



# Financial Market Report

## Autumn 2003

- Banking sector operating profit improved in January – September period, despite drop in net income from financial operations
- Insurance companies' performance and solvency improving
- Turnaround in securities market decline, can the upward trend last?
- Bond issues show robust growth in Europe and the United States, more cautious growth in Finland
- Payment systems as well as securities clearing and settlement systems subject to forceful restructuring
- Clear national characteristics to the various direct debit approaches used in the European Union, making the linking of the various approaches more complicated

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# 1 Financial intermediation

## 1.1 Indebtedness of Finnish companies has remained low

**Hanna Putkuri**

**Finnish companies' indebtedness relative to the GDP has remained fairly low since the middle of the 1990s in comparison to the past ten years. From an international perspective, the total debt of the Finnish corporate sector is among the lowest in the EU member states both in relation to the GDP and the companies' total capital.**

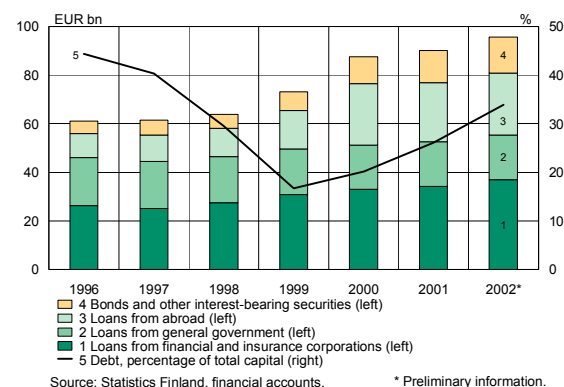
Finnish companies' indebtedness relative to the GDP has diminished considerably since the depression of the early 1990s. The gradual growth of indebtedness, which started in 1999, has turned downwards. As a consequence in 2002, both industrial companies and other firms reported that debts relative to value-added continued to be lower than ever during the period 1980–1994 (see Charts 5 and 6<sup>1</sup> in the Appendix).

The financial accounts prepared by Statistics Finland as part of the annual financial accounts provide a more detailed picture of developments in corporate external financing (including housing corporations) during the past seven years. As can be seen in Chart 1, despite rapid growth in 1999 and 2000, corporate debt<sup>2</sup> has shown moderate growth since the middle of the 1990s.

A breakdown of the Finnish corporate sector debt shows that loans, in particular loans granted by domestic deposit banks, make up the bulk of total corporate sector indebtedness. Loans from abroad increased in 2000, particularly due to the UMTS licence transactions (see Chart 4 in the Ap-

pendix), but growth has since come to a halt. In contrast, the amount and relative importance of bonds and other interest-bearing securities (money market instruments and derivatives) have increased at a fairly steady rate throughout the review period.

**Chart 1. Outstanding Finnish corporate sector loans and interest-bearing corporate securities**



The rapid share price increases at the turn of the millennium momentarily broadened the share of total corporate financing accounted for by listed shares. A steady increase since the end of 2000 in the indebtedness ratio<sup>3</sup>, an indicator of corporate capital structure calculated from the financial accounts, largely reflects a decrease in the market value of corporate share capital in the wake of falling share prices.

International comparison gives a rather different picture of the relative indebtedness of companies, depending on whether the focus is on corporate sector capital structure or on the ratio of corporate debt to GDP (see Chart 2). At the end of 2002, Finnish corpo-

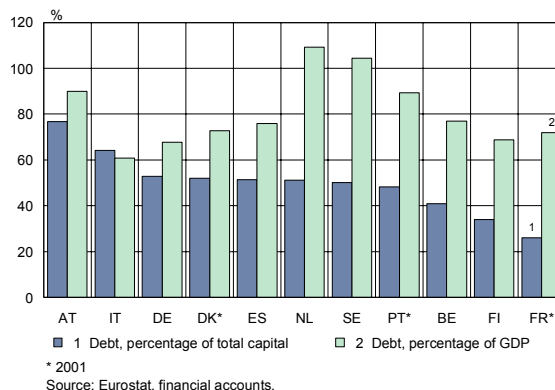
<sup>1</sup> In Charts 5 and 6 of the Appendix, debt not only refers to the domestic loans as in the statistics on outstanding credit by Statistics Finland but also to companies' direct foreign debt as in the Bank of Finland's balance of payments.

<sup>2</sup> In Charts 1 and 2 of this article, debt refers to loans to companies as in the financial accounts (European System of Accounts ESA 1995) and to companies' interest-bearing securities (that is other securities than shares). In other words, this article does not cover trade credit, advances or inter-company loans. In the financial accounts, financial instruments are valued to market value. As a result, the data deviates from data in the statistics on outstanding credit and from data in corporate annual accounts, where nominal values are used

<sup>3</sup> Total capital refers to debt financing as well as to companies' shares and other equity at market value.

rate sector debt was clearly below the average of EU member states both in relation to companies' total capital and the GDP.

**Chart 2. Corporate sector loans and interest-bearing corporate securities to total capital and the GDP in 2002, as percentage**



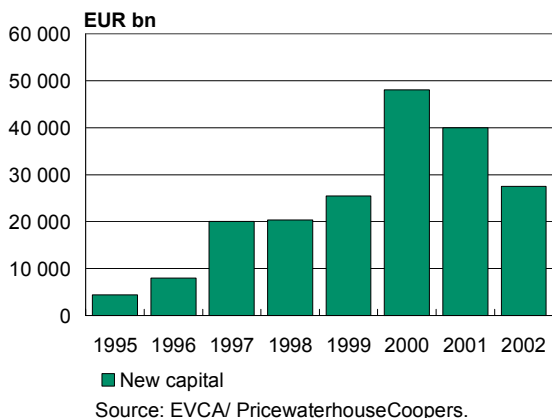
## 1.2 Investment in risk capital in Europe

### Pertti Pylkkönen

**The amount of funds allocated to risk capital investment has declined considerably in Europe over the last two years. Thanks to the funds accumulated earlier, however, the amount of investment rose by nearly 14% in Europe in 2002.**

The persistent fall in share prices was strongly reflected in the capital investment activity in Europe in 2002. The amount of new share capital raised from the market diminished by nearly a third in comparison to 2001 (see Chart 1).

**Chart 3. New capital in capital investment in some European countries 1995–2002**



Despite the considerable fall in the amount of accumulated capital in Europe, the amount of investment increased by 14%.

During 2000 and 2001, risk capital attracted more funds than investment. Part of the funds accumulated in 2000 and 2001 was not invested until 2002.

A breakdown by country shows sizeable variation in investment growth. In 2002, the fastest growth in risk capital investment was registered in France and Finland (+78%) and in the UK (+52%). In contrast, investment declined considerably in some other countries such as Greece (-56%), Germany (-43%) and Portugal (-37%).

Banks, pension funds and insurance companies have traditionally been the largest investors in the European risk capital market. In 2002, banks accounted for 26% of all investment, while the shares of pension funds and insurance companies were 16% and 14%, respectively. With a share of 11% the public sector is also an important investor. In many countries where the amount of risk capital investment relative to the size of the household is small, the banking sector generally accounts for a sizeable share of investment. An example of such countries is Germany. This may have been

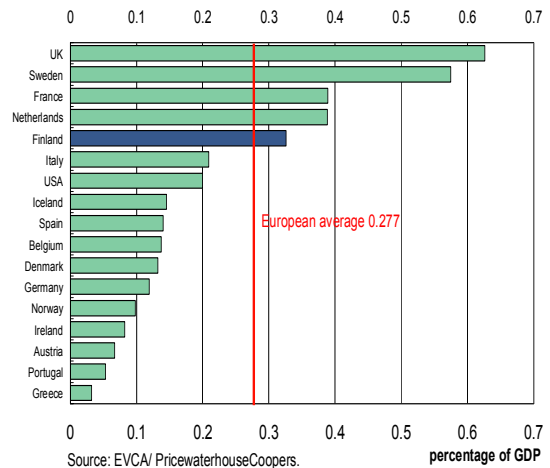
one factor behind Germany's considerably diminished investment levels, last year. In the UK and the Nordic countries, banks play a rather minor role in the risk capital market.

In 2002, half of the European risk capital investment was of domestic origin. Investment from other European countries and from beyond Europe amounted to 21% and 29%, respectively. The importance of foreign investment varies considerably from country to country. The sophistication of markets and many national factors such as taxation affect the activity of international investors.

The importance of the risk capital market as a source of finance for companies also varies by country (see Chart 2). The UK has the largest risk capital market in Europe relative to the size of the economy. In long-term analysis, risk capital investment in Sweden and Finland also exceeds the Euro-

pean average. In France, too, the risk capital market is increasing in significance.

**Chart 4. Capital investment to GDP in 2002**



## 2 Banks and other financial intermediaries

### 2.1 The combined net operating profit for the banking sector improved in January - September, 2003

#### Mervi Toivanen

**The operating profit for the entire banking sector has improved, although the performance of individual banks varies. The lower interest rate level is reflected in smaller net incomes from financial operations, while other income has grown as a rule. Banks' aggregate expenses have declined, although this has not happened uniformly. Capital adequacy continues to be sound.**

#### January - September, 2003

The combined net operating profit for the banking sector improved over January - September, 2003 as compared to the corresponding period in the year before. The comparison is, nevertheless, slightly impaired by the non-recurring items recorded by certain banking groups over comparison periods.

**Table 1. Banks' financial results, Jan. - Sept., 2003**

	Net income		Other income		Total expenses		Operating profit	
	EUR m	Change %	EUR m	Change %	EUR m	Change %	EUR m	Change %
Nordea Group	2 516	-1.9 %	1 724	4.7 %	2 821	-2.0 %	1 429	29.8 %
*Nordea Group, banking	2 775	-0.8 %	1 613	7.0 %	2 799	-2.0 %	1 353	4.2 %
*Nordean retail banking in Finland	582	-12.2 %	282	15.1 %	460	1.5 %	413	-8.6 %
Sampo Group								
*Sampo Group banking and investment services	304	-9.8 %	174	-1.7 %	307	-1.6 %	172	-18.9 %
OP Bank Group	600	-5.8 %	330	8.9 %	547	-0.4 %	403	18.2 %
*OKO Bank	119	-0.8 %	126	-	100	4.2 %	134	-
Consolidated Savings banks (excl. Aktia)	86	-9.6 %	27	15.0 %	80	8.6 %	34	-27.2 %
Total								
Aktia Savings Bank plc Group	56	-0.9 %	29	6.5 %	60	-8.3 %	25	28.9 %
Local cooperative banks	57	-6.7 %	16	45.5 %	50	3.6 %	24	-2.0 %
Bank of Aland plc (Group)	22	-7.1 %	13	22.9 %	23	-2.5 %	12	11.0 %
eQ online Group	1	58.2 %	9	28.2 %	12	17.2 %	-1	-
Total	3 902	-7.0 %	2 212	7.0 %	3 876	-1.5 %	2 022	3.7 %
Other than Nordea, total	1 127	-2.6 %	599	6.9 %	1 077	-0.2 %	669	2.6 %

Other income includes net fee income but excludes the income statement item "profit/loss of companies consolidated by the equity method".

Other expenses include depreciations as well as unrealised losses on tangible and intangible assets.

The items of the table do not add up to the operating profit, as not all the banks' income statement items are included. The change % was calculated on the corresponding figures for January - September, 2002.

Source: Banks' interim reports.

Net financial income fell for nearly all the banks, in response to lower market interest rates, reflected in banks' lending rates, and narrower interest rate margins. The decline was, however, slowed by the growing stock of lending and the use of hedging derivative contracts. By contrast, banks' other income has increased. For example, higher fee in-

come was generated from payment transfers and capital market related services, such as administration of fund management companies and securities trading.

Banking groups have showed varying trends in expenses. Where expenses have fallen, this has occurred in response to a decline in staff size, a fall in marketing expenses or the elimination of expenses of a one-off nature due to the cash changeover. Expense increases were, in turn, a result of the establishment of new branches.

Banks' financial results also strengthened as a consequence of continued very low loan losses and the results improvement of companies consolidated by the equity method.

**Table 2. Banks' profitability and capital adequacy, Jan. - Sept., 2003**

	Return on equity, % (ROE%)	Expenses, % of return	Capital adequacy, %	
			Tier 1 capital	Tier 1 + Tier 2 capital
Nordea Group	14.2	-	7.5	9.8
*Nordea Group banking	-	61	-	-
*Nordean retail banking in Finland	32.0	55	-	-
Sampo Group	12.4	-	18.3	17.0
*Sampo Group banking and investment services	17.7	64	11.4	13.8
OP Bank Group	12.1	60	13.9	15.3
*OKO Bank	19.8	43	7.3	11.4
Consolidated Savings banks (excl. Aktia)	-	70	16.6	18.2
Total				
Aktia Savings Bank plc (Group)	12.2	71	9.4	13.2
Local cooperative banks	-	68	-	20.4
Bank of Aland plc (Group)	12.2	67	9.3	11.5
eQ Online Group	-2.7	106	35.1	35.1

ROE percentages are not fully comparable. Savings banks and local cooperative banks do not publish aggregate figures for return on equity for all the banks.

Source: Banks' interim reports.

## Banks' profitability and capital adequacy

The profitability of Finnish banks continues to be fairly good. In comparison with January - September, 2002, the rate of return on

equity (ROE) for banking groups either improved further or remained unchanged. Capital adequacy also remained sound. However, the cost-to-income ratio has not developed equally favourably for all banks.

## 2.2 Performance of European banks, 2003

### Sampo Alhonsuo

**The performance of major European banking and financial groups generally improved in the course of 2003. Total returns have been growing at the same time as expenses have been trimmed. Even at their worst, incurred loan losses and downward adjustments of book values have remained tolerable.**

The operating profits of major banking and financial groups have grown since 2002 in the euro area as well as in the United Kingdom, Sweden, Denmark and Switzerland.

Financial results have improved as banking and financial groups have succeeded in increasing their income at the same time as the growth of expenses has stopped or been reversed, thus allowing for quick improvements in efficiency. Banks have increased their income for example by selling off property. The recovery of the stock market has also contributed to the accumulation of income.

Considering the cyclical fluctuations, banks' recorded loan losses for 2002–2003 can be regarded as relatively moderate in the EU area. This has contributed to the financial results.

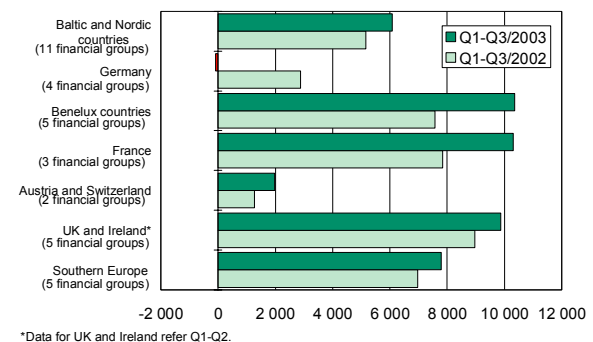
Major banking and financial groups have (on average) achieved satisfactory profitability. The capital adequacy of European banks is also good on average: the capital adequacy ratio for Tier 1 capital is typically in the region of 8%-9%.

The situation of the German banking sector has continuously attracted great attention. The most recent performance data for the major commercial banks could be summarised as follows: Deutsche Bank recorded operating profits of EUR 2.1 billion over the nine months period. Reviewed by quarter, performance has been improving in the course of 2003. The HVB Group achieved a turnaround in operating profits, while Dresdner Bank (as part of the Allianz group) improved its performance quarter by quarter.

In the third quarter, Commerzbank recorded a revaluation of the portfolio of financial assets, resulting in an operating loss of EUR 2.3 billion over the nine months period.

Share prices and other market-based indicators suggest that performance is likely to be satisfactory in the near future despite existing downside risks. Performance is basically dependent on economic fluctuations. With business cycles in Europe improving, banks' performance outlook will become more favourable.

**Chart 5. Banks' operating profit before tax (EURm)**



**Table 3. Profitability and capital adequacy**

	Profitability: Return on equity ROE, % 1-9/2003	Capital adequacy, % (Tier 1) 30 Sept. 2003	Capital adequacy, % (Tier 1 + Tier 2) 30 Sept. 2003
Nordic and Baltic countries (11 financial groups)	15.1	9.8	11.9
Germany (4 financial groups)	-5.3	7.4	11.8
Benelux countries (5 financial groups)	19.9	8.5	11.7
France (3 financial groups)	13.4	8.3	10.7
Austria and Switzerland (2 financial groups)	15.2	9.0	12.5
UK and Ireland (5 financial groups)*	15.9	8.5	12.0
Southern Europe (5 financial groups)	18.0	8.2	12.2

Figures represent averages of figures calculated for individual banks. ROE percentages reported by banks are not fully comparable.

Banking and financial groups included:

**Nordic and Baltic countries:** OP Bank Group, Sampo, Nordea, FöreningsSparbanken, SEB, Svenska Handelsbanken, DnB, Danske Bank, Jyske Bank, Hansa Bank, UniBank.

**Germany:** Commerzbank, Deutsche Bank, Dresdner Bank, HVB.

**Benelux countries:** ABN Amro, KBC Bank, Fortis, ING, RabobankGroup.

**France:** BNP Paribas, Credit AgricoleGroup, Credit Lyonnais.

**Austria and Switzerland:** Erste Bank, UBS, UK and Ireland: Abbey National, Barclays, Lloyds, Royal Bank of Scotland, Bank of Ireland.

**Southern Europe:** Banco Espírito Santo, Banco Popular, Banco Santander, National Bank of Greece, Unicredit Italiano.

Group-level data, data for UK and Ireland, as well as for RabobankGroup, refer to January – June, 2003.

## 2.3 Insurance companies' performance and solvency improving

### Pertti Pylkkönen

**In response to higher investment income, Finnish insurance companies have both improved their performance as well as solvency position from the early part of the year.**

A positive investment return has strengthened the performance of insurance companies in the second and third quarter of the current year. The operating profit of bank-related life insurance companies (Aurum, Nordea and Sampo) for the past three quarters increased significantly as compared to last year, with total operating profits amounting to EUR 278 million (a loss of EUR 44 million). Improvements in performance have also produced higher solvency ratios.

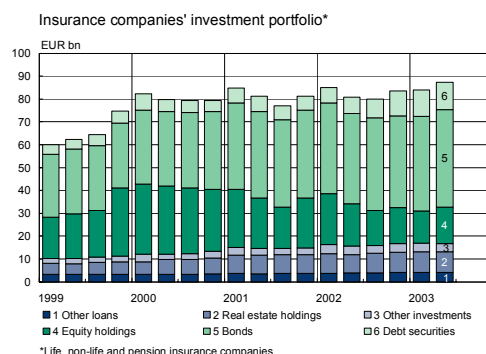
The increase in performance has also been positively reflected in Group results as the insurance business already accounts for a fairly considerable share of the financial conglomerates. Furthermore, the financial result of the Sampo Group improved significantly in response to a clear reversal of the result of IF, an associate of Sampo. The Sampo Group accounted for EUR 67 million of IF's financial result, whereas IF had recorded a loss of EUR 86 million the year before.

Of the other publicly listed companies conducting insurance business, Pohjola Non Life recorded a clear improvement in performance. By September it had earned oper-

ating profits in the amount of EUR 130 million (EUR 73 million).

With the fall in share prices, the proportion of fixed income investments in the investment portfolio of insurance companies grew. Although there are fairly large variations between companies, the key issue is that new investments were mainly redirected into interest rate instruments. The proportion of shares in the portfolio fell in response to the fall in market values, rather than because of any major net disposal of shares.

**Chart 6. Insurance companies' investment portfolio\***



The sharp fall in share prices witnessed during the past three years was the major reason



for the decline in the solvency of insurance companies. Nevertheless, the solvency of Finnish insurance companies has continuously remained on a tolerable level, and domestic insurance companies have not had to resort to the ‘panicked sales’ of shares as has been the case in several other countries. As a consequence of the rise in share prices since last spring and the higher investment returns, the solvency ratio of life and pension insurance companies has improved. By contrast, the solvency of non-life insurers continued to deteriorate this year.

**Table 4. Solvency of the insurance sector**

Solvency capital as a % of technical provisions		
	2002	9/2003
Life insurers	14.4 %	15.4 %
Non-life insurers	58.1 %	54.8 %
Solvency margin as a % of technical provisions		
Pension insurers	16.1 %	18.4 %

Source: Insurance Supervisory Authority.

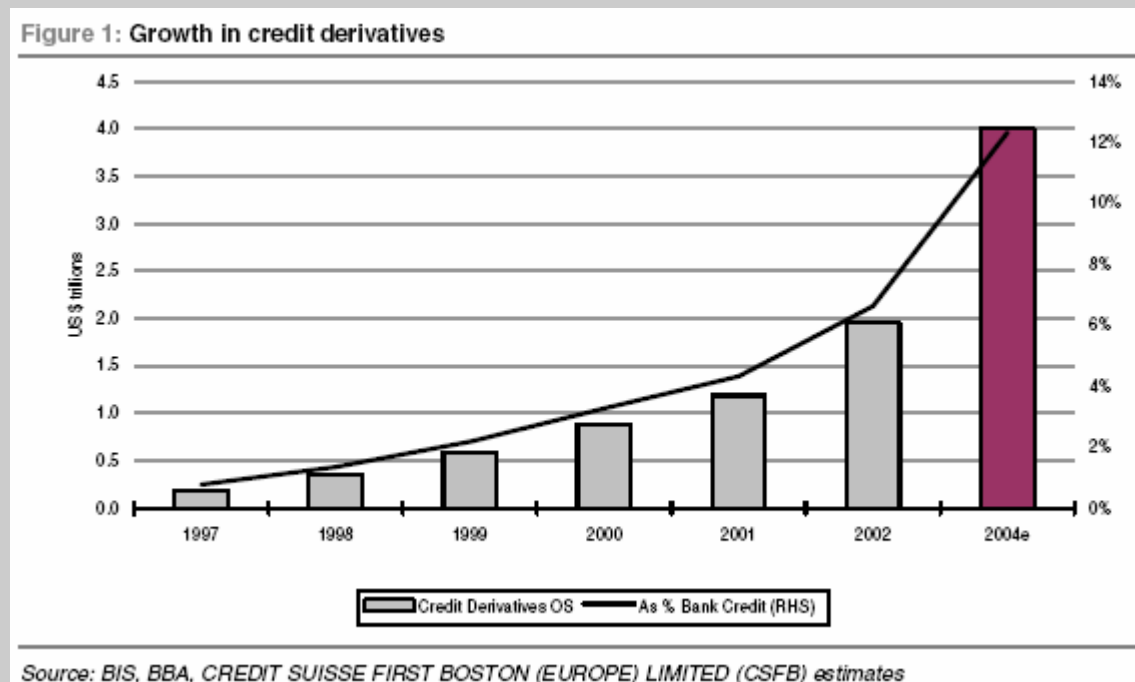
## Box 1. Increased use of credit derivatives

### Katja Taipalus

The concept of credit derivative refers to instruments such as swaps, forwards and options that are used for the transfer of credit risk on assets and returns on assets between market participants, without change of title to the asset<sup>1</sup>.

The emergence of the credit derivative market dates back to the early years of the 1990s. The credit derivatives market has grown rapidly especially during the past few years and the instruments have grown in complexity.

### Chart. Use of credit derivatives



<sup>1</sup> For a detailed account of credit derivatives and their basic categories, see <http://www.fsa.gov.uk/pubs/discussion/dp11.pdf>

The popularity of credit derivatives largely derives from the fact that they represent a relatively inexpensive method of hedging and risk diversification. For example, the costs of traditional securitisation, which is often used for the same purpose, are considerably higher. Besides hedging and risk diversification, other uses of credit derivatives include the management of banks' regulatory capital requirement. However, with the introduction of the new capital adequacy framework for banks (Basel II Accord) this purely regulatory motive is believed to lose importance, while uses for portfolio management purposes are expected to continue to gain in importance. Credit derivatives also attracted greater interest as investment vehicles especially during the bear market in 2000-2002, offering investors a highly welcome additional return.

With a market share of nearly 70%, the credit default swap (CDS) is the most common form of credit derivative in the global credit derivatives market. Synthetic collateralised debt obligations (CDO) and credit linked notes (CLN)<sup>2</sup> are the next largest categories.

In the credit derivatives market, banks continue to be the major individual group hedging against credit risk, thus representing the primary buyers of protection. However, in 2002, for example, hedge funds also increasingly started to use CDSs for hedging purposes<sup>3</sup>. Because of the key role played by banks, it is fairly natural that most of the reference entity exposures originate in the corporate sector, the financial sector or the sovereigns. In recent years the importance of insurance companies in particular as investors in credit risk has been highlighted as credit derivatives have provided them with the means for diversification of assets. Similarly, certain regional banks also appear to be interested in credit derivatives for diversification purposes.

In geographical terms, it is interesting to note the estimates indicating that around 40% of all CDSs refer to European, and about 44% to North American, credits. In fact, a survey undertaken by the international rating agency Fitch reveals that both European and North American banks are net buyers of protection in the credit derivatives market. However, the findings of the survey indicate that protection buying is concentrated with a mere 30% of the European banks active in the credit derivatives market. Finnish banks are not as yet very active players in the market but they are continuously examining the opportunities offered by credit derivatives.

Although credit risk is spread increasingly efficiently in the market through credit derivatives, there is still large scope for development of the market. The market liquidity of credit derivatives is often highly limited and more active trading participants are in constant demand. Credit derivative operations are still fairly concentrated, which may easily involve relatively high counterparty risks. Furthermore, the documentation of instruments may not be sufficient. Risk assessments of investment instruments have also raised some questions, for example in the transfer of credit risk between sectors.

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<sup>2</sup> See for example Taipalus - Korhonen - Pylkkönen (2003): Arvopaperistaminen (Securitisation), Bank of Finland studies A:104.

<sup>3</sup> For example Lehman Brothers: Credit Derivative Market Trends March 2003. However, it must be noted that at the same time the position of hedge funds as buyers of risk through credit derivatives has increased very strongly.

## 3 Securities markets

### 3.1 Interest in share markets on the increase

**Katja Taipalus**

**The fall in the share markets seems to have reversed, but the overall sentiment about the sustainability of the reversal remains cautious.**

The persistent fall in the global share markets eventually came to a halt and made an upward turn between the second and the third quarters of 2003. The long-term weakening of the HEX all-share index in Finland also reversed, although the rise in share prices has been slower relative to international developments. While the HEX index has strengthened by about 12% from its closing rate at the end of 2002, the Nasdaq index has increased by more than 40%. The Japanese share market has also performed well and similar positive progress is being made on the stock exchanges of the developing economies, although events at the Yukos oil corporation in Russia have caused uncertainty among investors.

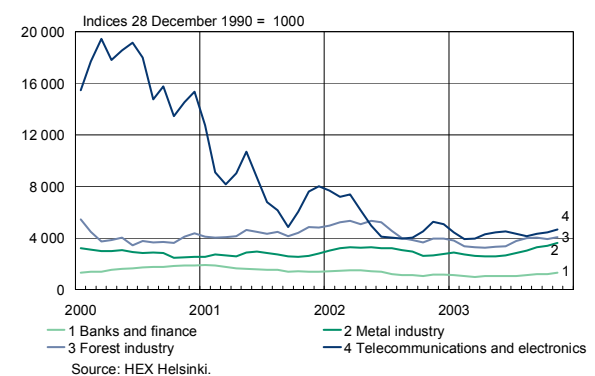
There has also been a protracted debate over whether the recent share market rebound has been too rapid. It is difficult to judge at this stage, only time will tell how swiftly economic recovery is likely to take place. As regards share valuation, P/E figures for shares in the US Standard & Poor's 500 index already reflect expectations of a very strong increase in earnings. Technology shares have even higher P/E figures, indicating that expectations about the performance of technology shares are even more optimistic.

In terms of investor behaviour, European institutional investors are still more modest in their approach to share investment than their US counterparts. They have also been fairly cautious in their share investment beyond Europe, despite moderate growth. Against this background, there are expectations that European institutional investors could begin to show much stronger interest in shares, thereby contributing to share price

increases in Europe<sup>1</sup>. After all, European institutional investors' cash reserves seem to be relatively high in comparison to the cash reserves of US and UK institutional investors, which seem to have diminished clearly recently.

The recent share price increase has also prompted questions concerning the impact of the increase on the valuation of other investment instruments, in particular corporate bonds. At the time of falling share prices, demand for corporate bonds increased strongly, thereby narrowing the spreads rapidly. It has been encouraging to note that so far, at least, there has not been any noticeable reallocation of funds from corporate bonds to shares, thereby keeping market valuations in balance.

**Chart 7. Share price indices in different fields**



<sup>1</sup> On the other hand, European investors may have also adopted a different share allocation profile in their investments.

## 3.2 Strong increase in bond issues in the international marketplace

**Pertti Pylkkönen**

**Bond issues have increased rapidly in both Europe and the USA. In Finnish terms, the government is the only issuer whose outstanding stock of bonds has grown during 2003.**

There was a major surge in bond issues in both the USA and Europe during in 2003.

In the USA, gross bond issues increased by 40% in January–September 2003 compared to the corresponding period a year earlier. Fastest growth by far was registered in mortgage bonds (+68%). Following growing needs of funding, government bond issues increased by one quarter. In contrast, the rate of growth of corporate bonds has been moderate (13%).

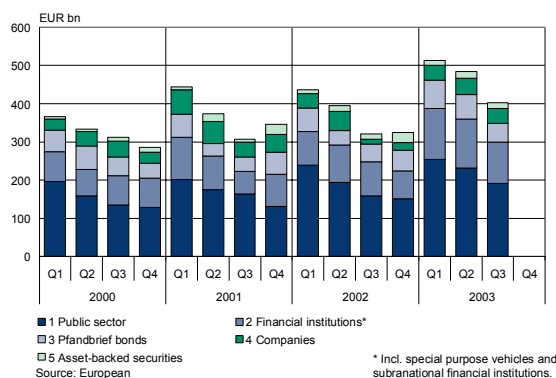
European bond markets have recovered at a much slower rate than their US counterparts. Issues of euro-denominated bonds during the first three quarters of 2003 have increased by more than one fifth compared to the same period last year. Issues by banks and other financial institutions have increased the most. Similar progress (31%) has been reported for Pfandbrief bonds.

European corporate bond issues have recovered from the problems of 2002. Following the reduction of risk premia related to corporate bonds, firms are showing increased interest in the bond market. The preparations made at banks in view of the forthcoming changes imposed by Basel II may have also had their repercussions on the bond market: the pricing of corporate bonds has become tighter and companies seeking long-term finance have turned to the market instead of banks.

Government bond issues by EU member states have also turned upward. In many countries, widening budgetary deficits have increased the need of new finance. The indebtedness of EU member states has had repercussions on the secondary market: for some countries, such as Ireland and Finland, the spreads against German government bonds have turned to the benefit of these countries. Throughout the autumn, the spread of Irish and Finnish ten-year govern-

ment bond yields has been a couple of basis points below German and French government bonds.

**Chart 8. Euro-denominated bond issues**



Year 2003 has been rather modest considering expansion of the Finnish bond market. Since the turn of the year, total outstanding stock of bonds held by the private sector, corporations and financial institutions has diminished. During January–September, there was a particularly strong fall (-73%) in domestic corporate bond issues. In fact, the outstanding stock of domestic corporate bonds has decreased steadily since 1994. There were, however, tentative signs in the autumn of a recovery in domestic corporate bond issues. Several bonds have been issued in Finland and the rest of euro market. Despite a strong increase in bond issues by the domestic financial sector, the outstanding stock of bonds has diminished since the turn of the year, owing to major amortisation. Domestic banks seldom turn to the bond market when raising new finance.

Government borrowing has turned upward and the Finnish government has increased its bond issues rapidly during the course of 2003.

## 4 Infrastructure

### 4.1 Major structural changes in financial markets infrastructure

#### Kirsi Ripatti

**The infrastructure of the financial markets, composed of payment systems, securities clearing and settlement systems and the rules and regulations that govern them, are undergoing a process of significant structural change – on both the domestic and international fronts.**

The Pan-European Automated Clearing House (PEACH), which started operations in Italy in July 2003, aims at advancing cross-border euro-denominated credit transfers using the STEP2 payment system. The number of participating banks is constantly rising, with over 800 banks as indirect participants and close on 50 direct participants. The only bank in Finland to be fully and directly involved to date is Nordea, which also acts as intermediary for payments sent to other banks in Finland. The European banking sector established this new automated clearing house in response to the regulation on pricing<sup>1</sup>, issued by the European Parliament and the European Council, which came into force in respect of credit transfers in July 2003. Banks have had to reduce the charges levied on cross-border payments, as the regulation requires that EU banks offer euro-denominated cross-border payments at the same price as corresponding domestic payments.

Finns are major users of Internet banking services. Already 53% of all Finns use the Internet to pay their bills. This increase in payments via the Internet has underlined the importance of data security systems. So far, there have not been any particularly notable problems with Finnish payment systems, but in the United States there have been incidents of viruses found to have infected ATM and PayPal payment systems. The problems posed by viruses are, however, on the rise and even the authorities in Finland have re-

cently been faced with issuing several virus warnings.

TARGET 2, the next generation of the large-value payment system TARGET, is currently being developed by ESCB, in close cooperation with the banking sector (as a whole). Despite the tight schedule that has been imposed on it, the planning of TARGET 2 is well under way and it is expected to be operative later in the decade. The CLS Bank, which commenced operations a little over a year ago, has made a promising start. CLS, whose objective is to eliminate the foreign exchange (FX) settlement risk, settled over 80,000 instructions a day on average in September alone. This was up from the 70,000 daily settled instructions in April. The daily gross value of settled instructions through CLS has risen to over USD 100 billion. The number of currencies eligible for CLS settlement grew from seven to eleven in September this year, when the Swedish krona, Danish and Norwegian krone and the Singapore dollar joined the list. CLS has close on 60 settlement members, including Nordea from Finland, in addition to which Sampo offers these services as a customer ("third party") of a settlement member.

In September, the Swedish OM and HEX merged. The merger brought the Finnish securities settlement and depository activities into HEX Integrated Markets (HEXIM), a division of OMHEX. The Helsinki-based HEXIM is responsible for – at least this stage of its development - market place operations of Stockholm stock exchange and HEX, as well as Finnish, Estonian and Latvian central securities depositories. It is anticipated that the effect of the merger, which

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<sup>1</sup> Regulation (EC) No 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro.

was brought about as a means of achieving greater efficiency, will be seen in many technical solutions, including trading and post-trading systems. The merger saw the end of the Bank of Finland's ownership interest in the former HEX Group. The previous equities clearing and settlement system (KATI) with its supplementary services will be replaced by the end of 2003 by the grad-

ual introduction of a new clearing and settlement system (HEXClear) that was already under development before the merger. The first transactions were settled in HEXClear on 10 November. Money market instruments currently cleared through the KATI system will be not transferred for clearing through the HEXClear system in its first version.

## Box 2. The two settlement methods of HEXClear

### Kirsi Ripatti

Once bids and offers are confirmed in the Helsinki Exchanges' trading system, trade is automatically registered in the HEXClear system for clearing and settlement, in order that the securities and the corresponding payment can be transacted to the buyer and seller, alike. Trades are settled on either a trade-by-trade basis or an optimisation-based procedure.

- In a trade-by-trade settlement (RTGS-based), monitoring is undertaken at regular intervals throughout the settlement day to ascertain whether the transactions that are waiting can be settled, and to confirm those that fulfil the criteria (funds and assets). Transactions that cannot be settled are either transferred forward again for settlement on the trade-by-trade basis or optimisation process.
- The optimisation process takes place at specified moments in the form of batch runs during a settlement day. Optimisation refers to the simultaneous settlement of a number of transactions at the end of the batch run and is used to establish whether a number of transactions can be settled together, even though it would not be possible to settle them individually.

HEXClear permits greater flexibility in both the operations of the Central Securities Depository (APK) and the settlement members' activities during the settlement day as well as enabling greater opportunities for liquidity management the account operators. The new system will also allow for the implementation of a central counterparty clearing for equities - which is currently lacking in Nordic countries.

## 4.2 Streamlining direct debit services

### Heli Paunonen

**Direct debit is used in all the EU countries. It is a particularly favoured payment method in Germany, Spain and the Netherlands, whereas it is relatively seldom used in Finland. Clearly there are national characteristics to the various direct debit schemes used in the European Union, making the harmonisation of the various schemes more complicated.**

In many countries direct debit has a long history. For example, it was introduced in Germany and France in the 1960s and in 1978 in Finland. According to the most re-

cent survey<sup>1</sup> on the matter conducted by the European Commission, there are as many as

<sup>1</sup> Study on the harmonisation of the legal framework for cross-border direct debit systems in the 15 member states of the European Union ([http://europa.eu.int/comm/internal\\_market/payments/directdebit/index\\_en.htm#studies](http://europa.eu.int/comm/internal_market/payments/directdebit/index_en.htm#studies)).

23 direct debit systems being applied within the 15 EU Member States.

There are both similarities and differences within these 23 systems. For example, there are several methods for making a direct debit mandate. In Finland, the customer signs a mandate form provided by the invoicer and presents it to the customer's bank. In some systems, the mandate flows from customer to invoicer, who then sends it directly, or indirectly, via their own bank, to the customer's bank. In France and Italy, there is a system that does not require any such general mandate to be made; instead each payment is sent to the customer for signing, and the sum is debited from the customer's account on the basis of the signed invoice.

There are also a variety of approaches to the revocation of the mandate. Some systems are arranged in such a way that the mandate is cancelled when there have been no transactions against the mandate within a set period of time. In other countries the mandates cannot be revoked by default. There is also a broad range of terminology involved in discussing the various systems across the EU.

Practices concerning the revocation of the transaction vary across the spectrum of systems. In Germany, France and the Netherlands there are systems with time limits within which the customer has the right to revoke a direct debit transaction and receive a refund – in some cases immediately. The specific time limit depends on the country concerned. This leaves the risk in the bank's hands as to whether the payment can subsequently be collected from the payee (the

invoicer). The charges levied on both customer and invoicer vary significantly from one system to another.

Direct debit systems are frequently based on a mutual agreement between the parties and are seldom provided with legislative protection. The introduction of a European-wide direct debit system would require legislative harmonisation. This point was highlighted in the European Commission's December communique. According to the survey conducted by the European Commission, all but one of the systems currently available is operating within national borders, with Austria being the only country to offer a cross-border solution. Additionally, the Netherlands, Germany, Italy and the United Kingdom have direct debit systems in use that can be used for cross-border transactions and are based on a bilateral agreement between the contracting parties. One of the issues dealt with by the Single Euro Payments Area (SEPA) initiative being undertaken by European banks is the development of a Pan-European Direct Debit system (PEDD). National and historical variations in the existing direct debit systems of the European Union Member States provide challenges to the development process. It also remains unclear as to the level of demand that might exist for such a system. One of the alternatives available to somewhat old-fashioned mandate-based direct debit schemes may lie in the use of e-invoicing, which provides better means for managing customers' accounts by allowing, for example, tailor-made mandates and/or requiring authorisation for each transaction.

## 5 Key development projects in the field of regulation and supervision

**Hanna Putkuri ja Pertti Pylkkönen**

This chapter addresses key ongoing development projects in the field of regulation and supervision both at EU and domestic levels as well as reviewing the progress made since the previous Financial Market Report of 13 May 2003 (available in Finnish only). Previous developments, together with some other projects, are described in greater detail in earlier reports (also available in Finnish only).

### Regulation and supervision at EU level

In recent years, the development of financial market regulation within the European Union has largely been based on the Financial Services Action Plan (FSAP) aimed at a single European financial market. In June 2003, the European Commission released the eighth, and in November the ninth, progress report on the implementation of the FSAP. The latest progress report sees the completion of 36 measures within the framework of the Action Plan, while a further 15 measures are scheduled for completion by the end of 2005, at the latest. In November, the Commission also put forward the fifth and last progress report on the implementation of the Risk Capital Action Plan (RCAP) designed to develop risk capital markets.

#### General

The Accounting Regulatory Committee (ARC) assisting the EU Commission in financial reporting issues decided in July on the introduction of International Accounting Standards (IAS) and their interpretations. The adopted standards were discussed by the European Parliament in September and published in the Official Journal of the European Union in the languages of all the member states in October. Under the IAS Regula-

tion that took effect in autumn 2002, listed companies, including banks and insurance companies, are required to prepare their consolidated financial statements in accordance with the IAS standards adopted by the EU as of 2005.

#### **Credit institutions, investment firms, insurance companies and financial conglomerates**

The Basel Committee on Banking Supervision continues its work on the revision of the regulatory and supervisory framework applicable to the capital adequacy of credit institutions (Basel II Accord). In August, the Committee published the comments received in the course of the third and last round of consultations. In October, the Committee issued a press release on the schedule for the implementation of the new capital adequacy framework and future modifications to the framework. The Committee announced that it would publish its recommendation to the capital adequacy framework in the course of 2004.

In July, the European Commission launched consultations on the proposal for a Capital Adequacy Directive and a draft proposal for a Large Exposures Directive. The draft proposals largely correspond to the proposal of the Basel Committee for a new capital adequacy framework.

#### **Payment and settlement systems**

A regulation providing that equal charges be applied to strictly domestic transactions and euro-denominated cross-border credit transfers within the EU took effect in July. The principle is applicable to credit transfers not exceeding EUR 12,500 for which the customer has provided the bank with the beneficiary's International Bank Account Num-



ber (IBAN) and the Bank Identifier Code (BIC).

The European System of Central Banks (ESCB) has continued to improve the oversight standards applicable to the assessment of system reliability and efficiency. Security objectives relating to e-money schemes were adopted by the Governing Council of the ECB in May and the application of Core Principles to euro retail payment systems in June. The Finnish systems will also be evaluated in accordance with the new oversight standards next year. Public consultations on the measures to improve the collateral framework of the Eurosystem and on the formulation of ESCB-CESR standards for securities clearing and settlement systems in the European Union were recently completed.

## Domestic regulation

### General

The Act on the Financial Supervision Authority took effect in July. The new Act includes provisions on the Financial Supervision Authority's (FSA) objectives and mission and it provides for broader powers, better administration and enhanced supervision of the overall expediency and efficiency of the FSA's operations. With the introduction of the Act, the licensing authority in respect of credit institutions and investment firms was transferred from the Ministry of Finance to the FSA. Furthermore, the FSA was given the right to issue public reprimands and public warnings to supervised entities and other financial market participants that are in breach of financial market regulations. The FSA may also, under certain conditions, suspend a person from acting as a member or deputy member of the board of a credit institution or investment firm, or as its managing director or deputy managing director. The FSA may, on a wider scale, employ outside expert advisers for inspections.

In November, a Government bill on the amendment of the Act on the Bank of Finland and certain related acts was introduced to Parliament. The Government bill is currently being discussed by the Constitu-

tional and Economic Committees of Parliament. The Act is scheduled for introduction in early 2004.

The IAS regulatory working group set up by the Ministry of Trade and Industry in October 2002 submitted its report in June 2003. The report includes proposals for amendments to the Accounting Act and related Ordinance as well as to the Credit Institutions Act and the Insurance Companies Act and to the provisions issued by virtue of them. In September, the Ministry issued a decree that will considerably extend the scope of application of International Accounting Standards in the context of consolidated financial statements. Following this legislative amendment, all Finnish accounting entities with publicly traded equity instruments or bonds may choose to prepare their consolidated financial statements in accordance with the IAS.

The working group looking into the need for a separate Act on European Companies released its report at the beginning of December. The working group proposes the enactment of an Act on European Companies to supplement the Council Regulation on the Statute for a European Company. The proposed Act would be applied to European companies to be registered in Finland and to Finnish limited liability companies participating in the establishment of European companies.

The concept of a European company represents a new European cross-border corporate structure. The Act on European Companies would serve to facilitate cross-border mergers and acquisitions. The provisions enabling the transfer of domicile between EEA member states is likely to boost competition for the domicile of companies. The insurance business can be taken as an example, in that Finnish life and non-life insurers are currently subject to stricter solvency requirements than provided for under EU legislation.

### **Credit institutions, investment firms, insurance companies and financial conglomerates**

A Government bill on the amendment of the Mutual Funds Act and certain other related acts was introduced to Parliament in October. The proposed changes will implement the amendments to the UCITS Directive concerning the authorisation criteria applicable to fund management companies and the expansion of the company business as well as the requirement to prepare a simplified prospectus for each mutual fund.

The line of business of fund management companies will be expanded to allow for the provision of investment services on a limited scale, including the provision of individual portfolio management services, investment advice and administration and safekeeping of mutual fund shares. Fund management companies may also outsource their functions, in that portfolio management, for example, may be outsourced to a duly authorised and supervised company. The scope of investments available to mutual funds covered by the UCITS Directive will be extended considerably. In Finland this means for example that several of the current special mutual funds can be converted into mutual funds covered by the Directive. The result will be that deposit, derivatives, index and fund of funds covered by the UCITS Directive can then be offered to the market in the future.

A Government bill to Parliament on the amendment of the Investment Firms Act was put forward in October. The Government bill proposes changes to the size of the capital of the Investor Compensation Fund and the means for paying up the capital.

In August, the Basel II working group set up by the Ministry of Trade and Industry handed over its report on the treatment of the State's immediate and strict liability in respect of the export credit guarantees, special guarantees and SME guarantees offered by Finnvera plc. The working group proposes that zero risk weight continue to be assigned to such liabilities in the capital adequacy calculations of credit institutions even after the implementation of the Basel II Accord.

The working group appointed by the Council of State to explore the equal treatment of savings vehicles submitted its final report in December. The mission of the working group was to assess the need for legislation to ensure equal competitive conditions for savings, single premium savings and life insurance products available in the Finnish market. In its final report, the working group puts forward detailed proposals to reduce the legislative discrepancies in the taxation and marketing of competing savings products and to increase the comparability of the product information to customers.

Finnish credit institutions legislation will, in the course of the coming year, be amended in line with the Credit Institutions Reorganisation and Winding Up Directive.

Provisions on the capital adequacy requirements applicable to financial and insurance conglomerates as set forth in the relevant Directive will be written into the Act on the Supervision of Financial and Insurance Conglomerates next year.

### **Securities markets and marketplaces**

The mission of the working group on market abuse is to prepare a proposal by spring 2004 for Finnish legislation implementing the Market Abuse Directive and the provisions issued by the Commission by virtue of the Directive.

### **Reform of corporate and capital income taxation**

In November, Government introduced a bill to Parliament with a proposal for the revision of corporate and capital income taxation. According to the proposal, the corporate tax rate will be reduced by 3 percentage points to 26% and the capital tax rate by 1 percentage point to 28%.

Furthermore, the corporate tax rebate scheme will be discontinued and the partially double taxation of dividend income is to be introduced. Of the dividends paid out by listed companies, 70% will be treated as taxable capital income for the recipient. Dividends distributed by unlisted limited liability companies will be exempted from

tax up to an amount equalling a 9% return calculated on the mathematical value of the share. The annual maximum amount of tax-exempt dividends per individual tax payer is set at EUR 90,000.

A shift from income to capital taxation will take place in the taxation of personal

pension plans, and the minimum pensionable age under the plans will be raised to 62.

The lower limit of taxable property will be raised to EUR 250,000 and the tax rate reduced to 0.8%. The estimated acquisition cost applicable to the taxation of capital gains on property owned by private persons for more than 10 years will fall to 40%.

## 6 Key corporate arrangements and events in the financial sector

Date	Event and description
<b>Jan 2002</b>	DnB Holding announced it will acquire the operations of Skandia Asset Management.
	Iceland-based Kaupthing Bank hf acquired Aragon Holding AB from Sweden.
	Egg Plc, UK's largest creditor operating on the Internet, acquired ZeBank from France.
	The merger between the National Bank of Greece and Alpha Bank, announced in November 2001, fell through towards the end of the negotiations because of disagreement over management positions and division of labour.
<b>Feb 2002</b>	S&P raised Finland's rating by AA to +AAA.
	Allied Irish Bank announced of a USD 750 million fraud relating to foreign exchange transactions at its American branch Allfirst.
	Iceland-based Kaupthing Bank hf acquired Pankkiiriliike Sofi Oyj from Finland.
<b>Mar 2002</b>	Banca di Roma and Bipop-Carire agreed on merger arrangements.
	Rabobank acquired 28% of the share capital of Switzerland-based Bank Sarasin & Cie at a price of CHF 402 million.
	Japanese regional bank Chubu Bank went bankrupt.
	HEX announced of commencement of strategic cooperation with Riga Stock Exchange and Latvian Central depository.
<b>Apr 2002</b>	Tapiola insurance company of Finland declared its intention to establish a bank.
	Moody's raised the rating of Sweden's long-term foreign debt by Aa1 to Aaa.
	Sampo sold export and project financing receivables to a capital value of EUR 1.3 billion, that is the majority of its foreign long-term receivables, to Landesbank Schleswig-Holstein (LB Kiel). The sale was related to the merger of Sampo and the former Finnish Export Credit.
	S&P lowered the rating of Japan's long-term loans by AA to AA-.
	Fennorating Oy, a Finnish rating agency, announced its first long-term rating. Myllykoski Oyj's long-term loans were rated BBB+.
	Evli Bank Plc acquired Arthur Andersen's Corporate Finance units in Finland, Sweden and Denmark.
	Svensk Export Kredit opened offices in Helsinki.
	BNP Paribas Group and its subsidiary Cortal signed an agreement with Schmidtbank on the acquisition of 66.43 % of the share capital of ConSors Discount Brokers AG, owned by Schmidtbank.
	OPK and OKOBank sold their respective Pohjola holdings to Suomi Group.
<b>May 2002</b>	Nordea Finance Finland acquired the financial operations of Sonera Gateway. Following the acquisition, Sonera Gateway's leasing assets and the related contracts were transferred to Nordea.
	eQ Pankkiiriliike was granted a deposit banking licence. The new name of the company is eQ Bank Plc.

<b>Date</b>	<b>Event and description</b>
	Nordea declared its intention to acquire 54.3% of the share capital of LG Petro Bank from Poland.
	Mutual fund 3 C Oy and Mandatum Asset Management Plc merged their hedge fund operations into 3C Asset Management Plc.
	Fitch upgraded OKOBank's rating by one grade. Short-term debt by F1 to F1+ and long-term debt by A+ to AA-.
<b>Jun 2002</b>	Nordea declared its intention to sell its property and casualty insurance business to Tryg I Danmark at a price of EUR 760 million.
	Nordea Bank and Nordea Finance declared their intention to sell their majority interest in Contant Oy to mutual funds managed by Sponsor Capital.
<b>Jul 2002</b>	Evli Bank's subsidiary Evli Life was granted authorisation to operate in Luxembourg.
<b>Aug 2002</b>	HEX announced it had acquired a 93% stake in the Riga Stock Exchange.
<b>Sep 2002</b>	EuropeLoan relinquished its banking licence.
	S&P produced the very first rating for OKOBank's long-term loans. The rating for long-term senior loans is A+ and the prospects are stable.
	LB Schleswig-Holstein (LB Kiel) and Hamburgische LB declared merger intentions with effect from the beginning of 2003.
	CLS Bank International started Continuous Linked Settlement services in connection with currency transactions.
	Pohjola insurance company, Suomi insurance company and 33 savings banks declared their intention to establish a new savings bank in the Helsinki region. Savings banks will hold 70% of the share capital of the new bank, with the holdings of Pohjola and Suomi amounting to 25% and 5%, respectively.
<b>Oct 2002</b>	SEB acquired the Norwegian credit card company Europay Norge AS at a price of NOK 1 billion.
	Evli Bank acquired Suprema, an investment bank operating in the Baltic States.
	Samlink and Savings Banks' Association announced merger plans.
	Suomen Asuntohypopankki Oy, owned by Mortgage Society of Finland, was granted authorisation to conduct deposit-banking activities.
	Fennorating rated the long-term loans of the Mortgage Society of Finland with the grade A+. Prospects remain stable.
	Stockholm Stock Exchange OM announced that it will discontinue its Jiway operations.
<b>Nov 2002</b>	HSBC Holdings made an offer for Household International Inc, an American mortgage bank.
	Toronto Stock Exchange went public.
	eQ Bank acquired WIP Rahastoyhtiö mutual fund.
	A banking licence was granted to Tapiola Bank by the Ministry of Finance.
	Danske Securities declared their intention of withdrawing from the Finnish market.
<b>Dec 2002</b>	Bankruptcy proceedings were instituted against EuropeLoan, which had had operations in several European countries, including Finland. All loans granted earlier were

<b>Date</b>	<b>Event and description</b>
	transferred to EuropeLoan Finance.
	OM from Sweden and the London Stock Exchange intend to set up a new market place, EDX London, for trading in derivatives.
	Den Norske Bank declared its intention to open a branch office in Helsinki.
	The local cooperative bank Iitin Osuuspankki merged with the local cooperative bank Päijät-Hämeen Osuuspankki.
	DnB Holding (Norway's largest bank) made an offer for the acquisition of Nordlandbanken.
	OP-Rahoitus Oy was merged with its parent company OKOBANK.
	Postgirot AB was merged with Nordea Bank Sverige AB.
<b>Jan 2003</b>	Nordea acquired the remaining 60% Nordisk Renting, which is engaged in the buying, owning and development of real estate properties for long-term renting purposes.
	Forex announced it will apply for a banking licence in Finland.
	OKOBANK closed down its branch office in Stockholm and agreed on cooperation with FöreningsSparbanken.
<b>Feb 2003</b>	Dun & Bradstreet discontinued provision of credit risk ratings for the Bank of Finland's collateral.
	OKOBANK made an offer to its member banks on the acquisition of their shares in the life assurance company Aurum.
<b>Mar 2003</b>	Norway's two largest banks, Den Norske Bank ASA and Gjensidige NOR Sparebank, announced merger plans.
	Japanese banks Asahi Bank and Daiwa Bank were merged into Resona Bank.
	Ilmarinen insurance company and 33 savings banks agreed on cooperation.
<b>Apr 2003</b>	In Iceland, Kaupthing Bank and Bunadarbanki Islands announced merger plans.
	Pohjola insurance company sells Conventum Corporate Finance to its executive management.
	Evening trading on the Helsinki Stock Exchange was cut down by half an hour until 7.30 pm with effect from the beginning of April.
	SEB acquired the entire share capital of Enskilda Securitiss. SEB also acquired a 22.5% stake in the Norwegian company Orklan at a price of NOK 807 million.
<b>May 2003</b>	Barclays acquired the Spanish company Banco Zaragozano at a price of EUR 1.14 billion.
	HBOS Plc made an offer for the remaining 43% stake in Bank of Western Australia Ltd.
	Nooa Säästöpankki savings bank opened its first 6 branch offices in the Helsinki region.
	Nordea sold the entire share capital of its subsidiary Nordisk Renting AB to the Royal Bank of Scotland. Nordisk Renting is engaged in the real estate property business.
	Resona bank, formed as a result of the merger of the Japanese banks Asahi and Daiwa, was granted capital support amounting to approximately USD 17 billion in order

<b>Date</b>	<b>Event and description</b>
	order for it to fulfil capital adequacy requirements.
	EFG Private Bank and Banque Edouard Constant announced merger plans.
	Societe Generale announced its intention of acquiring a 67% stake in Compagnie Bancaire Geneve.
	Sampo Kortti Oy will be merged with Sampo Bank with effect from the beginning of 2004.
	The Boards of HEX (Helsinki Exchanges) and OM (Stockholm Stock Exchange) announced plans concerning the merger of the two stock exchanges.
<b>Jun 2003</b>	Clearnet and London Clearing House announced merger plans.
	The Board of Directors of Nordea decided to instigate proceedings concerning the change of the group's legal structure.
	Nordea Bank Polska and LG Petro Bank were merged.
<b>Jul 2003</b>	Moody's raised OKOBank's ratings: long-term Aa3 to Aa2 and financial strength B to B+. Short-term still P-1. Stable rating prospects.
	Moody's raised Sampo Bank's ratings: long-term A2 to A1 and financial strength C+ to B-. Short-term was still P-1. Stable rating prospects.
<b>Sep 2003</b>	Kaupthing Bunadarbanki from Iceland declared its intention to acquire a majority holding in the Finnish investment company Norvestia from the Swedish investment company Havsfrun.
	Eurex and the US-based The Clearing Corporation signed a cooperation agreement.
	Nordea sold the Norwegian debt collection Inkassosentralen to Aktiv Kapital ASA.
<b>Oct 2003</b>	Bank of Finland sold its 40% stake in Setec Oy to mutual funds managed by Capman.
	Royal Bank of Scotland declared its intention to acquire Switzerland-based Bank von Ernst & Cie AG from HVB Group.
	Bank of America acquires FleetBoston. Following the transaction, BofA will become the second largest bank in the USA.
	HSBC Holdings Plc acquires Bank of Bermuda.
	Suomi Mutual Life Assurance Company and its subsidiary Suomi Insurance Company Ltd (Henki-Suomi) are merged.
	Euroclear carries out a reorganisation with the effect that Euroclear Bank becomes a subsidiary.
	Nokia submitted a delisting application to the London Stock Exchange. London has recently accounted for less than one per cent of total trading in Nokia shares.
<b>Nov 2003</b>	Authorities issued permission for the merger of DnB ASA and Gjensidige NOR ASA. The name of the new company will be DnB NOR ASA. The two Norwegian banks belonging to the group, Den Norske Bank and Union Bank of Norway were also given permission to merge.
<b>Dec 2003</b>	HEX Integrated Markets to join NOREX.