigation.

In line with its strategy, FIN-FSA promoted aspects important to Finnish financial markets in EU regulatory reforms and enhanced Nordic supervisory cooperation.

- FIN-FSA participated in the development of the capital adequacy and liquidity regulation together with the Ministry of Finance.
- Through chairmanship in various EU-level working groups, FIN-FSA put emphasis on the development of information to retail customers and supervisory cooperation in capital adequacy of banks in cross-border groups.
- FIN-FSA participated actively in the work of the Committee of European Banking Supervisors (CEBS) and the Committee of European Insurance and Occupational Pension Supervisors (CEIOPS) in implementing the Committees' risk assessments and stress tests and drafting guidelines on risk management and corporate governance as well as supervisory cooperation. FIN-FSA also participated in the preparation of the CEIOPS Solvency II project.
- Nordic cooperation was intensified in the areas of the supervisory function, supervision of liquidity and Solvency II issues.
- Work of the College of Supervisors broadened and intensified, for instance due to secured electronic data transfer.

Development of core processes and procedures has created a common operating culture and made operations more efficient.

- Determination and introduction of FIN-FSA's core processes progressed as planned. Efficiency targets were set to processes. Reallocation of resources improved efficiency of operations.

- Staff competence levels were deepened through training (especially regarding the Solvency II project and derivative contracts).

- Implementation of an action plan, drawn up on the basis of an employee attitude survey, was continued. FIN-FSA's values were ratified at the end of the year.

Parliamentary Supervisory Council

The Parliamentary Supervisory Council bears responsibility for supervising the overall expediency and efficiency of FIN-FSA's activities. In 2010, **Timo Kalli** was Chairman and **Antti Kalliomäki** Vice Chairman of the Parliamentary Supervisory Council. The Council's other members were **Tanja Karpela**, **Martti Korhonen**, **Mika Lintilä**, **Pekka Ravi**, **Marja Tiura**, **Jutta Urpilainen** and **Ben Zyskowicz**.

Board

The FIN-FSA Board oversees supervisory activities by deciding overall strategy, setting specific operational objectives and directing and supervising achievement of objectives and compliance with the strategy. The Board also discusses the annual budget of FIN-FSA and submits it to the Board of the Bank of Finland for confirmation. In addition, at least once a year, it supplies the Parliamentary Supervisory Council with a report on the operational objectives of FIN-FSA and their achievement. The Board also annually consults representatives of financial market participants on the objectives set for supervision and their achievement; the FIN-FSA budget and expected changes in supervision, and their potential effect on the accumulation of supervision fees; and measures required by the aforementioned expected changes.

The Board has five members appointed for a three-year term. Board members and deputy members are appointed by the Parliamentary Supervisory Council. Members appointed on the basis of a proposal by the Ministry of Finance, the Ministry of Social Affairs and Health and the Bank of Finland each have a designated deputy member.

Members of the Board

Pentti Hakkarainen, Chairman
Deputy Governor, Bank of Finland

Martti Hetemäki, Vice-Chairman
Under-Secretary of State, Ministry of Finance

Outi Antila
Director-General,
(**Antero Kiviniemi**, Director, Board member until 30 June)
Ministry of Social Affairs and Health

Pirkko Juntti
LLM

Paavo Pitkänen
MA

The deputy to Pentti Hakkarainen was **Kimmo Virolainen**, Head of Department. The deputy to Martti Hetemäki was **Tuija Taos**, Director, Legislative Counsellor. Until 21 October, the deputy to Antero Kiviniemi and later to Outi Antila was **Leena Väänänen**, Senior Actuary. From 22 October, the deputy to Outi Antila was **Erkki Rajaniemi**, Director. The Secretary to the Board was Pirjo Kyyrönen, Senior Legal Advisor.

During the year the Board convened 14 times. All members or deputy members were present in a total of 11 meetings. All meetings were quorate.

The Parliamentary Supervisory Council has determined a monthly fee for Board members and deputies. No separate attendance allowance is paid. Monthly fees to the members and deputies totalled EUR 54,750.00.

The Board consulted financial market participants

The regular consultation of financial market participants underpins cost efficient and effective operations in FIN-FSA. In 2010 the consultation of representatives of financial market participants was held in April. The representatives noted the continuing need for greater efficiency of FIN-FSA activities to reduce costs. They also emphasised the importance of Nordic cooperation. The revision of the set of regulations and guidelines, as well as the consideration of competitiveness-related factors in regulation was also regarded essential. The financial market representatives also emphasised the importance of profound competence for successful performance of FIN-FSA activities. FIN-FSA has taken the feedback into account in its action plan.

Director General, management group and departments

The responsibilities of the Director General include managing the activities of FIN-FSA and taking decisions other than those falling within the competence of the Board. The Director General in 2010 was **Anneli Tuominen**. She was assisted by consultative management group consisting of the heads of department and other FIN-FSA employees appointed by the Director General. The management group convened 61 times during the year.

The Parliamentary Supervisory Council appointed Anneli Tuominen as Director General for a five-year term in February 2009. The FIN-FSA Board appointed the heads of department for five-year terms in 2009 (Jarmo Parkkonen, Erja Rautanen and Jukka Vesala) and 2010 (Marja Nykänen). In May 2009, the Parliamentary Supervisory Council appointed Jukka Vesala as Deputy Director General.

The Director General's salaries and fees totalled EUR 203,620.00. Salaries and fees paid to the members of the Board totalled EUR 738,630.10.

FIN-FSA has four departments: Institutional Supervision, Prudential Supervision, Market Supervision and Conduct of Business Supervision. The departments are subdivided into divisions. Besides the departments, the Administration unit, the General Secretariat and Communications are directly accountable to the Director General.

Management group

The management group of FIN-FSA, from left to right: Jukka Vesala, Hely Salomaa, Erja Rautanen, Anneli Tuominen, Erkki Kontkanen, Marja Nykänen and Jarmo Parkkonen.

Anneli Tuominen
Director General; Chairman
LLM, MSc (Econ.)

Jukka Vesala
Deputy Director General, Head of Prudential Supervision; Vice Chairman
DSc (Econ.)

Marja Nykänen, Head of Institutional Supervision from 21 June
LLM

Jarmo Parkkonen
Head of Market Supervision
LLM, MSc (Econ.)

Erja Rautanen
Head of Conduct of Business Supervision
LLM

Erkki Kontkanen
Chief of the General Secretariat, Chief Advisor
LLD

Hely Salomaa
Chief Advisor, Prudential Supervision
DSocSc

The Secretary to the management group is **Pirjo Kyyrönen**, Senior Legal Advisor, LLM

See the CVs of the management group members at: **Fin-fsa.fi > About Us > The CVs of management group members**

Institutional Supervision is responsible for building an overall picture of the business, capital adequacy and risks of supervised entities and for coordinating contacts with supervised entities and supervisory measures (through the work of senior banking supervisors). The department's responsibilities include producing an annual assessment of the capital adequacy commensurate with business operations and risks pertaining to all insurance and financial market participants except non-group investment firms and management companies. It also reviews applications for authorisation from banks and insurance companies, in cooperation with the other departments. In addition, Institutional Supervision assesses the internal governance and financial statements of supervised entities and the legality of their operations. The department is responsible for coordinating cooperation within collegial bodies of supervisors.

Prudential Supervision aims to identify and prevent risks to supervised entities' capital adequacy and liquidity. It is designed to ensure that supervised entities' risk exposures do not exceed their risk-bearing capacity, that their risk management and internal control processes are appropriate and that they have in place sound processes for capital and liquidity management. Supervision takes the form of inspections and analysis of regular reporting (on credit, market, liquidity, operational and underwriting risks, anti-money laundering measures, payment systems and IT infrastructure reliability). The department is also responsible for analyses, reports and research on the financial situation and risks of supervised entities and the financial sector. Its responsibilities further include IT systems development at FIN-FSA, development of best practices for EU supervisory authorities and coordination of inspection activity.

Viewed as a whole, one of the common objectives of Institutional and Prudential Supervision is efficient crisis management, with a view to keeping the consequences of crises and disruptions for customers and system operability and for the costs to the national economy to a minimum.

The objective of **Market Supervision** is to foster confidence in investor information and the functioning of securities markets. Confidence is built by the provision of clear and timely investor information of high quality, the availability of appropriately functioning securities market infrastructure and sound market conduct.

The department supervises the investor information provided by listed companies on performance, securities offerings, IFRS financial statements and various investment products. It also supervises the functioning of market infrastructure, securities market trading and trading practices and investigates potential market abuse. As a member of the Auditing Board of the Central Chamber of Commerce, FIN-FSA takes part in the supervisory work of auditors and its further development.

Conduct of Business Supervision is responsible for supervising the relationship between financial service providers and their customers, focusing mainly on supervised entities' internal processes and organisation of activities. The department supervises the marketing of financial sector services and products, provision of information to customers at a general level and service providers' code of conduct towards customers.

The department's responsibilities also include review of the applications for authorisation and registration filed by investment firms, management companies and insurance brokers and of notifications for cross-border service provision. It also supervises code of conduct and management of unemployment benefit funds. With respect to investment firms and management companies not belonging to a conglomerate or bank group, the department is also responsible for assessment of the financial position and capital adequacy relative to risks. Supervision of customer information to the general public also falls within its responsibilities, especially in regard to product risks. In the field of customer protection and customer information, FIN-FSA cooperates with the National Consumer Administration and the Finnish Financial Ombudsman Bureau (FINE).

All departments are responsible for regulatory development within their respective fields of competence.

Staff

FIN-FSA is an expert organisation, with 74% of staff holding expert positions, 10% management positions and 16% serving as support staff. The approved headcount in 2010 was 218 persons, with the headcount standing at 209 at the end of the year. The breakdown of staff at the end of the year was:

Prudential Supervision	69	Administration unit	13
Institutional Supervision	43	General Secretariat	8
Market Supervision	40	Communications	5
Conduct of Business Supervision	30	Director General	1

At the end of 2010, 61% of the staff were women and 39% men. Exactly half of the staff in management positions (Director General, heads of departments, divisions and units) were men and half women. Of staff in expert position, 53% were women and 47% men. Of support staff, 97% were women and 3% men. The staff turnover rate was 9% (8% in 2009).

FIN-FSA publishes a Personnel Audit every year and conducts an employee attitude survey every other year. The next attitude survey will be carried out in autumn 2011. The employee attitude survey is used to monitor factors such as improvements in working conditions.

Rules governing trade and commitments of FIN-FSA staff

Because of FIN-FSA's role as the authority responsible for financial market supervision, the staff must fulfil specific ethical requirements. In their conduct, they must bear in mind the objectives of FIN-FSA and work to achieve them. They must not develop too close links or economic ties with supervised entities, or otherwise have such links or ties with supervised entities as would compromise their independence. Staff members are subject to a broad-ranging requirement to disclose close links (securities holdings, loans, guarantees, other contingent liabilities, secondary positions and other commitments).

In addition, detailed provisions apply to investments in securities and insurance by members of the FIN-FSA staff. According to instructions concerning securities transactions and insurance investment by FIN-FSA staff approved by the Board, the staff must observe the following restrictions:

- Prohibition on acquisition: FIN-FSA staff may not acquire shares issued by supervised entities or securities carrying entitlement to such shares. This also pertains to shares of foreign supervised entities or securities carrying entitlement to such shares, where the foreign supervised entity has a branch or subsidiary in Finland supervised by FIN-FSA.

- Prohibition on short-term transactions: FIN-FSA staff may make short-term investments in exceptional circumstances only, with the permission of the Director General. An investment is regarded short-term where the duration between the acquisition and disposal – or between the disposal and acquisition – of an asset acquired against a consideration is three months at maximum.

- Request for transaction permission: Prior to any transactions, FIN-FSA staff must request transaction permission from the Compliance Officer. If FIN-FSA holds information essentially affecting the value of the security at the time of transaction, permission is denied.

- The same instructions also concern insurance investment. They are also applied to investment-linked insurance where the value of an insurance is tied to the value performance of a security governed by the instructions, and where the insured party self chooses the investment object in which the premium is invested.

FIN-FSA connected administratively with the Bank of Finland

FIN-FSA is connected administratively with the Bank of Finland, but is autonomous in its decision making.

FIN-FSA and the Bank of Finland play a pivotal role in supervising the stability of the financial system, and fulfil the related tasks in close cooperation. At the end of the year, FIN-FSA and the Bank of Finland signed a Memorandum of Understanding on information exchange and cooperation, stating the established cooperation practices. Key cooperation areas include data collection and monitoring relating to financial markets, identification of risks to financial sector enterprises' operating environment, systemic risk assessments and stress tests, and the development of analysis methods for the supervision of the stability of the financial system. In directing its own supervisory work, FIN-FSA benefits from analysis conducted at the Bank of Finland. Cooperation relating to the development of data collection system and methods in turn generates cost savings.

The administrative connection between FIN-FSA and the Bank of Finland means that, apart from anything else, the FIN-FSA staff is part of the staff of the Bank of Finland, it is governed by the same collective civil service agreement and that FIN-FSA observes the same personnel policy as the Bank of Finland. Owing to the administrative connection, FIN-FSA can make use of the Bank's administrative services (financial administration, security and IT services), for which it pays in accordance with transfer pricing.

Funds and operating costs

FIN-FSA finances its operations mainly (95%) by levying supervision and processing fees on supervised entities and other liable entities. The Bank of Finland contributes 5% of operating costs. The amount of supervision fees, which are similar in nature to a tax, is laid down by law and based on the scope of a supervised entity's business as measured by a number of factors, including its balance sheet total. All securities issuers pay a fixed fee prescribed by law. Any excess is taken into account in determining the supervision fees of the following year.

In the year under review, operating expenses amounted to EUR 25.3 million (EUR 24.5 million in 2009), of which most were staff costs (EUR 18.2 million). Other major expense items were services from the Bank of Finland (EUR 2.5 million) and real estate expenses (EUR 2.3 million).

Organisation

Parliamentary Supervisory Council

FIN-FSA Board

Internal Audit

Director General
Anneli Tuominen

General Secretariat
Erkki Kontkanen

Administration Unit
Pekka Peiponen

Communications
Terhi Lambert-Karjalainen

Institutional Supervision
Head of Department
Marja Nykänen

Prudential Supervision
Head of Department
Jukka Vesala

Deputy Director General

Chief Advisor
Hely Salomaa

Chief Analyst
Sampo Alhonsuo

Market Supervision
Head of Department
Jarmo Parkkonen

Senior Advisor
Arja Voipio

Conduct of Business Supervision
Head of Department
Erja Rautanen

Divisions (Institutional Supervision)

Groups
Kaija Kilappa

Financial Sector
Seppo Juutilainen
(ad int)

Insurance Sector
Seppo Juutilainen

Capital Adequacy Calculations
Jaana Ladvelin

Divisions (Prudential Supervision)

Credit Risks
Veli-Jukka Lehtonen

Market and Operational Risks
Matti Koivu

Underwriting risks and Research
Vesa Hänninen

Financial Analysis
Jaana Rantama

IT Systems
Jaakko Mauranen

Divisions (Market Supervision)

Markets
Sari Helminen (ad int)

Information Disclosure
Sari Helminen

Financial Reporting
Tiina Visakorpi

Investment Products
Paula Launiainen

Divisions (Conduct of Business Supervision)

Customer Protection
Timo Peltonen

Financial Services
Esa Pitkänen

Unemployment Insurance
Marko Aarnio

17.2.2011

The members of the FIN-FSA management group are Anneli Tuominen, Director General; Jukka Vesala, Deputy Director General; Marja Nykänen, Head of Institutional Supervision; Jarmo Parkkonen, Head of Market Supervision; Erja Rautanen, Head of Conduct of Business Supervision; Erkki Kontkanen, Chief Advisor; and Hely Salomaa, Chief Advisor.

Finnish economy resumed growth after recession

In the year under review, the Finnish economy recovered from the previous year's deep recession. The rebound in global economy and trade fuelled growth particularly in the second half of the year.

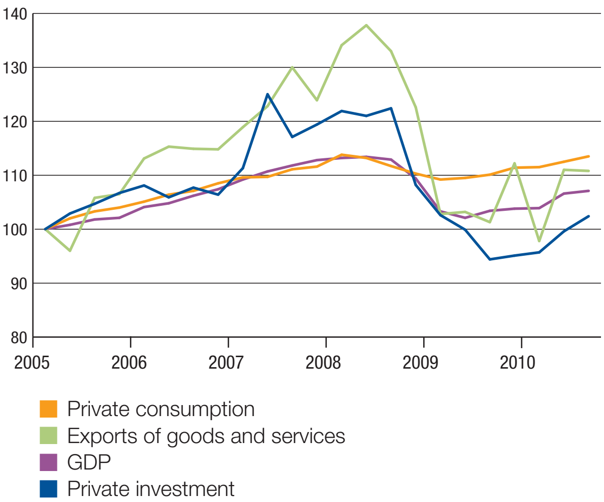
Demand for Finnish export goods and services picked up. Private consumption has developed very steadily in recent years and continues to grow at an even pace, bolstered by optimistic consumer sentiment and a rise in earnings. However, the general opinion on economic outlook weakened clearly towards the end of the year. Following a substantial dip, private investment began to expand again.

Information on international cyclical developments was mainly positive and growth prospects for 2010 and 2011 were revised upwards in a number of countries. Economic developments in Finland's neighbouring countries were favourable and growth is also accelerating in the Baltic States. Nevertheless, economic growth in 2010 and 2011 only manages to make up the drop in production and services recorded in 2009. In Finland, production of goods and services was still at the level observed in 2006. Investments only reached levels recorded in early 2005.

Employment improved. According to Statistics Finland the number of unemployed job seekers was slightly more than 200,000 at the end of the year, with the unemployment rate at 7.9%. Unemployment in Finland in winter 2010–2011 was lower than for example in the United States, the euro area as a whole and Sweden.

Finland's GDP, consumption, investment and exports

Index, Q1/2005 = 100



Source: Statistics Finland, quarterly national accounts, seasonally-adjusted volumes.

Sovereign debt problem intensified

In Europe, the year under review was marked by concerns and uncertainty about the consequences of rapidly increasing government debt and economic recovery. At the same time, concerns over the banking sector's risk-bearing capacity and the need for loss recognition increased in many countries.

Economic growth in a number of countries pivotal to Finland's exports turned clearly upward. However, the sovereign debt problem in the EU area was aggravated, as reflected in the banking sector across European countries. For instance the German and French financial sectors have large claims on South-European countries, whereas the United Kingdom has substantial claims on Ireland.

Credit risk prices (CDS spreads) on bonds of South-European countries and Ireland in particular were exceptionally high during the year. The interest rate spread relative to risk-free German government bonds was also substantial.

Because of debt accumulation, in the coming years states are faced with increasing funding needs, banks with higher refinancing needs and, in addition, enterprises with greater needs to seek funding from the markets. Accordingly, emissions have already increased.

Due to its public debt accumulation, Greece had to pay an increasingly higher interest rates on bonds issued. Finally in May, the EU and the International Monetary Fund (IMF) agreed on an aid package of EUR 110 billion to Greece. In Ireland, the banking sector's massive losses and the maintenance of economic activity created a situation where annual government deficit was almost a third of GDP. In November Ireland also had to agree on a support package of EUR 85 billion with the EU and IMF to support stabilisation of public finances and capitalisation of the banking sector.

EU-level stress tests increased information on banks' risks

The situation of the banking sector especially in Spain and Ireland was another prevailing concern in the markets. In summer 2010, the Committee of European Banking Supervisors (CEBS) conducted a stress test together with the European Central Bank (ECB). The results of the EU-wide stress-testing exercise were published on a bank-specific level in July. They showed that Nordic banks' capital adequacy was good and risks to indebted "peripheral" euro zone countries were regarded relatively low. Of the Finnish banks, OP-Pohjola Group was included in the exercise. Nordea Bank Finland belonging to the Nordea Bank Group and Sampo Bank belonging to the Danske

Bank Group participated in the exercise through their parent companies. The stress test showed that OP-Pohjola Groups capital position would clearly withstand the negative economic scenario assumed in the exercise. Nordea Bank Group and Danske Bank Groups also maintained a strong capital base in the test.

The stress-testing exercise increased transparency and information in the markets on bank positions. European banking authorities will, in cooperation with the ECB and national authorities, develop the test further on the basis of the experience gathered.

ECB supported the functioning of financial markets

The ECB supported the normal functioning of interbank money markets in various ways. Non-standard policy measures were used to ensure the functioning of market segments pivotal to the monetary policy transmission mechanism. ECB measures included the continuance of bond purchases under the Covered Bond Purchase Programme and the initiation of a Securities Markets Programme in May to purchase public and private debt securities. Similarly, the ECB continued to provide liquidity through monetary policy operations, accommodating banks' liquidity needs in full, against collateral.

Share prices rose

Share prices rose in Europe and the United States alike. In Europe, share indices climbed in the second half of the year from the low levels recorded in summer, reflecting confidence in enterprises' financial performance and economic recovery. In the United States, the easing of monetary policy by the Federal Reserve in autumn and decisions to continue previously agreed tax cuts generated optimistic sentiments.

Interest rates began to increase

Long-term interest rates in Europe were at very low levels the whole year. This reflected contained inflation expectations and even deflation fears. In December, long-term interest rates began to rise in the euro area on account of economic recovery in Germany in particular and the rise in inflation as of autumn.

Ever since they dropped in spring 2009 euro area short-term interest rates remained very low for an extended period of time. They turned up slightly in summer on a month-on-month level. Albeit being relatively low, the rise reflected normalisation of interbank markets and improvement of the liquidity situation of the banking sector.

In the early part of 2011, the worst market fears concerning sovereign debt problems have eased at least temporarily, and government bond emissions have been successful, albeit at times with very high interest rates. Permanent coordination frameworks and support mechanisms relating to national economic policies are being debated extensively, which has an effect on market sentiment. In addition, interest rate expectations have changed clearly due to increase in inflation. Short-term market interest rates turned up in January 2011.

Household indebtedness continued to be aggravated

Household indebtedness in Finland equals European average, but has increased continuously since 1998. Household debt relative to income is about 109%. The bulk of households have no debt but, on the other hand, large debts are concentrated on a small number of households whose debt servicing ability may be put to test when interest rates increase.

The amount of loan relative to the value of the house financed has grown in recent years. This imposes no threat to banks as, in addition to housing collateral, they also use other collateral to manage their increased credit risks. As for customers, the situation is much worse, since higher credit ratings leave customers no buffer in case of housing price decreases. FIN-FSA twice issued recommendations to improve customer protection. Swedish and Norwegian supervisors have done the same.

The rise in house prices evened out. The rise in nominal and inflation-adjusted real prices of houses that had continued for two years was substantially more pronounced in the greater Helsinki area than in other parts of the country. House prices rose by 15% in the whole country and by 20% in the greater Helsinki area in two years (2009 and 2010).

Operating environment disruptions' moderate impact on Finnish financial sector agents

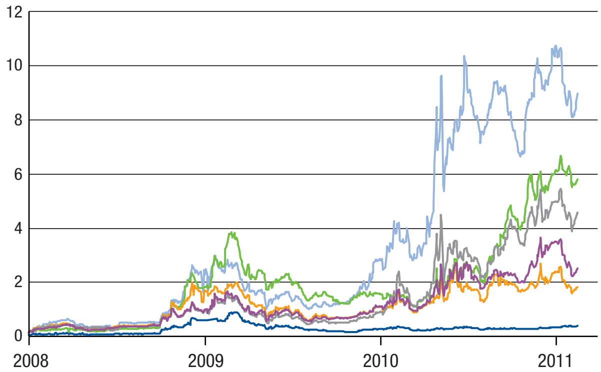
The economic recovery witnessed in almost all over the world improved the operating conditions for the financial sector. Key factors contributing to the positive sentiment in the Finnish financial sector were that there were no problems in obtaining finance and that credit ratings remained at the same high level as in the previous year. Claims of the Finnish financial sector on GIIPS countries (Greece, Ireland, Portugal and Spain) were fairly low relative to total claims, and they decreased during the year. Owing to economic growth, Finnish banks' credit loses remained lower than previously estimated.

The most significant threats to the Finnish financial sector are related to the continuance of the debt crisis in the EU countries. If the lack of confidence in the indebted countries increases further, Finnish financial sector is also forced to record losses from the GIIPS countries. However, due to reasonably high claims, direct losses would not threaten the capital adequacy of the banking, insurance or the pension sector. Nevertheless, it must be kept in mind that a number of various contagion risks are possible and need preparedness.

The continuance of market disruptions can also have an impact on bank refinancing conditions. Finnish banks' funding situation is good at the moment, and no problems have been encountered. As for the insurance sector, the most significant negative factors would be the spreading of disruptions to share markets and a fall in share prices.

Credit risk prices (CDS spreads) on government bonds in six EU countries

%-points

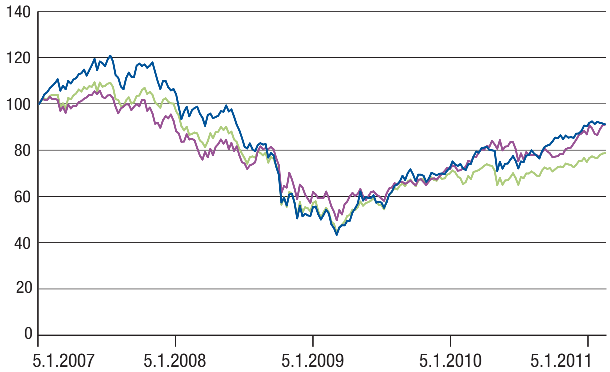


Finland, Greece, Ireland, Italy, Portugal, Spain

Last observation 14 February.
Source: Bloomberg.

Share prices in Finland, the United States and Europe

Index, 5 January 2007 = 100

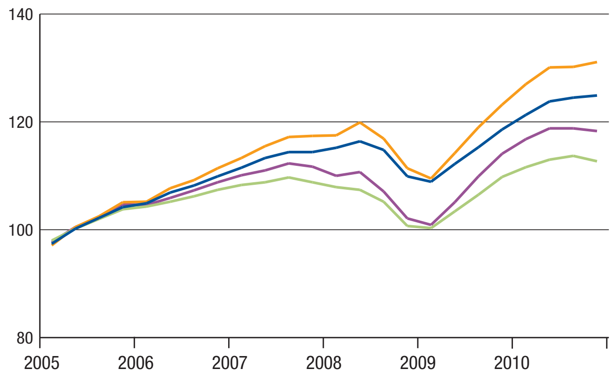


Finland, OMXHcap
United States, S&P 500
Europe, S&P Europe 350

Weekly observations, last observation 15 February.
Source: Bloomberg.

Nominal and real house prices

Index, 2005 = 100

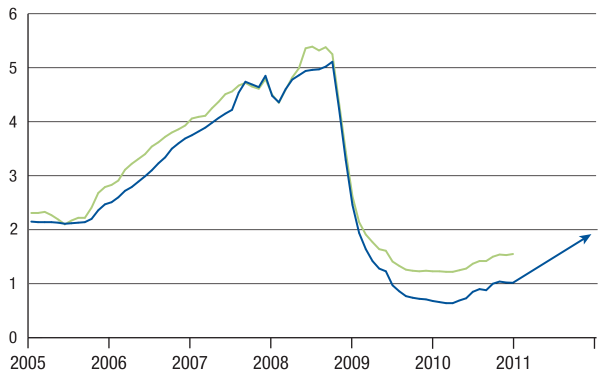


Greater Helsinki, index
Whole country, index
Greater Helsinki, real index
Whole country, real index

Source: Statistics Finland.

3 and 12-month Euribor rates 2005–2010 and market expectations for 3-month Euribor at end-2011

%



3-month Euribor
12-month Euribor
Market expectations, February 2011

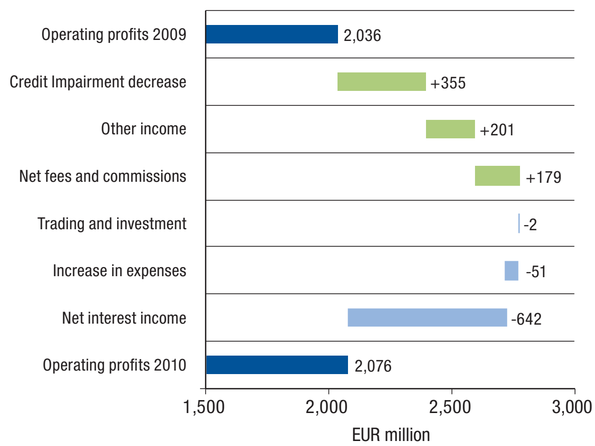
Source: Reuters.

Banks' operating profits remained unchanged, insurance companies' investment activities were successful

The recovery of the economic growth improved operating conditions for the financial sector, but the year was marked by considerable uncertainty relating to the future direction of market developments and concerns about the situation of public finances in certain EU countries.

Finnish banking groups' aggregate operating profits reached the same level as in the previous year, totalling about EUR 2 billion. Net interest income – banks' most important income item – fell by about a fifth, but higher net fees and commissions as well as improved trading and investment results boosted earnings. Net interest income also turned slightly up during the year, bolstered by credit growth and a rise in short-term interest rates. Income from capital markets remained at the level recorded in the previous year, and credit impairments fell during the year. The profitability outlook for Finnish banks is fairly positive, provided that the general recovery of the operating environment continues.

Effect of changes in profit and loss account on banks' operating profits, 2009–2010



The decrease in net interest income was the largest factor affecting bank results. Growth in net fees and commissions, other (mainly life-insurance business) income and a decrease in credit impairments kept operating profits virtually unchanged. The fall in net interest income levelled off during the year and turned even slightly up in the latter part of the year.

Source: Financial Supervisory Authority.

The quality of the banking sector credit portfolio has improved slightly as measured by the amount of problem claims. Nonperforming assets accounted for 0.64% of the stock of lending in December, compared with 0.74% a year earlier. The stock of problem claims on the corporate sector declined slightly due to the economic recovery and especially the partial improvement of the situation of the corporate sector.

Despite capital market uncertainty, the liquidity situation of the Finnish banking sector remained good. Banks received market-based funding with economically reasonable terms and conditions, which reflected investors' confidence in Finnish banks' creditworthiness. The funding structure of banks remained unchanged.

Insurance companies' income from investment operations was positive in the year under review, although there were major differences between different sectors and individual companies. The differences were contributable to the weighting of shares, GIIPS exposures and the amount of interest rate risk, especially as interest rates rose in the latter part of the year. Best investment income results were recorded by employee pension insurance companies, which also have the riskiest investments. Investment income of these insurers was fairly close to median (11%), with the standard deviation being only 1.6%. However, there were substantial differences between individual companies both in terms of investment allocation and risk appetite, and companies had adopted relatively diverging investment strategies. Compared with employee pension insurance companies, life-insurance companies' investment income (median 7.1%) was clearly weaker, and investment income of non-life insurance companies, which generally have the less risky investments, was 6.1%.

Insurance companies' investment income

	Median	Standard deviation
Employee pension insurance companies, %	11.0	1.6
Life-insurance companies, %	7.1	3.0
Non-life insurance companies, %	6.1	2.7
Total, %	**9.8**	**3.1**

Source: Financial Supervisory Authority.

Receivables from GIIPS countries by credit institutions operating in Finland[1]

June 2010 – January 2011, EUR million

	June 2010	July 2010	August 2010	September 2010	October 2010	November 2010	December 2010	January 2011
Spain	1,887	1,867	2,242	2,047	1,972	1,861	1,750	1,657
Italy	1,464	1,490	1,776	1,577	1,554	1,962	1,318	1,332
Ireland	1,345	1,323	1,234	883	1,015	1,181	976	1,098
Portugal	336	327	325	311	309	298	296	263
Greece	72	71	71	70	71	68	66	62

Source: Bank of Finland.

Investment income was solid in all asset categories of pension funds: share prices rose, long-term interest rates fell, credit risk margins narrowed and commodity prices rose. However, market uncertainty has increased, and the European debt crisis in particular induced changes in companies' investment allocation. Looking forward, investment income is also challenged by the low level of interest rates.

Capital adequacy and solvency of banks and insurance companies remained strong

The capital adequacy ratio of the banking sector averaged at 14.4% at the end of the year (14.5% in 2009). The slight fall in the ratio was attributable to the slightly faster growth in business and regulatory capital requirement as compared with growth in own funds. The Tier 1 capital ratio calculated on the basis of original own funds also fell slightly, to 13.6% (13.7% in 2009). Tier 1 capital ratios are clearly above the minimum requirement of 4% for all Finnish banks. If capital loans are excluded from calculations, the Core Tier 1 capital ratio reflecting the highest-quality own funds was 13.2%.

Despite the slight decrease of the capital adequacy ratio, the fact that the banking sector continued to record profits in the year under review increased Tier 1 capital further. Total bank capital buffers increased to EUR 9.6 billion (EUR 9.4 billion at the end of 2009). Capital buffer (or excess own funds) means the amount of capital banks hold over the minimum required level of capital. Reviewed by current risk exposures, Finnish banks have strong capital buffers. The robust level of capital buffers continues to be important for Finnish banks in maintaining their good position in obtaining finance.

As a result of solid investment income, the solvency of the whole insurance sector remained healthy in the year under review. Employee pension insurance companies' solvency margin strengthened both in euro-terms and in relation to technical provisions. The level of solvency margin relative to investment risks decreased slightly. On average, the sector's solvency position was 2.5, indicating that employment pension insurance sector's solvency was sound.

The solvency of the life-insurance sector improved and companies increased their solvency buffers from a year earlier. At the end of the year, the sector's solvency margin was 4.6 times the minimum regulatory level. Solvency strengthened also for the non-life insurance sector. At the end of the year, solvency margin was 3.9 times the required minimum.

Investment firms' operating profits improved markedly

In the year under review, investment firms' operating profits were clearly higher than in the previous two years. Nevertheless, profitability seems to have levelled off as compared with growth recorded in 2009. Compared with 2009, growth was recorded particularly in fees and commissions from asset management services. The increase in this income item is attributable to growth in customer assets under management, which in turn is explained for example by a pick-up in trading and a rise in prices of investment objects after the financial crisis. The bulk of assets under discretionary management consist of assets of domestic investment funds. Over half of investment funds' assets are managed by investment firms. The investment service sector benefited from the low level of interest rates, as for

1 According to survey conducted by the Financial Supervisory Authority in November, insurance sector receivables from GIIPS countries totalled about EUR 9.2 billion.

example interest rates on fixed-term deposits that compete for investor interest have been low.

Fund management companies' income improved

Fund management companies' business volumes have increased clearly, and operations have become more profitable since the beginning of 2009. Fund management company business was mainly steady and profitable. In this business, both income and expenses follow developments in fund capital in a relatively straight-forward manner. Higher fund capital is reflected in both higher management fees and higher fee and commission expenses (eg in the form of paid asset management and custodian fees). In the year under review, fund capital predicting developments in the fund management business volume increased distinctively.

Regular financial sector assessments

FIN-FSA publishes twice a year a comprehensive assessment of the financial position and risks of supervised entities. The assessment published in April is based on financial statements of the previous year and the assessment published in September on data available at the end of June. In assessments made in the year under review, FIN-FSA stated that the Finnish financial sector continues on stable footing.

FIN-FSA also published information on bank and insurance sector capital adequacy and solvency. These analyses were published in June and November on the basis of data available at the end of March and September, respectively.

The comprehensive assessments and analyses are only available in Finnish. For the respective press releases in English, see: **Fin-fsa.fi > Publications and press releases > Press releases.**

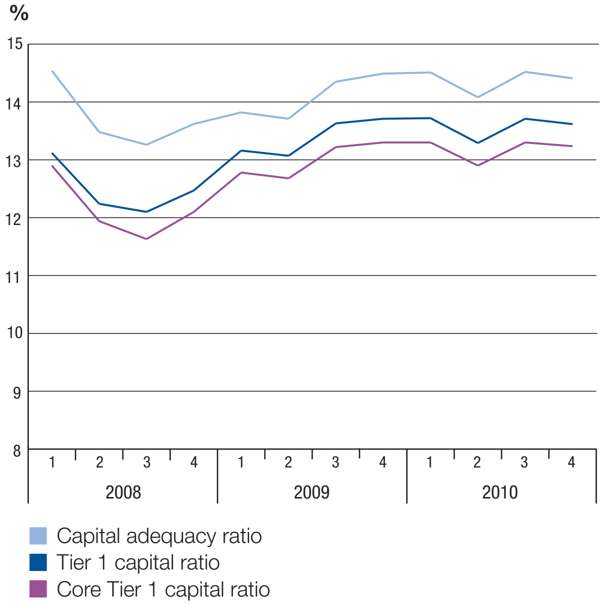
At the end of March, FIN-FSA published key financial figures of individual financial sector supervised entities, with comparable data, on its website under Statistics. Each supervised entity's key financial figures are compared with the figures of the respective banking group, credit organisation or investment firm. Comprehensive statistical data was published for the insurance sector, particularly in the latter part of the year.

Further information: **Fin-fsa.fi > Statistics**

Results of the national stress tests conducted in cooperation with the Bank of Finland in April–May were published in June. Results of the stress tests concerning EU banks were published in July. The EU stress testing exercise was conducted by CEBS in cooperation with national supervisors. Of the Finnish banks, OP-Pohjola Group was included in the exercise. Nordea Bank Finland and Sampo Bank participated in the test through their parent companies.

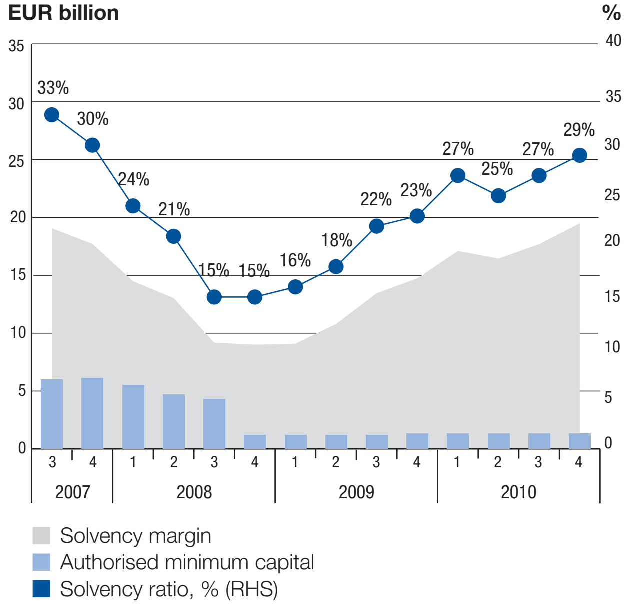
Both stress tests were conducted to assess the development of bank results and capital adequacy in a scenario of weak economic developments. It is worth noting that the test results were calculated without taking account of cost savings and other corresponding measures managements are likely to take in a real situation. The results of Finnish banks and insurance companies were similar in all stress tests: the capital adequacy of the Finnish financial sector would withstand even a severe weakening of operating environment.

Banking sector's capital adequacy ratio and Tier 1 capital ratio



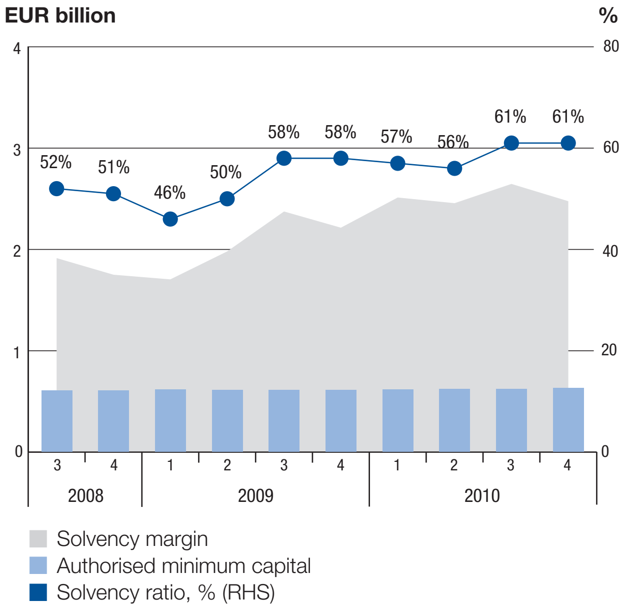
Source: Financial Supervisory Authority.

Solvency of employee pension companies



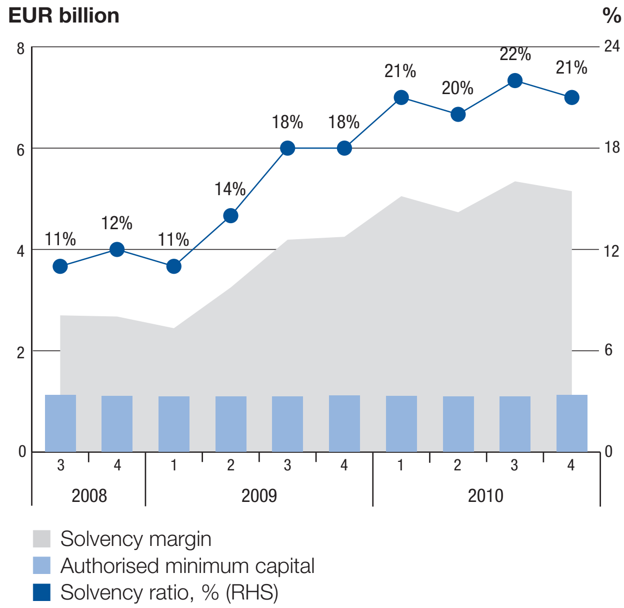
Source: Financial Supervisory Authority.

Solvency of non-life insurance companies



Source: Financial Supervisory Authority.

Solvency of life insurance companies



Source: Financial Supervisory Authority.

Promoting risk-based supervision

In line with its strategy, FIN-FSA emphasised risk-based supervision and a proactive approach to addressing any problems. Extensive inspections were carried out in the banking, insurance and pension insurance sectors, resulting in a number of corrective measures proposed to the supervised entities inspected. However, the observed deficiencies did not threaten the continuation of business at the supervised entities. FIN-FSA also made extensive improvements to its supervisory processes, risk analysis and supervisory reviews in order to promote risk-based supervision. Improvements were made in supervisory procedures particularly in the insurance sector. Cooperation with the Bank of Finland was increased in the analysis of risks affecting the operating environment, leading to reallocation of supervisory resources.

FIN-FSA carried out and published several regular evaluations of the financial status and risks of supervised entities as well as stress tests. These contributed to enhancing general public awareness on the status and risk-taking ability of the Finnish financial market.

Inspections

Inspection process was streamlined

Inspections are a key means of supervision that allow FIN-FSA to ensure the functioning of key procedures at the supervised entities, among them good risk management. The inspection process continued to be streamlined on the basis of the principles established in 2009. FIN-FSA focused its inspections on key risk areas and high-risk operators.

The selection of inspection targets is based on an analysis of reported data (risk reports and stress tests) and risks identified in the analysis. In the long term, adequate scope and regularity of inspections will also be taken into account. Smaller supervised entities are selected on the basis of the differentiation analysis, which in turn is based on reported data. Effective use of the analysis produced by FIN-FSA and the Bank of Finland has improved the focus of risk-based supervision.

In the period under review, FIN-FSA carried out extensive inspections in the banking, insurance, pension insurance and investment services sectors, totalling 49 inspections.

In what follows, we shall report on inspections carried out in prudential supervision. Inspections in customer and investor protection are reported on pages 28–30.

Banking sector focus on management of credit risk in recession

The most important inspection targets in the banking sector were the procedures related to the registering of impairment losses, management of credit risk and management of interest rate and liquidity risk. These areas were pronounced during the financial crisis and the ensuing recession. Management of credit risk at banking groups operating in more than one Nordic country was inspected as part of joint Nordic inspections.

The procedures in place at large banks to register impairment losses were found to be mostly in accordance with regulations. In contrast, distinct improvements were needed in smaller banks with respect to customer classification and identification of weak customers and in arranging independent management of credit risk irrespective of the line of business. No significant deficiencies were found in banks' interest rate and liquidity risk management, but inspections in this area will continue in 2011. In the future, FIN-FSA will coordinate development of liquidity risk management as a Nordic cooperation project.

In the period under review, FIN-FSA handled applications from several banks to start using the Internal Ratings Based Approach (IRBA) in the calculation of capital adequacy requirements. Evaluation of the reliability of procedures is an important part of prudential supervision. Smaller banks are also increasingly starting to apply for the right to use these more sophisticated methods. At the moment, four Finnish banks have the right to use the IRBA.

Special inspection of investment risk at employee pension companies

A fixed-term law was passed in December 2008 to amend capital adequacy regulations on employment pension companies, and this law is still in force. That is why investment risk management and capital adequacy management were subject to special inspection at employee pension companies, with areas of inspection including risk management and valuation of alternative investment and derivatives. The results show that risk management at employee pension companies is at a reasonable level, but improvements are needed in such areas as the valuation of investment and methods of risk management.

Inspections in the insurance sector expanded

Increasingly more inspections were carried out on insurance companies' investment activity. As with employment pension funds, a key focus area was the management of alternative investment and derivatives. The observations made were more or less similar in both groups. Inspections were also expanded to include operative risk (eg contingency planning). Observations showed that contingency plans were in place for critical functions, but they should be made more specific and be tested further.

In the future, inspections will be directed towards the calculation of technical provisions and preparedness as required in the new regulations (Solvency II). In the period under review, FIN-FSA made arrangements to begin advance evaluation of internal models as pertains to the calculation methods for insurance companies' own solvency requirements. In this connection, we also commenced Nordic cooperation on supervision procedures applied to internal models and calculation methods for technical reserves.

Customer recognition important in prevention of money laundering

FIN-FSA carried on inspections of risk management methods and systems related to the prevention of money laundering and financing of terrorism. Know-your-customer procedures and compliance with the Money Laundering Act are also key inspection targets when supervised entities apply for authorisation for business.

In accordance with the Act on Electronic Customer Identification[2], the largest banks and banking groups listed themselves in the register maintained by the Finnish Communications Regulatory Authority as providers of strong electronic customer identification. The statutory deadline for these notifications was the end of February. In this way, banks' specific electronic ID mechanisms became strongly recognised. The act aims to promote the provision of services that use the strong electronic customer identification mechanism and enhance customer confidence in the security of electronic identification and protection of privacy.

Changes caused disruptions to the payment system

In payment systems, inspections focused on banks' payment systems and changes implicated by the SEPA[3], settlement risk in FX transactions and card payments. FIN-FSA also carried out several inspections on banks' information systems and, for the first time, joined other Nordic supervisors for joint inspections. FIN-FSA proposed many improvements in banks' systems and processes to safeguard the reliability of payment and information systems.

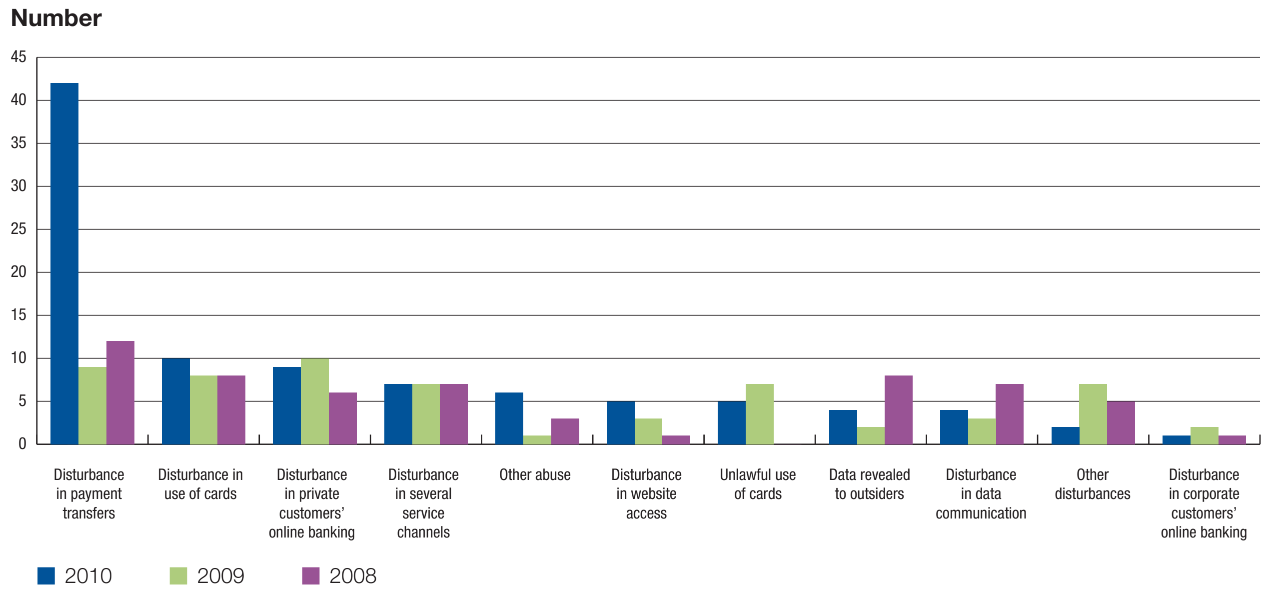
In the year under review and particularly towards the end of the year, banks' payment systems were hampered by several disturbances that were reflected in delayed payments of salaries and pension: either the pension or salary was not deposited to the account immediately following the change of banking day, but only later in the day. FIN-FSA and banks together examined reasons for these disturbances and FIN-FSA required that banks take corrective measures to reduce their propensity to disturbances. This work will be continued in 2011.

Reporting and analysis

Reporting and methods of analysis were developed to make continued supervision more efficient

Alongside inspections, reporting and methods of analysis are another key means of supervision to help detect risks

Disturbances in the payment system 2008–2010



Source: Financial Supervisory Authority.

2 Act on Strong Electronic Customer Identification and Electronic Signatures, effective as of 1 January 2009.

3 Single Euro Payments Area encompassing all EU and EEA countries as well as Switzerland.

and potential harmful deviations. Analyses are also used to allocate inspections.

To evaluate the adequacy of supervised entities' risk management procedures and capital adequacy (so called supervisory review), a framework was created to support scheduling, decision making and follow up. Within this framework, supervised entities are divided according to type and size, into three categories. This categorisation determines the scope and frequency of the supervisory review. The supervisory review enabled the supervised entities to receive increasingly comprehensive feedback, which they welcomed. The supervisory review will be enhanced in 2011 on the basis of new guidelines received from CEBS.

Bringing all previous reporting systems together into a single data collection concept, the insurance companies' reporting reform was the most important reporting project. The reform will improve the scope and quality of information submitted to supervisors, thereby enhancing the supervisor's ability to identify emerging risks in the financial sector. As regards banks, a pan-European development project FINREP[4] was set up for the collection of financial data (the profit and loss account and the balance sheet) and a decision was made to introduce a new framework in Finland with effect from 2013. Banks' capital adequacy reporting was revised to comply with amendments made to the Capital Adequacy Directives (CRD 2 and CRD 3) and a standardised and electronic reporting framework was prepared for the capital adequacy reporting of financial and insurance conglomerates. In addition, reporting obligations and data collection applications were defined for new supervised entities (authorised payment institutions and registered payment service providers).

Quickened banking sector reporting was discontinued

Commercial banks and financial conglomerates were asked to submit monthly reports during the financial crisis. The frequency for financial risk and capital adequacy reporting was returned to quarterly at the beginning of the year under review, because FIN-FSA regarded the normal reporting frequency as being largely adequate. Nevertheless, contacts with supervised entities were close in order to monitor current risk developments. Ad hoc surveys were carried out where necessary on, eg, Finnish banks', employee pension funds' as well as life and non-life insurance companies' liabilities in so called GIIPS countries.[5] Receivables in the financial sector were modest compared with its capital adequacy, and they shrank in the autumn following the exacerbation of the crisis. Please refer to the table on page 20.

Changes in supervised entities

At the beginning of the year, new applications for authorisation to operate as a savings bank were received from entities offering unsecured consumer credit and instant credit. The biggest challenges in meeting the criteria of authorisation were related to the applicants' business models, size of capital adequacy buffers, risk management processes, adequacy of overall funding and adherence to prudent business operating principles required from banks. In the period under review, FIN-FSA dealt with five applications but did not grant any new authorisations for operating as a credit institution or a savings bank. Four applicants cancelled their application before FIN-FSA's decision was made, and the inspection of one application carries on into 2011.

Five cooperative banks merged within the OP-Pohjola Group. Two of the mergers resulted in the setting up of a new bank. Some rearrangements were made in local cooperative banks, one of which was carried out as transfer of business and the rest as mergers.

A total of 15 applications for authorisation from management companies and investment firms were approved. Some of them were new applications and some were upgrades to current authorisations. Investment firms and management companies continued to outsource their functions, which makes risk management and internal supervision increasingly challenging. Investment firms outsourced such functions as compliance and back-office operations.

Five pension funds were dissolved either entirely or partly into employee pension companies. This corresponded to a reduction of nearly 20% in pension providers' combined pension liability and technical provisions. At the end of the year, pension funds' insurance technical provisions accounted for 6% of employee pension providers' combined insurance technical reserves.

The number of insurance associations continued to decrease as a result of mergers, with the total number of insurance associations being 63 at the end of the year compared with 70 at the beginning of the year.

The provision of payment services is subject to the Payment Institutions Act and the Payment Services Act, effective as of 1 May 2010. This resulted in those providing payment services without an authorisation joining, as new supervised entities, those already authorised and being supervised. With respect to the new supervised entities, FIN-FSA's role was concerned with general guidance and the handling of enquiries, requests for clarification and notifications as well as informing the supervised entities of statutory requirements.

4 Financial Reporting Framework.
5 Greece, Ireland, Italy, Portugal and Spain.

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Sofia Bank's authorisation withdrawn to safeguard depositors' and other creditors' interests

FIN-FSA withdrew Sofia Bank Plc's authorisation on 28 March 2010 and at the same time commenced winding up procedures for the bank. The bank had fallen below its 2% capital adequacy limit and its EUR 5 million minimum amount of own funds and therefore could no longer remedy the situation.

For Sofia Bank, its first year of operation 2009 had been heavily unprofitable. It had not been granted deposit bank authorisation until December 2008. For a fresh bank, the operating environment was difficult due to the financial crisis, and the losses incurred amounted to EUR 9.5 million. Through frontloaded recruitment the bank had increased its number of employees above 60, even though it just had started its operations, and thus the cost structure was not balanced by the scope of operations.

Minimum capital requirements were not met

The owners had not increased the bank's capital after the losses. Sofia Bank had tried to find another solution to the situation, when it no longer fulfilled the legally prescribed minimum capital requirements for banks. When the solutions aimed for did not materialise, the supervisory authority withdrew the bank's authority.

FIN-FSA appointed Jukka Laitasalo, Attorney, Merilampi Attorneys Ltd, as trustee and designated Jukka Aaltonen, Risk Specialist, as FIN-FSA's attorney in order to supervise matters related to Sofia Bank.

According to the trustee's report of 8 April 2010, damages to the depositors would remain rather low even in the worst case, as the bank's assets still exceeded its liabilities. A significant proportion of the balance sheet assets could also be promptly realised.

Most claims were paid out in just over a month

Sofia Bank paid out 85% of the claims of the depositors and money market investors already on 5 May 2010. In addition, at the end of May, the Finnish Deposit Guarantee Fund paid a maximum EUR 50,000 reimbursement to each depositor for remaining claims. After these payments, all the money of the deposit customers whose deposits had been less than EUR 340,000 had been refunded. Of the bank's five thousand deposit customers, 21 depositors and 21 money market investors still had to wait for the realisation of the bank's remaining assets. The bank's loan portfolio was sold in June and one of the fund investments in August. Funds were also collected through sales of other assets. The transfer of asset management and custody customers to other service providers was completed in November.

Composition ensured expeditious additional repayments

In October, the trustee offered a composition to the depositors and money market investors. According to the offer, the depositors and money market investors would regain 97.5% of their original claims, if they agreed to give up their demands regarding the missing 2.5%. The composition was to be realised on the condition that 98% of all liabilities were included in the consent. On 12 November, creditors representing more than 99% of all claims on capital to be repaid had consented to the offer. Sofia Bank performed the repayments on 15 November.

According to the composition agreement, the creditors retain the possibility to receive additional repayments, if the realisation of the bank's remaining illiquid assets succeeds. Even in the worst case, only about 0.5% of all deposits and claims of money market investors would remain unrepaid.

Sofia Bank has sued the bank's principal owner in Helsinki District Court. The lawsuit concerns the EUR 2.3 million subscription commitment unfulfilled by the principal owner. The final court ruling is expected to take several years.

Promotion of customer and investor protection

FIN-FSA provided increasingly more customer information about financial services, savings products and risks to loans. The authority also provided a wealth of information about long-term saving. Instructions were issued to banks regarding their procedures for the granting of housing loans, and the quality of information given to customers in connection with new long-term savings products was inspected. Initiated from the point of view of customer protection, these measures contributed to the improvement of risk awareness among housing loan customers, savers and investors.

No major deficiencies in market practices became apparent in the period under review, but disputes brought up earlier were handled for instance at the Securities Complaints Board. Where individual deficiencies were found, FIN-FSA required corrective action to be taken. The authority examined 70 cases of suspected abuse of the securities market. Inspections on product approval and sales processes were begun in accordance with the action plan.

Financial institutions

Recommendations were needed on banks' procedures for provision of housing loans

In March, FIN-FSA sent a letter to banks operating in Finland, encouraging them to assure themselves of their housing loan customers' ability to service their loans. The rise in household indebtedness and in the credit portion of housing loans in recent decades, combined with higher house prices and low interest rates, were causes of concern for FIN-FSA. The respective authorities in Sweden and Norway have also addressed this issue in their markets.

FIN-FSA prompted banks to calculate systematically private customers' housing affordability in servicing their housing loans at an interest rate of 6% and with a maximum of 25-year maturity, and to go through these calculations with their customers in detail. In addition, a 10% self-funded portion from customers was recommended. If the size of the housing loan exceeds 90%, the applicant's loan-servicing ability and collateral must be examined together with the applicant, and the decision on granting the loan should be made at a higher level than normal. Adherence to these recommendations will be evaluated with a comprehensive survey in early 2011.

Banks should keep their customers better informed of how their prime rates are formulated

According to a statement issued by FIN-FSA in December, customers should be better informed about banks' own reference rates. The amendment to the Consumer Protection Act, effective as of the beginning of December, emphasises that changes in reference rates must be carried out in an equal and non-discriminating manner. In order for customers to assess interest rate developments affecting their own loans and savings and compare banks' offers, it is important that they know the grounds for determining the interest rate and other related variables. Banks must notify their customers of any changes to these grounds. FIN-FSA recommends that in these circumstances, customers should be given the possibility of changing the type of interest rate they have, without incurring additional cost.

FIN-FSA guided providers of long-term savings instruments towards a shared operating practice

With effect from 1 April, an opportunity opened for banks, investment firms and fund management companies to offer bound long-term saving. FIN-FSA guided service providers towards a uniform and clear operating practice. This was done by addressing advance information about the service, content of savings contracts and other customer information.

Substantial differences were found in the notification phase in the operating models planned by service providers and in customer documentation. A number of discussions needed to be conducted with service providers about the nature of bound long-term saving.

Statistics collected by the Bank of Finland show that investment in long-term saving amounted to EUR 9.9 million at the end of the year, with 9,811 signed contracts.

Availability of basic banking services as before, and no major changes in pricing

FIN-FSA considers that the provision of basic banking services has remained as before. We are not aware of any cases of a supervised entity refusing to provide service without due cause.

No major changes have taken place in pricing, either, since the previous survey conducted in 2009. Of banks, 68% have raised their prices, but the increases have concerned selected products, such as direct debit cards and Visa Electron cards. The increases are likely to guide customers to select products geared towards the Single European Payment Area.

None of the banks charge a fee for their direct debit service. After direct debit, use of a bank's online facility is the most inexpensive method of paying invoices, and the most common monthly fee for this facility is EUR 2.50. Paying an invoice by cash at the bank was still the most expensive option, with the highest fee being EUR 7.00 per invoice.

Insurance sector

First survey of life insurance companies' principle of equity

In December, FIN-FSA published their first review of how the principle of equity operates in practice in the compensations paid by insurance companies. The biggest shortcomings were found in the information concerning the principle of equity, not so much in the implementation of the principle. The information was not easily accessible on companies' websites and had not been integrated as a key component of product information. Further objectives had not always been presented in a concrete manner, and the achievement of objectives was not always described. The descriptions also lacked clarity. Henceforth, the survey will be conducted annually.

Transfers of liability between employee pension institutions should not conflict with insured interests

In a statement issued on 29 December, FIN-FSA addressed the issue of transfers of liability between employee pension companies and specified the importance of the supervisor's agreement from the point of view of healthy development in the field, functioning competition and augmentation of risk. In evaluating whether it can give permission for transfer of liability, FIN-FSA must ensure that the transfer does not harm the built-in benefits of the insurances of either the assigning employee pension institution or the receiving company. The transfer may also not jeopardise healthy developments in the insurance business. With respect to the latter, it is important that transfers of liability are not coupled with property transactions or other asset rearrangements not relevant to or of significant value with respect to the assets being transferred. FIN-FSA's statement applies to the employer involved in the types of transfer of liability referred to here as well as to other entities where the employer in some other way or through its ownership may exercise actual control.

In practice, arrangements of this kind may exclude some employee pension institutions from the transfer of liability, thus weakening the effectiveness of competition. In addition, owing to increased risk they may jeopardise the bonuses built in the insurances in the receiving employee pension institution.

Transparency needed in the financing of wellness-at-work projects

FIN-FSA examined the new wellness-at-work projects targeted at new customers of employee pension companies and the cost of these projects: are customers treated in an equal manner and how these projects are financed. The responses received from the employee pension companies revealed differences in procedures and inaccuracies in regulations. While substantial investment was promised by some employee pension companies to promote the wellness at work of potential new clients, a more moderate approach was adopted by some others. This survey prompted FIN-FSA to propose to the Ministry of Social Affairs and Health that the regulations governing the financing of these projects be clarified and that the running of these projects be made more transparent.

Inspections and surveys

In the period under review, FIN-FSA focused its inspections on the areas of sales and development of investment products and the information provided about these products. Further areas included project registers of advisors serving listed companies, publication of share transactions and internal supervision of within unemployment funds.

Product approval processes of savings and investment products inspected for the first time

FIN-FSA launched inspections on product development and sales processes. This was the first time that FIN-FSA inspected approval processes applicable to savings and investment products. The purpose was to ascertain that the supervised entities have in place appropriate procedures for these products, commensurate to their own risk management and investor protector arrangements. The inspection was carried out on selected investment firms, management companies and credit institutions. In the future, inspections will also be carried out on insurance companies.

Preliminary findings show that those supervised need to specify the roles of the people involved in the processes, improve the testing of product yield prospects and provide clearer information to investors. Inspections on product development will be continued in 2011.

Obligation to provide information

Quality of simplified fund prospectuses has improved

The financial crisis revealed deficiencies in the information provided to investors by investment funds. In the period under review, FIN-FSA carried out a follow-up inspection on the simplified fund prospectuses provided by investment funds, and their quality was found to having been improved. However, the content and timeliness of the prospectuses leave room for improvement so that the investment policies and risks of funds will be clearly understood by investors and savers. The fourth UCITS Directive[6], due to enter into

6 Undertakings for Collective Investment in Transferable Securities, UCITS IV.

force in 2011, limits the size of the prospectus to 2 pages at the maximum and stipulates that the activities and risks of the fund must be described clearly and succinctly.

Marketing material of index-linked bonds has improved

FIN-FSA inspected the marketing material used to promote index-linked bonds and other structured bonds and found that the material had improved from the previous inspection conducted in 2008, but that room for improvement still remains. Increased clarity is needed in the use of the term 'capital guarantee' and in the presentation of risk in general and the risk associated with the issuer's repayment capacity in order for them to be understood by investors. Another area of improvement was the description of yield and the examples used. At the end of the year, FIN-FSA made a follow-up inspection that showed that, by and large, the deficiencies had been addressed.

Project-specific insider registers were inspected

FIN-FSA had previously found deficiencies in the project-specific insider registers of listed companies and their advisors and therefore carried out inspections in the period under review. FIN-FSA inspected the accuracy of the project-specific insider registers of investment firms and banks engaged in the provision of corporate finance services as well as the management of inside information. The purpose of the registers is to make the management of inside information more effective and improve the conditions for supervision. Project-specific registers also increase insiders´ legal safeguards. FIN-FSA found that some of the entities inspected had major deficiencies in the establishment, information content and management of the register. Two entities received a public reprimand from FIN-FSA regarding their negligence.

Compliance with the disclosure obligation regarding share transactions under inspection

In inspections and supervisory visits, FIN-FSA reviewed compliance with the disclosure obligation with respect to the OTC-market share transactions of intermediaries[7]. It is likely that the disclosure obligation will be extended to other financial instruments in the near future.

FIN-FSA found differences among those inspected in their preparedness and procedures for disclosure. The main channel of disclosure for the entities inspected was the disclosure service provided by the Helsinki Stock Exchange. Internal instructions regarding the disclosure were generally brief. In assessing the extent to which share transactions were subject to the disclosure obligation it became clear that the quality of transaction reporting (AKVA)[8] needs to be improved.

Fee structures of savings products are partly difficult to decipher

The survey revealed deficiencies in how the price of a unit-linked insurance is communicated in price lists and in the offers given customers, because the price of the insurance does not always include the prices of the associated investment basket and the products contained in it. Accordingly, it is difficult to make a clear understanding of expenses associated with unit-linked insurance.

By and large, funds provide a clear presentation of the expenses. However, performance-based fees charged by funds can be difficult to comprehend. The expenses of funds investing in other funds are also not always clearly explained in the marketing material aimed at customers.

In 2011, FIN-FSA will prepare guidelines for the presentation of expensed related to savings products and long-term savings contracts.

Inaccurate use of terms in profit forecasts by listed companies

FIN-FSA continued its on-site visits at listed companies, with the number of visits totalling 14. The focus was on, for example, the communications procedures employed by listed companies, particularly the smaller ones. The companies were given specific feedback during the visits and by letter about their performance in meeting the disclosure obligation.

FIN-FSA paid attention to the clarity and consistency in the use of terms used in profit forecasts. Very few companies had internal definitions for such qualifiers as 'somewhat' or 'substantially' used in the profit forecast to

FIN-FSA's 'Markets' release reaches listed companies

FIN-FSA published five issues of the Markets release, dealing with such topics as interpretations of the disclosure obligation and financial reporting regulation binding listed companies, insider issues, standards and observations about regulation. In the review period specifically, the themes addressed included regularity of listed companies' financial reports, main observations made during on-site-visits inspecting compliance with the disclosure obligation, ways of issuing future prospects and observations made about goodwill impairment losses.

7 Over-the-counter trading takes place directly between the bank and the customer.

8 Reporting and supervision system for securities trading.

describe changes in profit. FIN-FSA recommended that the company establishes what those qualifiers exactly mean, in terms of euro values or percentages.

Furthermore, it was not always explicit which item in the profit and loss account was meant by 'profit'. FIN-FSA urged the companies to ensure that the ways in which they describe future prospects are as explicit, clear and unambiguous as possible. The profit forecast must state explicitly the kind of profit and the forecast period they are referring to. The forecast should also always be justified and any uncertainties should be pointed out.

In the spring, FIN-FSA surveyed whether listed companies had returned to normal practice in issuing future prospects. The survey showed that the change in companies' profit outlook (ie the prospects were made for the following quarter only), arising from the financial crisis and its consequences, was temporary. However, with some companies the information content of the future prospects were still very general.

FIN-FSA underlined the importance of careful and up-to-date performance monitoring and that issuing a vague profit forecast does not free the company from the obligation of having to issue a profit warning in the event of a material change in the company's profit performance. FIN-FSA further emphasised that companies that had changed the performance outlook in the interim report should not postpone the decision about a profit warning to the board meeting where the interim report will be discussed, but information about a material change in the company's future prospects must be made public without any undue delay.

Interim reports by listed companies lacking in supplementary information to key figures

FIN-FSA found that listed companies do not provide enough commentary about the company's result, financial position and performance in interim reports. Listed companies fail to meet the requirements of the Securities Markets Act if they only provide key figures and comparative data without explaining the events or factors underlying the change in performance in the explanatory statement in interim reports. It is essential that companies analyse key events in the report period so that investors are able to interpret the key figures presented.

Furthermore, it was not evident if the condensed financial statements in interim reports had been prepared in accordance with IAS 34. Deficiencies were also found in notes to the condensed financial statements about acquisitions and in the presentation of earnings per share.

IFRS supervision put emphasis on careful preparation of financial statements by listed companies

The uncertain financial conditions also had an impact on IFRS supervision. Areas of supervision included impairment tests of goodwill, the treatment in the financial statements of covenants included in loan contracts, evaluation of the ability to continue as a going concern and the treatment in the financial statements of cuts in defined pension benefit plans. Other current themes included the application of the new standards on acquisitions and segment reporting, the calculation of earnings per share and the treatment in the financial statements of discontinued operations. In the comprehensive inspections of IFRS-financial statements, the focus was on, for example, the careful preparation of the financial statements.

Closer cooperation with the auditing board

Towards the end of the year, FIN-FSA and the auditing board of the Central Chamber of Commerce started to work in closer cooperation by channelling their inspections on the same financial statements. FIN-FSA focused on how the financial statements had been drawn up and the auditing board on how the auditors had inspected the financial statements. The purpose of the cooperation is to make supervision of financial reporting more effective with the aim of promoting confidence in financial reports.

Unemployment funds urged to develop responsiveness to changes in the employment situation

In internal supervision by unemployment funds the focus of inspections was on the planning of operations, risk management of the fund with a particular emphasis on potential changes in the employment situation and on foreseeing rises in unemployment. We inspected 10 unemployment funds, chosen on the basis of risk, whose membership accounted for 60% of all members of unemployment funds. FIN-FSA found that the funds had improved their preparedness for handling a different volume of applications. With respect to the level or risk management, differences between the inspected funds were found. FIN-FSA issued instructions to funds that were found to be lacking in risk management.

Supervision of trading and inspection of market abuse

International cooperation between authorities important in the supervision of securities trading

Securities trading has been split between stock exchanges and alternative market places (such as Burgundy and Chi-X) The changes in the execution of orders and the

A dedicated website for financial customers was launched at the investment fair in November

FIN-FSA launched a dedicated website to serve as the new primary channel of customer edification. On this website FIN-FSA describes and explains expenses and risks associated with financial services and products. The website also highlights the responsibilities of both customer and service provider. While the customer is responsible for finding out what they are buying, the service provider is responsible for providing the customer with essential information in an understandable manner. The website provides particularly detailed information about mortgages and long-term saving.

At present, the website is available in Finnish and in Swedish and is being translated into English.

In March, FIN-FSA attended the Vero 2010 (tax affairs) and Sijoitus-Invest 2010 (investment affairs) fairs and delivered a total of 15 briefings on matters of particular interest to those attending the events. FIN-FSA experts also delivered presentations at the Bank of Finland Museum on four occasions.

FIN-FSA published a general brochure that provides an overview of its activities, scope of authorisation and funding.

In matters dealing with customer protection and customer edification, FIN-FSA works in collaboration with the Finnish Financial Ombudsman Bureau (FINE) and the National Consumer Administration.

FIN-FSA is also involved in a two-year project launched by the National Consumer Research Centre to improve consumer understanding of economic and financial affairs.

Visit: **Financialcustomer.fi** (to be published later in 2011)

Inspected cases of suspected market abuse, requests for investigation and administrative fine in 2002–2010

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total investigations	**65**	**57**	**61**	**41**	**62**	**65**	**62**	**74**	**70**
Abuse of inside information	24	28	24	18	29	45	27	37	27
Market manipulation	11	11	12	6	10	5	11	17	11
Disclosure obligation	30	18	21	13	21	12	12	16	25
Sundry Other	0	0	4	4	2	3	12	4	7
Request for police investigation	6	7	5	1	3	2	5	-	3
Public reprimand	-	-	-	2	-	1	1	5	3
Public warning	-	-	-	-	-	-	1	-	-
Administrative fine	-	-	-	-	-	-	14		1

For more information about sanctions and administrative fines, please visit **Fin-fsa.fi > Regulation > Sanctions.**

transition to central counterparty clearing[9] will make supervision increasingly challenging.

FIN-FSA and the rest of the Nordic supervisors are seeking to improve transparency by using the trades reporting system that collects reports of trades from stock exchanges and alternative trading places. European supervisors are harmonising trade reporting requirements. Trade reporting will include OTC derivatives in 2011. This will partly increase the scope of trading surveillance.

70 cases of suspected market abuse inspected

FIN-FSA inspected a total of 70 cases of suspected market abuse and made three investigation requests to the police, gave three public reprimands and issued one

9 The central counterparty (CCP) is an infrastructure operator engaged in the definition and netting of financial transactions in equities. A CCP adds up the trades of each clearing party acting on behalf of different brokers. The CCP then calculates multilateral nets, ie computes to each a net cash payment or a net cash receivable and an obligation to deliver or a right to receive a corresponding net amount of each instrument type. This reduces substantially the number of trades to be cleared. The CCP routes the data to the clearing house maintained by the Securities Depository, where the transfers of securities and money take place.

administrative fine.

Two of the public reprimands were concerned with negligence in complying with the responsibilities related to inside registers and one with negligence in fulfilling the regular reporting requirements. The administrative fine was imposed for a breach of the rules of a mutual fund.

FIN-FSA received from brokers six notifications of suspicious securities transactions or other suspected transactions and the trading surveillance of the Helsinki Stock Exchange reported 17 cases.

Other authorities issued seven requests for judicial assistance to FIN-FSA, while FIN-FSA requested for judicial assistance from two supervisors.

System changes the focus in infrastructure supervision

FIN-FSA supervises financial market infrastructure in close cooperation with the Bank of Finland. Key areas of cooperation in the review period were the reform of the Securities Markets Act, EU level projects relating to securities clearing and supervisory cooperation between Euroclear Finland Oy and the Euroclear group.

FIN-FSA assessed the smoothness and reliability of clearing by Euroclear Finland as well as the company's outsourcing and development projects.

As regards NASDAQ OMX Helsinki Oy (Helsinki Stock Exchange), supervision focused on market models for trading as well as development projects concerning the organisation and operations of the stock exchange designed to ensure the reliability and objectivity of trading, stock-exchange risk management and ensuring the continuation of business.

Enquiries about Sofia Bank raised the number of customer contacts

FIN-FSA's telephone help line handles customer enquiries from the banking, insurance and investment sectors advising on the procedures required to be observed by different companies operating in the financial market. In 2010, the help line dealt with some 230 enquiries. FIN-FSA also handled 140 other telephone enquiries and some 260 written enquiries. Of all enquiries, approximately one half were concerned with banking, one third with insurance and one sixth with investment. In banking, the most common enquiries were concerned with credit, in insurance the reimbursement process and in investment securities brokerage.

The telephone help line service was expanded in April due to the winding-up of Sofia Bank plc, when the help line dealt with some 260 telephone enquiries and 30 written enquiries dealing solely with the winding-up.

Intensification of international supervisory and regulatory cooperation

In line with its objectives, the Financial Supervisory Authority (FIN-FSA) has been actively involved in international supervisory cooperation in areas important for the Finnish financial markets. Development of information provided to retail customers and cooperation in prudential bank supervision in connection with cross-border groups have been among the key priorities. FIN-FSA contributed to the creation of the new EU supervisory framework through participation in EU-level cooperation between supervisors.

Progress was made in the work of Nordic colleges of supervisors in respect of cross-border groups, among others, due to the evolution of forms of cooperation into well-established processes. Nordic-level information exchange and cooperation take place in close interaction.

International supervisory cooperation was intensified further

FIN-FSA took active part in drafting European guidelines concerning risk management, sound governance and cooperation in colleges of supervisors by working within the Committee of European Banking Supervisors (CEBS) and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). Owing to the internationalised structure of the Finnish financial sector, guidance aimed at enhancing the functioning of colleges of supervisors is of particular importance to FIN-FSA. In drawing up this guidance, use could be made of Nordic supervisors' long-time experience of working together within a college-type structure, which the CEBS peer reviews also deemed as functioning well.

Moreover, FIN-FSA participated actively in the work of CEBS and CEIOPS on EU-level risk assessments and development and implementation of stress tests. In the year under review, analyses were undertaken, for example, of risks to the banking sector from debt accumulation in EU Member States and of the impact of such risks on market liquidity. In June-July, CEBS carried out stress tests among the EU's largest banks, for which the results were published in July. CEBS was responsible for the coordination and consistency of the tests, in cooperation with the European Central Bank. In Finland, the OP-Pohjola Group participated in the test and cooperated with FIN-FSA on the stress test calculations. The OP-Pohjola Group passed the test without difficulty. In order to increase market confidence, FIN-FSA laid particular emphasis on the importance of transparency in public disclosures of bank risks. CEIOPS was the coordinator of EU-wide stress tests for the insurance sector.

CEIOPS's work was largely focused on revising the solvency requirements for the insurance sector (Solvency II), in which FIN-FSA took part via many sub-working groups. FIN-FSA also launched an internal project aimed at safeguarding the supervisor's readiness for the introduction of revised Solvency II rules and supporting supervised entities in their respective preparations. The results of the Solvency II impact study will be published in spring 2011. As regards changes in Finnish legislation, FIN-FSA was closely involved in the work initiated by the Ministry of Social Affairs and Health.

Resource input in the work of CEBS and CEIOPS was otherwise focused on selected areas. In addition to the issues mentioned above regarding regulatory and supervisory cooperation, the contribution of FIN-FSA to the efforts of CEBS and CEIOPS was mainly concentrated on the development of reporting systems and risk and capital management requirements, including questions concerning the use of internal models. FIN-FSA is also represented on a CEIOPS committee in charge of preparing advice to the Commission in respect of a new Insurance Mediation Directive (IMD).

Work within the Committee of European Securities Regulators (CESR) centred on Standing Committees. Practical issues regarding prospectus supervision were dealt with in the Corporate Finance committee, while questions related to enforcement processes of financial reporting standards were handled in European Enforcers' Coordination Sessions (EECS), subordinated to the Corporate Reporting committee (CESR-Fin). FIN-FSA had four cases entered into the EECS database of enforcement decisions.

FIN-FSA has chaired (Anneli Tuominen, Director General) a working group, jointly formed by CESR, CEIOPS and CEBS, responsible for dealing with the Commission's project on Packaged Retail Investment Products, ie PRIPs (investor information on products offered to retail investors and related sales practices) aimed at adopting a horizontal regulatory approach to such product disclosures and sales practices. FIN-FSA has also held the chairmanship (Jukka Vesala, Deputy Director General) of a Groupe de Contact sub-committee in charge of developing CEBS supervisory cooperation (work in supervisory colleges, joint risk and capital adequacy assessments, Pillar 2 capital requirements, stress tests and EU banking sector risk assessments) and liquidity monitoring. Furthermore, a FIN-FSA representative (Jukka Vesala) has headed supervisory committees' joint reporting on financial-sector risks. Arja Voipio, Adviser, has chaired the CESR IT Management and Governance group. These areas take centre stage in ensuring the interests of the Finnish markets and exercising effective financial-sector supervision.

A major challenge for international cooperation continues to reside in an effective and timely allocation of resources to projects of key importance for Finland. Finland is not involved in the work of the Basel Committee on Banking Supervision, which develops many of the main regulatory orientations for the banking sector. FIN-FSA seeks to influence Basel Committee work through opinions of the Euro Banking Association (EBA).

As soon as the working methods and regulatory processes of the EU supervisory authorities, in operation since 2011, have taken shape, FIN-FSA will formulate its own models of action with a view to ensuring the supervisor's possibilities of exerting influence in the new operating environment. Cooperation with ministries will be increased.

FIN-FSA contributed to Nordic supervisory cooperation

The Nordic supervisory colleges intensified and further developed their work, for example, by reorganising supervisory cooperation concerning the Sampo Group and supervisory cooperation concerning the OP-Pohjola Group with Baltic supervisors. FIN-FSA stepped up cooperation with the Swedish supervisor in respect of the supervision of Handelsbanken's Finnish branch. The Sampo Group was brought within conglomerate supervision following an increase in Sampo Plc's ownership in Nordea in excess of the 20% threshold in December 2009. Sweden, Denmark and Norway participate in conglomerate supervision led by FIN-FSA. Meanwhile, supervisory cooperation concerning the OP-Pohjola Group commenced with Nordic and Baltic supervisors. Supervisory cooperation and information exchange across the Nordic countries concerning cross-border groups currently take place on firmly established principles, in respect of all major market players.

Pan-Nordic inspections were carried out at higher frequency and on a wider scale with first-time inclusion of supervised entities' information systems in inspections. FIN-FSA was active in launching cooperation on the convergence of bank inspection practices and the development of liquidity monitoring. Likewise, upon Finland's initiative, the practice of holding Nordic supervisor meetings was started as a forum for addressing the harmonisation of bank reporting. In the insurance sector, joint working groups commenced work on uniform Solvency II enforcement in the calculation of technical provisions and adoption of internal models.

Supervision of securities markets infrastructure requires international cooperation

Euroclear Finland Ltd is part of a multinational Euroclear Group. Supervisory cooperation between supervisors and central banks focused on monitoring projects of key importance to the Group and safeguarding business continuity. FIN-FSA cooperated closely with the Bank of Finland in this connection.

Nordic supervisory cooperation concerning NASDAQ OMX is well-established, regular and effective. Supervisors prepared common positions on the most important projects (eg migration to the central counterparty clearing environment and introduction of the new INET trading system). The Memorandum of Understanding concerning stock exchange supervision was revised, and Iceland, too, joined the supervisory cooperation regime.

In collecting and maintaining transaction reports, FIN-FSA makes use of a system developed as a Nordic cooperation project. In the year under review, the Nordic countries renewed the agreement on the system, whereby the aim is to achieve harmonised and cost-effective solutions. FIN-FSA participated in cooperation on transaction reporting within CESR, too, which worked on developing transaction reporting for market supervision purposes and on harmonising European transaction reporting requirements.

Decisions made on the new EU financial supervision system

The new EU financial supervision system commenced operations at the beginning of 2011. FIN-FSA contributed to the creation of the system via CEBS, CESR and CEIOPS and the CEBS Bureau (in which Jukka Vesala, Deputy Director General and Chairman of the Group de Contact, participated). The reform enables regulatory harmonisation and convergence of supervisory practices, as well as delivery of responses to financial-system risks. However, it fails to provide the best possible ways of increasing efficiency in the supervision of large multinational conglomerates. The system structure has also become rather heavy.

The spectrum of tasks conferred on the European Supervisory Authorities is broader than that of the former committees of supervisors. Exerting influence within the new institutions underlines the need for FIN-FSA to effectively prioritise its objectives and focus its resources on key areas.

EU's system of financial supervision commenced operations

The financial crisis exposed material shortcomings in international supervision and particularly in the coordination of financial markets. Swift and decisive measures were taken to correct the situation. After mapping the supervisory development needs, the de Larosière Group published its suggestions for revision of the system of supervision in early 2009. In late 2009, based on the group's suggestions, the EU Commission issued its proposal for regulations on a new European system of supervision. The regulations were approved in November 2010 and the operations of the new system of supervision commenced at the beginning of 2011.

The European system of financial supervision is composed of three supervisory authorities: the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA). The new authorities continue the work of the previous supervisory committees. However, the powers of the authorities are clearly broader than those of the committees and their legal status as part of the organisation of EU authorities is more specific. The system also comprises the European Systemic Risk Board (ESRB) operating in conjunction with the European Central Bank as well as the Joint Committee of the European Supervisory Authorities and the national supervisory authorities.

The EBA is located in London and ESMA in Paris. The EIOPA and ESRB are placed in Frankfurt. The European supervisory authorities and ESRB are responsible to the European Parliament and Council for its operations.

Erkki Kontkanen
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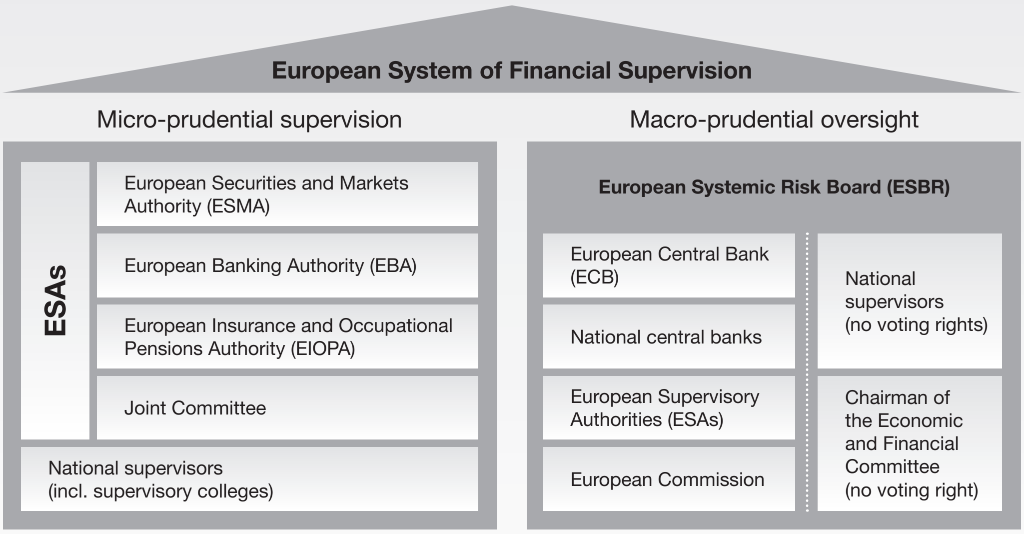
EU's new framework for supervision



International supervisory cooperation increasing, supervisory procedures subject to harmonisation

The structure and contents of the tasks and objectives stipulated for the banking, insurance and securities authorities are largely harmonised between all three authorities. The objective of the authorities is to improve the functioning of the internal market by ensuring appropriate, efficient and harmonised European supervision. Special attention has been paid to providing an appropriate risk management. Improved customer protection has been chosen as one of the key objectives of the new supervisory authorities.

The authorities contribute to harmonised application of EU regulations, particularly by promoting a uniform supervisory culture and harmonised compliance with regulations. Clearly the new supervisory authorities increase international supervisory cooperation and harmonised supervisory procedures. The role of the supervisory authorities is also important in crises, when they coordinate the operations of national authorities.

The authorities also play an important role in promoting transparency and clarity in the whole internal consumer market for financial services and products. Under regulated conditions, the authorities can impose a temporary prohibition or restriction of such actions in the financial sector that could jeopardise the function of the financial market or the stability of the financial system or part thereof in the European Union.

Significant power to issue norms

The European supervisory authorities have also been granted the power to issue norms. In their own sector, they issue guidelines, recommendations and particularly binding technical standards, which the European Commission confirms. Binding standards have to be of a technical nature. They may not contain strategic decisions or courses of action. The task given to the new authorities to prepare binding standards partly changes FIN-FSA's position in the preparation of regulations, because FIN-FSA, as the sole Finnish authority, participates in the legislative work carried out in the supervisory authorities.

In terms of guidelines and recommendations issued by these authorities, it has to be taken into account that each competent authority within two months of the issuing must confirm its intention to comply with the guideline or recommendation. If the competent authority does not intend to comply with the relevant guideline or recommendation, it must submit the grounds for its decision to the respective European authority. If so required in the guideline or recommendation, the supervised entities must also inform whether they intend to comply with the relevant guideline or recommendation.

In certain situations, the European supervisory authorities can make a decision that directly obliges a supervised entity operating in the financial market. These decisions must be followed also in spite of a possible previously-made differing decision on the same matter by a national supervisory authority.

The administrative structures of the supervisory authorities are harmonised. Each authority has a board of supervisors, management board, chairperson, executive director and board of appeal.

The funding of the European supervisory authorities is composed of obligatory contributions from national financial supervisory authorities and a subsidy entered in the general budget of the European Union. In addition, the authorities may, under certain conditions, levy processing fees. The contributions of national supervisory authorities cover 60% and EU's share 40% of each supervisory authority's budget. In 2011, FIN-FSA's share will amount to EUR 0.5 million or 2% of the total amount of the various national financial supervisory authorities' contributions.

European Systemic Risk Board for the macro-prudential oversight

The European Systemic Risk Board is responsible for the macro-prudential oversight of the financial system. The purpose of the oversight is to prevent emergence of systemic risks to the financial stability and mitigate their impact as well as support financial sector consideration of macro-economic developments.

The European Systemic Risk Board and the European supervisory authorities exchange risk information that they need for performing their tasks. If the ESRB takes the view that significant risks related to the macro-prudential oversight of EU's financial system have arisen, it can issue warnings and recommendations for corrective measures, as required. The warnings or recommendations can be of a general or specific nature. They can be directed to the whole European Union, to one or several member states, to one or several European supervisory authorities or to one or several national supervisory authorities.

The units of the ESRB are the general board, steering committee, secretariat, advisory scientific committee and advisory technical committee.

See also:
eba.europa.eu
esma.europa.eu
eiopa.europa.eu

Transition towards a unified way of working

The work to define and implement FIN-FSA's core processes progressed according to plan and efficiency objectives were set for the processes. Operations will be improved via the adjustments made to the organisation with effect from the beginning of 2011. Cooperation with domestic authorities was increased.

FIN-FSA focused on improving and standardising the set of tools used to analyse data received through reports and on inspection visits.

FIN-FSA staff attended a total of 656 training days on such issues as Solvency II, UCITS IV, AIFM and other training on new regulations as well as foundational and advanced courses on derivatives.

Implementation of the programme of measures drawn up on the basis of the findings of the atmosphere survey, conducted in 2009, continued. FIN-FSA's set of values were confirmed in December.

FIN-FSA joined forces with the Bank of Finland and different ministries to improve monitoring and evaluation of risks affecting the financial market. FIN-FSA also consulted the Bank of Finland in selecting its inspection targets.

Key processes at FIN-FSA are: inspection, supervisory review, issuing of sanctions and granting of authorisation. Process descriptions and efficiency objectives were drawn up for all of them in 2009–2010. The drawing up of the process descriptions was a meaningful exercise in creating shared ways of working for the newly established organisation.

Objectives and structure for the new set of regulations and guidelines were defined

FIN-FSA's regulations are currently a compilation of the standards issued by the former Financial Supervision Authority and the set of regulations and guidelines issued by the former Insurance Supervision Authority. They will be incorporated into FIN-FSA's collection of regulations and guidelines. In May, FIN-FSA solicited feedback about the basis and proposed structure for the revised collection of regulations and guidelines and received 18 statements, which were broadly in favour of the proposal.

Basis for the reform:

- The collection will be divided into subject areas but, where necessary, within each subject area and in the case of individual regulations/guidelines, institutional needs for differentiation as well as differences between small and large operators will be taken into account.
- Where binding regulations and guidelines with a recommendatory nature concern the same topic, they are presented in the same connection but distinctly separate. Where necessary, examples and application instructions are given.
- Where necessary, reference is made to national legislation and to binding rules and non-binding recommendations issued by the new supervisory authorities of the EU.

The preparation of individual regulations and guidelines begins in 2011. The reform will progress in stages by the end of 2012 in such a way that any national or EU-level legislative amendment processes will be incorporated.

Values were established together

The transition to a new operating culture was facilitated through the process of defining FIN-FSA's values.

Our values	What do they mean in practice?
Dynamic	We are pro-active in perceiving changes in our operating environment and supervised entities and continuously develop our activities accordingly. We follow developments in real time and are actively involved in progress at the international level.
Responsible	Our activities are consistent, constructive and of the highest quality. We are aware of the consequences of our actions. We communicate openly, bearing in mind our responsibilities.
Productive	We concentrate on essentials. We take responsibility for our own and the whole organisation´s results. We are vigilant and take swift action when needed.
Together	We are a supportive working community. We learn constantly and support others in their own professional development. We create a positive team spirit. We work in good cooperation with all our stakeholders.

In the autumn, an organisational functionality evaluation was carried out, the results of which were used to specify the division of labour between offices and units. Some jobs were transferred within the organisation from one office or unit to another, resulting in seven people changing their positions in the organisation. The changes took effect on 1 January 2011.

Competence development

The largest training project was Solvency II, a comprehensive foundational training package, through which some 50 FIN-FSA professionals received training in the spring and autumn. In addition, more advanced training on some specific areas of Solvency II, such as internal models, were arranged. Internal training was also provided about the amendments to the Securities Markets Act, the AIFM[10] and UCITS IV directives and reinsurance. A training package on derivatives was delivered in December with more than 50 staff attending.

In the review period, nine superiors started a tailored coaching programme. The programme has been started or completed by 86% of the organisation's current superiors.

10 Alternative Investment Fund Managers.

Banking sector

Substantial changes to capital adequacy regulation for the financial sector

The numerous shortcomings revealed by the financial crisis in the capital adequacy regulation of credit institutions are being remedied at EU and national levels through a three-phase regulatory reform agenda. The Financial Supervisory Authority (FIN-FSA) participated in the preparation of the relevant legislation within the EU, together with the Ministry of Finance.

Directive amendments concerning regulation of large exposures, liquidity risk and securitised assets, international supervisory cooperation and the structure of regulatory capital (CRD 2) were implemented in Finland via legislative changes that came into force on 31 December.

The regulatory changes of the second phase (CRD 3) are related to market risks, resecuritisation and remuneration schemes. It was found that credit institutions' internal models used for the calculation of the capital requirement for market risks underestimated risks, which necessitated a further tightening of regulation. It was also necessary to harmonise the treatment of securitised assets between the capital requirements for credit risk and market risk. The changes to capital requirements concerning market risk and risks related to resecuritisation will become effective on 31 December 2011; other CRD 3 amendments already entered into force on 31 December.

The amended capital requirements directive CRD 3 obliges Member States to ensure that supervisors have adequate powers to impose financial sanctions on supervised entities. The powers of the Finnish supervisor are not quite at the level of those of other European supervisors, but relevant legislative changes are in preparation.

The most significant initiative for Finnish credit institutions is the pending Basel III reform (CRD 4), which includes major changes for credit institutions, due for implementation in 2013–2018. The Commission is expected to publish its draft directive on regulatory changes in summer 2011.[11]

New Basel III capital adequacy and liquidity requirements have taken shape

The Basel III requirements will considerably increase the amount of credit institutions' higher-quality equity capital eligible for capital adequacy calculation and improve their quality and thereby the sector's ability to absorb losses. Second, credit institutions are required to augment their capital buffers beyond statutory minimum limits, in order to be able to absorb losses in the face of weaker economic developments, without reaching statutory minimum limits.

To complement the risk-based minimum capital requirement, a new simple non-risk-weighted limit on leverage, ie the leverage ratio, is to be imposed on credit institutions. The leverage ratio is thought to act as a regulatory instrument to cool down the overheating of the financial system. In a situation where credit growth is too fast, it will also be possible to impose on credit institutions an obligation to accumulate additional capital buffers (ie counter-cyclical capital buffers).

A very important reform included in Basel III takes the form of quantitative liquidity standards imposed on credit institutions. Credit institutions will be required to hold on their balance sheets such amounts of high-quality and liquid assets as enable them to withstand short periods of financial stress. Subsequently, credit institutions will be subject to another requirement to hold adequate levels of long-term funding.

A total of 14 Finnish credit institutions, coordinated by FIN-FSA, participated in a Quantitative Impact Study (QIS) conducted to assess the impact of the Basel III regulatory changes proposed by the Basel Committee on Banking Supervision. The Committee published the European-level results of the study in December. The results were made use of in the finalisation of the regulatory reforms. The heads of G20 countries endorsed the Basel III bank capital and liquidity proposals at their November meeting. The European Commission is expected to submit its draft directive in spring 2011. The changes of key importance for the Finnish banking sector would include deduction from Tier I capital of investments in insurance companies, stricter treatment of supplementary cooperative capital of banks in the form of cooperatives and higher liquidity requirements.

It is also important for Finland to ensure the adequate liquidity of foreign banking groups' subsidiaries and branches accepting deposits in Finland. Sufficient liquidity reserves must be based in Finland in order to provide safeguards for Finnish depositor interests under all circumstances. Insolvency legislation is not convergent across EU countries, and transfer of funds from abroad to Finland cannot be guaranteed. FIN-FSA has also wanted to ensure adequate supervisory powers over branches, as it should be possible to prevent branches' potential liquidity problems from spilling over to Finnish banks.

More specific regulation on remuneration

EU-level regulation on remuneration for the financial sector was specified in respect of credit institutions and certain investment firms. This regulation came into force on

11 The Basel Committee on Banking Supervision published its own Basel III recommendations on 16 December.

New capital adequacy requirements

Minimum capital requirements and buffers (relative to risk-weighted assets) %

	Common equity	Tier I capital	Total regulatory capital
Minimum amount (2015–)	4.5	6.0	8.0
Capital conservation buffer (2019–)	2.5		
Minimum amount + capital conservation buffer	7.0	8.5	10.5
*Counter-cyclical buffer)	0–2.5		
Currently	2.0	4.0	8.2

*Quality requirement: common equity

Timetable for leverage ratio and liquidity requirements

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Leverage ratio	Development of data collection		Reference period 1 Jan 2013 to 1 Jan 2017 Release					Migration to Pillar 1 treatment	
Liquidity coverage ratio		Observation period begins			Minimum requirement introduced				
Net stable funding ratio		Observation period begins						Minimum requirement introduced	

31 December, as part of the CRD 3 reform package. The European Commission also outlined principles in the nature of recommendations for remuneration in insurance companies. The regulatory amendments were necessary because the remuneration schemes of credit institutions and other financial-sector companies had led to excessive risk-taking at global level. In Finland, however, in regard to remuneration, excesses similar to those identified in some international financial-sector companies were not revealed.

In February, FIN-FSA issued a recommendation on remuneration to all supervised entities, according to which supervised entities must ensure that remuneration schemes do not include elements encouraging uncontrolled risk-taking or destabilise companies or even the markets. The new EU legislation on remuneration in the financial sector was implemented in Finland via legislative amendments and a Ministry of Finance decree that became effective at the end of December. FIN-FSA will supplement its earlier recommendation in spring 2011. The draft recommendation, circulated for comment, provides more detailed guidance on the application of the principle of proportionality included in the decree and invites all supervised entities to comply with the regulatory principles issued for the financial sector.

Legislative change enabled a more flexible use of covered bonds

An important project in banking regulation at national level was the revision of legislation on mortgage banks. The new legislation entered into force in August and enables credit institutions to issue covered bonds without using special purpose vehicles. The activity calls for separate permission. Following the legislative change, issues of covered bonds by Finnish banks have increased significantly, which brings greater efficiency to bank funding and management of financial risks, while providing access to higher levels of euro-denominated financing in Finland.

Regulatory initiatives for crisis management provide tools for proactive supervision

The EU commenced broad-based work on the development of crisis management regulation for the financial sector. Submission of directive proposals is expected in 2011. The key principle of the EU plans is that banks must be allowed to fail, but the consequences of bank failures must not jeopardise financial stability or expose taxpayers alone to bearing the costs involved. The aim is to provide authorities with effective early intervention tools in respect of distressed banks and with powers to resolve bank operations in a crisis situation.

From the supervisor's point of view, the introduction of supervisory measures enabling early intervention would be an important reform. Supervisors would be provided with better chances of intervening in a supervised entity's activities at an adequately early stage before liquidity or capital adequacy is already jeopardised.

Another European Commission initiative dealt with the establishment of national ex ante bank resolution funds. The aim is to make banks responsible for the costs arising from the resolution of financial crises.

FIN-FSA considers it a good thing that preparations within the EU, prior to adoption of the relevant regulation, would include an assessment of the impact of contributions (bank levies) to resolution funds.

Deposit insurance threshold raised to EUR 100,000

The maximum amount to be compensated for under deposit insurance rose from EUR 50,000 to EUR 100,000 with effect from 31 December. FIN-FSA must decide on payments made from the Finnish Deposit Guarantee Fund within five banking days from the commencement of the bank's permanent insolvency. Previously, such a decision had to be made within 21 days. The time reserved for the payment of compensations is shortened from three months to 20 business days, which can be extended by a maximum of 10 business days.

Act on amalgamation of deposit banks in force

The act that came into force on 1 July extended the possibility of applying an amalgamated structure to all forms of credit institutions, thereby putting different types of credit institutions on an equal footing in this respect.

Previously, an amalgamated structure was only allowed for credit institutions in the form of cooperative banks, and regulation concerning amalgamation was part of the Act on Cooperative Banks. At the same time as the separate Act on the amalgamation of deposit banks was adopted, a number of amendments were made to provisions governing amalgamation.

The central institution and the member credit institutions belonging to the amalgamation continue to be mutually responsible for each others' debts. The new Act clarified the content of mutual responsibility.

Insurance sector

Solvency II to harmonise regulation of insurance companies

The Solvency II Directive will introduce uniform, risk-based solvency requirements and requirements for sound governance, particularly for the risk management function, on insurance companies operating in the EU region, as well as harmonised principles for insurance supervision. The new requirements are likely to be applied as from 1 January 2013. The Commission is expected to submit its proposal for the implementing measures of the directive (level 2 implementing measures) in June 2011. These will probably take the form of direct EU regulations, which need not be transposed into national legislation. FIN-FSA lends support to the representatives of the Ministry of Social Affairs and Health in their legislative preparations within the EU.

The Solvency II working groups set up by the Ministry of Social Affairs and Health are responsible for issuing the necessary legislative proposals, which must also take a stand on the regulation of those life and non-life insurance companies that are not compelled to comply with the Solvency II Directive. FIN-FSA takes active part in the efforts of the working groups, for example, by assuming a leading role in the solvency sub-group (Hely Salomaa, Chief Advisor). The working groups also deal with national issues concerning the principle of equity in life insurance, provisions for guarantee schemes and equalisation provisions.

From the perspective of ensuring uniform policyholder protection and a level playing field for large and small insurance companies, FIN-FSA considers it appropriate to extend the coverage of Solvency II requirements to all insurance companies and associations in compliance with the pro rata principle. The only exception is the euro-denominated minimum capital requirement, which can be considered unnecessarily high for small insurance associations.

On 17 December, Parliament approved the Government bill concerning provisions for guarantee schemes and equalisation provisions, based on the working group's proposal. The Insurance Companies Act was amended so as to abolish provisioning, in the form of provisions for guarantee schemes, relating to the joint and several liability of insurance companies engaged in statutory accident insurance and motor liability insurance. Amounts included in this item will mainly be refunded to the parties from whom they have been collected. Insurance companies continue to be jointly and severally responsible for the unguaranteed claims for compensation related to these lines of insurance on an insurance company that has gone into liquidation or bankruptcy. The amended Act entered into force on 31 December. FIN-FSA welcomes the solution found for guarantee scheme provisions.

As regards questions concerning equalisation provisions, FIN-FSA considers it important to arrive at a national solution for inclusion, within Solvency II regulation, of equalisation provisions in the highest-quality classes of equity capital eligible for meeting solvency capital requirements.

The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) organised a Fifth Quantitative Impact Study (QIS5) on Solvency II requirements in August–November 2010. The results of the study will be published in spring 2011 in order to be available for the Commission's finalisation of its proposal for more detailed implementing measures (level 2 implementing measures) of the Solvency II Directive. In participating in the QIS5, insurance companies could also familiarise themselves with future requirements and get an idea of the level of their own readiness. In Finland, a total of 10 life insurance companies, 16 non-life insurance companies, three insurance conglomerates and six insurance associations took part in the QIS5 exercise. The participation rate was excellent.

New solvency regulation for employee pension insurance companies introduced in three stages

Parliament extended by two years the temporary Act on employee pension insurance companies' solvency regulation. The Act is now valid until the end of 2012. The purpose is to strengthen solvency so as to enable pension insurance companies to conduct effective investment operations with long-term objectives in an adverse market situation caused by the financial crisis and the resultant economic downturn. Another aim is to prepare for permanent changes in solvency regulation concerning private-sector employee pension insurance companies.

In Finland, revision of solvency requirements for employee pension insurance companies is to be made in three stages, according to the proposal of the working group in charge of handling the matter. The first stage saw the improvement of the framework applied to employee pensions insurance companies' solvency calculation by changing the investments classification and parameters used for the calculation of the solvency margin requirement. The new framework already enables to obtain a more accurate view of the risks involved in employee pension insurance companies' investments, pending a wider reform of the solvency regime due to commence in 2011.

The revisions in the second stage concern governance structures and risk management in employee pension insurance companies. These changes are scheduled to become effective at the expiry of the temporary Act, at the beginning of 2013, taking account of Solvency II requirements for insurance companies. The third stage revisions would concern the solvency requirements framework, which would be thoroughly overhauled, possibly making use of Solvency II regulation. These changes would enter into force at the beginning of 2014.

Securities markets

Securities markets directives revisited

The first years of the millennium witnessed the issuance of several securities markets directives as part of the EU's financial services action plan. The directives are subject to revisions, for which the deadlines fall on the years 2010–2012. As regards the Prospectus Directive, the level 1 directive amendments are already approved. The Commission will submit its proposals for amending the Transparency, Market Abuse and Markets in Financial Instruments Directives in 2011. Updating the Directive on takeover bids is also likely to commence in 2011.

In reviewing the directives, the Commission will probably seek to particularly achieve deeper harmonisation (single rule book), greater transparency, lower listing thresholds, proportionate regulation and a level playing field.

Provision of key information to investors constitutes the main change in the UCITS Directive reform

The amendments to the UCITS Directive, adopted in 2009, must be implemented by 30 June 2011. The main change imposed by the revised directive on fund management companies is the replacement of the simplified prospectus by a Key Investor Information Document (KIID) to be given to investors. The content, scope and exterior features of the document are regulated in detail within the EU, which facilitates, for example, the comparability of risks and costs involved in various funds. The directive also increases the requirements for organising the operations of fund management companies.

The new regulatory framework will specify and harmonise the organisation and conduct of fund operations in Europe. It enables cross-border activities for fund management companies by introducing management company passports. The functioning of the passport requires that supervisors across Member States can rely on all countries maintaining the same level of supervision. In particular, the operation and risk management of fund management companies must be organised in a reliable manner.

Directive on Alternative Investment Fund Managers

Considerable amounts of assets have been placed in alternative investment funds. Supervision of these funds has been considered necessary for investors, financial stability and companies in which investments are made. The financial crisis revealed shortcomings in, for example, the transparency of operations, risk management and safe-keeping of assets.

The Directive on Alternative Investment Fund Managers coming into force in 2013 requires that companies managing alternative investment funds obtain authorisation. The wide scope of application covers investment in private equity, real estate, commodity or hedge funds or other corresponding forms of collective investment. With a view to safeguarding the position of investors, the directive imposes requirements on fund management companies for the organisation of operations, for example, in respect of risk and liquidity management, designation of custodians, obligations concerning the issuance of prospectuses, and requirements to disclose major holdings if investments in non-listed companies are made.

Comprehensive reform of securities markets legislation continued

The Ministry of Finance working group preparing a comprehensive reform of securities markets legislation completed its report in February 2011.

Owing to the implementation of EU directives, securities markets legislation has been subject to a number of partial revisions in recent years, which has impaired the clarity of legislation. The aim of the comprehensive reform is to ensure that securities markets legislation is effective, clear and understandable. It should also foster the competitiveness of the Finnish markets. Securities markets supervision must be efficient, and administrative sanctions for procedures contrary to law must be appropriate and effective.

The working group proposed a new Securities Markets Act and put forth proposals for legislative amendments concerning trading, settlement and custody of securities. Another proposal of the working group focused on developing the system of administrative sanctions in the securities markets and centralising the public insider register of issuers on the register maintained by FIN-FSA. Such a change in the register system would require allocation of more resources to FIN-FSA. The costs for information systems would also be significant. FIN-FSA considers that, if it is obligated by law to keep the register, declarations of insider holdings must be submitted via issuers and an adequately long transitional period must be reserved for implementing the change, because of technical reasons related to systems.

FIN-FSA participated in the comprehensive reform of securities markets legislation on a wide scale. The supervisory goal was balanced regulation that takes account of investor and customer protection, as well as the competitiveness of the Finnish financial markets.

For more information, see the Ministry of Finance press release 'Working group advocates more competition and competitiveness in the Finnish securities markets' (21/2011) **vm.fi > Press releases and speeches > Press releases > Year 2011 press releases.**

Derivatives markets regulation increases

The financial crisis demonstrated the failure of the markets and supervisors to obtain a clear overall view of OTC derivatives markets and the risks taken by different market participants. The proposed EU regulation seeks to increase the standardisation of OTC derivatives, improve the definition of derivatives for central counterparty purposes, enhance transparency and ensure supervisors' access to information by obligating trading parties to report contractual information to trade repositories. The regulation is due to enter into force in summer 2011.

Public disclosure of short positions in the future

The financial crisis revealed divergence between countries' practices in restrictions on short selling. The Commission therefore invited the Committee of European Securities Regulators (CESR) to submit a proposal for regulation. FIN-FSA also participated in this preparation. In September, the Commission put forth a proposal for a regulation on short selling and certain aspects of Credit Default Swaps (CDSs). According to the proposal, investors should disclose their significant short positions on trading venues in the European Economic Area. The disclosure requirement would apply to all shares, and derivative contracts would also be included in the calculation of such positions. In addition, authorities would have the right to prohibit short selling and, in exceptional circumstances, to suspend trading.

Current Finnish legislation and FIN-FSA guidelines do not specifically regulate short selling.

Recommendation for a definition of money market funds

The financial crisis also divulged unexpected liquidity problems in investment funds that make placements in money market funds and are basically highly liquid. This was due to their loosely defined investment policies that were open to interpretations, for example, in respect of permitting long-term variable-rate bonds as investment targets. In May, CESR issued a recommendation for a definition of money market funds, which closely defines the right to use the designation of money market fund. The recommendation exceptionally also applies to investment funds other than those conforming to the relevant directive. The money market fund or short-term money market fund label can be used, starting from 1 July 2011, only by investment funds whose investment policies comply with the recommendation, for example, in respect of the life of invested securities, which can be a maximum of two years. The transitional period for existing funds extends until the end of 2011.

Other regulatory projects

Payment Services Directive implemented in Finland on 1 May via acts on payment institutions and payment services

Provision of payment services became an activity subject to authorisation, which requires, depending on the scale of the activity, either payment institution authorisation or notification of provision of payment services without authorisation. Credit institutions may also provide payment services on the basis of their authorisation. The concept of payment services subject to authorisation is extensive, covering, for example, traditional credit transfers and direct debits, but also money remittance and various payment services using technical devices (eg payment via mobile phone).

Legislative change concerning consumer credits

An amendment, effective since early December, to the Consumer Protection Act meant a legal confirmation of good lending practices. The principle was previously included in good banking practice rules and FIN-FSA standards. The key regulatory change is the lender's obligation to provide the consumer with information on the lender itself, the credit offered, and consumer rights and obligations, using a standard advance information form, for the purpose of facilitating comparison of credits.

Regulation of Packaged Retail Investment Products (PRIPs) intended for retail markets

Efforts to improve investor protection in connection with packaged investment products marketed to retail investors (eg investment funds, insurance-based investment products and structured products, ie Packaged Retail Investment Products, PRIPs) are based on a horizontal legislative approach, which covers information on both products and sales practices.

The Commission starts from the premise that customers should be provided with key pre-contractual information on the products considered. Insurance sector regulation would be included. Meanwhile, products not yet regulated would be brought within the regulatory framework for PRIPs.

Progress in convergence between IFRS regulation and corresponding US principles

The International Accounting Standards Board (IASB) works on four significant regulatory projects. All these projects are designed to improve the quality and comparability of investor information. The projects concern financial instruments, revenue recognition, lease agreements and insurance contracts. Of these, the first three are also part of the work to accomplish convergence between IFRSs and the United States Generally Accepted Accounting Principles (US GAAP) framework. The project concerning insurance contracts is also a common initiative. In the United States, comments on the IFRS draft standard, published as a discussion paper, are already available.

The current IASB regulation concerning revenue recognition is limited and is not based on the general principles of IFRSs. The reform of leasing regulation aims at bringing all lease agreements within companies' balance sheets as assets and liabilities. As a consequence, their balance sheets will grow, and capital structures and ratios will change.

The insurance contract project particularly seeks to achieve comparability between insurance companies. According to the proposal, insurance contracts will be measured at the fulfilment value of future cash flows estimated on the basis of the contracts.

In May, FIN-FSA organised an 'IFRS 5 years' seminar, in cooperation with the Ministry of Employment and the Economy, the Association of Authorised Public Accountants, the Confederation of Finnish Industries EK, Aalto University, Svenska handelshögskolan (Hanken School of Economics) and the Finnish Foundation for Share Promotion. The aim of the seminar was to provide a forum for collection of experiences and assessment of future challenges in the application of a global, principled set of norms.

Changes expected in auditing

In the year under review, auditing was subject to national and international assessment. In Finland, a rapporteur designated by the Ministry of Employment and the Economy explored the needs to revise the Finnish auditing system. The European Commission's Green Paper on Audit Policy was sent for comment at the end of the year. In issuing its opinions in this respect, FIN-FSA seeks to influence developments, devoting particular attention to the financial market point of view.

Total number of supervised and other fee-paying entities

Fee-paying entities	31.12.2009	31.12.2010
Credit institutions	352	337
Investment firms	59	58
Fund management companies	33	35
Securities issuers	142	139
Stock exchange, clearing corporation	1	1
Finnish Central Securities Depository (APK)	1	1
Other fee-paying entities in the financial sector	22	29
Financial sector, total	**610**	**600**
Life insurance companies	13	11
Non-life insurance companies	21	21
Employee pension companies	7	7
Unemployment funds	36	34
Company and industry-wide pension funds	77	65
Sickness funds and other insurance funds	149	146
Insurance associations	88	70
Insurance brokers	62	63
Public sector pension funds	3	3
Other fee-paying entities in the insurance sector	45	42
Insurance sector, total	**501**	**462**
All supervised and other fee-paying entities, total	**1,111**	**1,062**

Financial Supervisory Authority also supervises e.g. insurance agents and persons subject to the obligation to declare insider holdings.

Expenses and funding

Expenses, EUR thousands	2009	2010
Staff expenses	17,620	18,263
Staff-related expenses	824	869
Other expenses	3,541	3,551
Services	707	622
Real estate expenses	2,301	2,301
Other expenses	533	628
Depreciation	124	135
Bank of Finland services	2,420	2,530
Total expenses	**24,529**	**25,348**

Funding of operations, EUR thousands		
Supervision fees	24,092	23,047
Specific fees	989	960
Other income	34	69
Bank of Finland's contribution: 5% of expenses	1,226	1,267
Surplus carried over from previous year	1,097	2,909
Surplus carried over to the next year	- 2,909	-2,904
Total funding	**24,529**	**25,348**

Set supervision fees, EUR thousands

Fee-paying entities	2009	2010
Credit institutions	11,834	11,095
Investment firms	1,074	955
Fund management companies	1,076	1,288
Securities issuers	2,367	2,213
Stock exchange, clearing corporation	664	439
Finnish Central Securities Depository (APK)	260	241
Other fee-paying entities in the financial sector	103	154
Financial sector, total	**17,378**	**16,385**
Life insurance companies	983	1,034
Non-life insurance companies	1,401	1,384
Employee pension companies	1,920	2,016
Unemployment funds	1,078	992
Company and industry-wide pension funds	393	331
Sickness funds and other insurance funds	130	120
Insurance associations	127	105
Insurance brokers	97	89
Public sector pension funds	423	448
Other fee-paying entities in the insurance sector	162	140
Insurance sector, total	**6,714**	**6,659**
Adjustment items carried over from previous years		3
Fee-paying entities, total	**24,092**	**23,047**

Specific fees, EUR thousands

Fee-paying entities	2009	2010
Credit institutions	124	147
Investment firms	84	49
Fund management companies	202	241
Securities issuers	195	160
Other fee-paying entities in the financial sector	8	17
Financial sector, total	**613**	**614**
Insurance companies[12]	55	23
Unemployment funds	15	19
Company and industry-wide pension funds	26	63
Sickness funds and other insurance funds	29	36
Insurance associations	24	20
Insurance brokers[13]	220	178
Other fee-paying entities in the insurance sector	7	7
Insurance sector, total	**376**	**346**
Fee-paying entities, total	**989**	**960**

12 Life, non-life and employee pension companies.
13 Insurance brokers and agents.

The Financial Supervisory Authority's statutory responsibilities

Section 3 of the Act on the Financial Supervisory Authority, Mission (extract): …the Financial Supervisory Authority shall

1. grant authorisation to financial market participants, register financial market participants and confirm rules concerning their operations;
2. monitor that financial market participants comply with the provisions applicable to them governing financial markets and the regulations issued thereunder, the terms of their authorisation and the rules concerning their operations;
3. monitor the issuance of, and trading in, financial instruments and compliance with the provisions and regulations governing clearing and custodial services;
4. supervise compliance with International Financial Reporting Standards, as provided below;
5. monitor that financial market participants comply with the provisions and regulations applicable to them concerning prevention and detection of money laundering and the financing of terrorism;
6. issue regulations necessary for application of the Act as separately provided in law;
7. direct and supervise the activities of the savings bank inspectorate;
8. perform its other statutory responsibilities.

In addition, the Financial Supervisory Authority is to (extract continues):

1. monitor and evaluate developments in financial markets and the rest of the operating environment for financial market participants, and the evolution of other general operating conditions;
2. introduce initiatives for the development of financial market legislation and other requisite measures, and participate in the preparation of legislation;
3. monitor and analyse the availability and pricing of basic banking services;
4. foster reliable corporate governance systems in those financial market participants whose financial position it monitors;
5. collect and regularly publish comparable data on financial market participants' financial position and otherwise contribute to access to information on financial services and financial market activity;
6. participate in national cooperation between authorities;
7. participate in cooperation, in the context of the European System of Financial Supervision, within the European Union, and other international cooperation between authorities;
8. participate in combating criminal misuse of the financial system;
9. promote scientific research and education for the financial sector in cooperation with institutions of higher education.

Parliamentary hearings and submissions on draft legislation

The Financial Supervisory Authority's experts were invited to hearings by the Finnish Parliament's Commerce Committee on 32 occasions, by the Social Affairs and Health Committee on three occasions and by the Agriculture and Forestry Committee on one occasion. The Financial Supervisory Authority gave 104 submissions on draft Finnish legislation.

Journal

Main items of the Journal	2009	2010
Governance	77	79
Regulation	66	61
Market supervision	648	633
Prudential supervision	152	131
Other supervisory activity	1,501	1,432
Other	205	227
Total	**2,649**	**2,563**

Major categories of Journal entries		
Notifications	475	512
Regulations, articles of association, by-laws	316	260
Prospectuses	258	235
Requests by private citizens for further investigation	210	189
Fit & Proper reports; senior management	123	104
Inspections and supervisory visits	120	92
National cooperation	93	79
International cooperation	52	59
Community processes	73	56
Authorisations	56	40

In 2010, 2,563 entries were made in the Financial Supervisory Authority's Journal.

Publications, articles and annual statistics

Date	Name of publication	Cut-off date	Publication /article/ annual statistics
15 February	Capital requirements are tightened and increasing attention is paid to the remuneration of management in Finland and the other EU Member States		Article
15 February	G20 action plan extends and deepens the supervision of Finnish and EU financial markets		Article
7 April	Financial position and risks of supervised entities	31 December 2009	Publication
1 June	Capital adequacy of banking and insurance sector	31 March 2010	Publication
18 August	Insurance brokers 2009	31 December 2009	Annual statistics
22 September	Financial position and risks of supervised entities	30 June 2010	Publication
13 October	Unemployment funds	31 December 2009	Annual statistics
19 October	The Insurance Companies	31 December 2009	Annual statistics
30 November	Capital adequacy of banking and insurance sector	30 September 2010	Publication
13 December	Report on the implementation of the principle of equity by life insurance companies in 2008 and 2009	31 December 2009	Publication
20 December	Report on the profitability of statutory accident insurance in 2002–2009	31 December 2009	Publication
29 December	Report on the profitability of motor liability insurance in 2002–2009	31 December 2009	Publication

More statistical data is available at: **Fin-fsa.fi > Statistics**

Press releases

Press releases and supervision releases, Markkinat (Markets, available in Finnish only) bulletins and news releases are available in full at **Fin-fsa.fi > Publications and press releases.** Below is a list of the press release headings.

30 March 2010 | 1/2010
Financial Supervisory Authority Annual Report 2009: Finnish financial sector remains stable, supervision needs to be more comprehensive, customer protection must be reinforced

29 March 2010 | 2/2010
Financial Supervisory authority withdraws Sofia Bank's authorisation in order to safeguard depositor interests

7 April 2010 | 3/2010
Finnish financial sector continues on stable footing

19 April 2010 | 4/2010
Sofia Bank depositors and money market investors will be paid at least 85% of their claims, with supplementary coverage provided to depositors from the Deposit Guarantee Fund

24 May 2010 | 5/2010
Marja Nykänen to head FIN-FSA's Institutional Supervision

31 May 2010 | 6/2010
Follow-up of the inspection of investment funds' compliance with disclosure obligations – Quality upgrade of fund prospectuses

1 June 2010 | 7/2010
Finnish financial sector continues on stable footing

15 June 2010 | 8/2010
Capital adequacy of the financial sector able to withstand even serious weakening of operating environment

16 June 2010 | 9/2010
Quantitative Impact Study (QIS) shows that regulatory reform for banks have major consequences in Finland

18 June 2010 | 10/2010
Ministry of Social Affairs and Health representative on FIN-FSA Board changes

23 July 2010 | 11/2010
EU stress testing exercise confirms good health of the Finnish banking sector

2 September 2010 | 12/2010
Honkarakenne Oyj publically reprimanded for failing to comply with regular disclosure requirements

22 September 2010 | 13/2010
Financial position and risks of supervised entities 2/2010: Finnish financial sector stable, risks may stem from the international operating environment

30 September 2010 | 14/2010
Icecapital Securities Ltd publically reprimanded for failing to comply with obligations related to the keeping of insider registers

30 September 2010 | 15/2010
Handelsbanken Mutual Fund Company Ltd issued an administrative fine for breach of mutual fund rules

12 November 2010 | 16/2010
Financial Supervisory Authority determines that Minister Lehtomäki and her spouse possessed no insider information on the Talvivaara uranium project

30 November 2010 | 17/2010
Bank and insurance sector capital adequacy and solvency on 30 September 2010: Capital adequacy and solvency of the Finnish banking and insurance sector have remained strong

7 December 2010 | 18/2010
SEB Enskilda Corporate Finance Oy Ab reprimanded for failing to comply with obligations related to the keeping of the company-specific insider register

Abbreviations

AIFMs, Alternative Investment Fund Managers

AKVA transaction reporting (securities trading reporting and monitoring system)

CCP, central counterparty

CEBS, Committee of European Banking Supervisors

CEIOPS, Committee of European Insurance and Occupational Pensions Supervisors

CESR, Committee of European Securities Regulators

CESR-Fin, Operational group on Financial Reporting

CET 1, Common Equity Tier 1

CRD, Capital Requirements Directive

EBA, Euro Banking Association

EECS, European Enforcers' Coordination Sessions

EIOPA, European Insurance and Occupational Pensions Authority

ECB, European Central Bank

ESAs, European Supervisory Authorities

ESMA, European Securities and Markets Authority

ESRB, European Systemic Risk Board

FED, Federal Reserve System (the central bank of the United States)

FINE, Finnish Financial Ombudsman Bureau

FINREP, Financial Reporting Framework

GIIPS, Greece, Italy, Ireland, Portugal and Spain

IAS, International Accounting Standard

IASB, International Accounting Standards Board

IFRS, International Financial Reporting Standards

IMF, International Monetary Fund

IMD, Insurance Mediation Directive

INET trading system (NASDAQ OMX's trading system)

IRBA, Internal Ratings Based Approach

KIID, Key Investor Information Document

OTC, over-the-counter (instruments traded outside regulated exchanges)

PRIPs, Packaged Retail Investment Products

QIS, Quantitative Impact Study

SEPA, Single Euro Payments Area

Tier 1 capital adequacy ratio, ratio of core capital (original own funds) to risk-weighted assets

UCITS, Undertaking for Collective Investments in Transferable Securities

US GAAP, Generally Accepted Accounting Principles in the United States

EU Directives and Directive proposals referred to in the Annual Report

Directive 2001/34/EC of the European Parliament and of the Council of 28 May 2001 on the admission of securities to official stock exchange listing and on information to be published on those securities (so-called Transparency Directive)

Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC (Text with EEA relevance) (so-called Prospectus Directive)

Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids (Text with EEA relevance)

Directive 2010/76/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies (Text with EEA relevance) (so-called CRD3)

Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management (Text with EEA relevance) (so-called CRD2)

Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast)

Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market

Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC (Markets in Financial Instruments Directive, MiFID)

Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast)

Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (recast)

Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS IV)

Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation (market abuse)

European Commission proposal for a Directive of the European Parliament and of the Council on Alternative Investment Fund Managers and amending Directives 2004/39/EC and 2009/…/EC (so-called AIFM)

Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation

Nordic supervisory authorities

- Finansinspektionen, Sweden,Fi.se
- Finanstilsynet, Norway, Finanstilsynet.no
- Finanstilsynet, Denmark, Finanstilsynet.dk
- Fjármálaeftirlitið, Iceland, Fme.is

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