

# Annual Report





## The Financial Supervisory Authority (FIN-FSA) is the authority for supervision of Finland's financial and insurance sectors

FIN-FSA seeks to ensure that

- the operations of its supervised entities are on a sound footing and they hold sufficient capital resources to cover the risks and losses arising from their operations and are able to meet their commitments
- the information provided to customers and investors on products, services, service providers and issuers is of high quality
- financial market practices are appropriate
- payment systems are secure.

### Objectives

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. Other objectives are to safeguard the interests of the insured and maintain confidence in the financial markets.

FIN-FSA's work is aimed at ensuring that customers in Finland can be confident in conducting their business with banks, insurance companies and other financial-sector enterprises and can make decisions on their own finances on the basis of reliable information. In addition, FIN-FSA has a statutory duty to foster public awareness of financial matters.

During the year under review, a total of 1,083 supervised entities (1,094 in 2011) and other entities were liable to pay supervision fees.

Administratively, FIN-FSA operates in connection with the Bank of Finland, but in its supervisory work it takes its decisions independently. FIN-FSA is part of the European system of financial supervision.

EBA = European Banking Authority

EIOPA = European Insurance and Occupational Pensions Authority

ESMA = European Securities and Markets Authority

ESRB = European Systemic Risk Board

### Supervised entities

- credit institutions
- non-life, life and reinsurance companies
- 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

### FIN-FSA also supervises

- listed companies' compliance with the disclosure obligation and IFRS regulations on financial statements
- securities trading
- compliance with the flagging obligation to disclose major shareholdings
- securities offerings and public tender offers
- the investment activities of Keva, the State Pension Fund, the pension fund of the Evangelical Lutheran Church and the Unemployment Insurance Fund.

# Annual Report 2012

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Unless otherwise indicated, all texts refer to the review year 2012.



**Anneli Tuominen**

## Major changes in regulation and supervision

Overall, the Finnish financial sector has withstood the financial crisis reasonably well. However, profitability in the sector continues to be exposed to significant threats due to the challenging operating environment. Moreover, major regulatory changes are affecting the financial sector's profitability, creating further pressure for a rethink of business models. In addition to supervised entities' business models, supervision, too, is at a turning point. The crisis has revealed the need to reform supervisory structures and provide supervisors with a broader set of tools to address emerging problems in a proactive manner.

### European debt crisis still unresolved

Despite tranquillity on the capital markets in recent months, the European debt crisis is not yet over. The tranquillity is due to the assertive action by the European Central Bank (ECB) in particular, but also by the European Union and its Member States. A high degree of uncertainty still attaches to the implementation of political decisions taken in this area, at both national and EU level. In addition, the weak economic environment is eroding bank balance sheets and profitability. Funding problems encountered by indebted countries and banks located there continue to require further attention.

### Finnish financial sector remains stable

The Finnish financial sector has so far withstood the financial crisis reasonably well. However in the future, the low level of interest rates will reduce banks' net interest income and investment returns on insurance companies' debt securities holdings. Slow economic growth is increasing the risk of impairment losses. New regulation calls the viability of business models into question and is increasing the costs for market participants. In both the banking and the insurance sector, the conditions for doing profitable business have deteriorated, especially for smaller institutions. Maintaining a sound level of operating profits may require cost-cutting, leaner balance sheet structures, a review of distribution channels, product ranges and pricing or, ultimately, restructuring.

The stocks of both corporate and housing credit grew in Finland until early autumn more rapidly than in almost all other EU countries. In the autumn, however, corporate

credit growth came to a halt. The main reason for this is not a tightening of bank lending criteria, which has also taken place, but a lack of demand. Non-financial corporations are barely investing at all. This is a worrying sign for the economy's near-term performance.

Favourable securities markets developments in the latter half of the year boosted particularly the situation of pension providers and life insurers. Investment returns and hence solvency levels recovered. Even so, the market situation is closely linked to the unfolding of the debt crisis. Higher pricing of credit risk appears to have become permanent, and the markets' 'new normal' means that investors must be prepared for large short-term price volatility.

### Less room for the proportionality principle

There has been a lot of discussion on the costs of regulation. The financial sector perceives regulation as weakening its chances of doing profitable business. Authorities, in turn, emphasise the benefits, especially over the long term. Several analyses indicate that, for example, the net effect of Basel III will be positive over the long term, as it reduces the likelihood of financial crises. The International Monetary Fund has compiled statistics of 40 banking crises of systemic importance in Europe since 1990, involving very high costs for national economies.

The Basel III reform for banks has been carried out mainly with a view to the risks of large systemically important global banks. In the EU, however, the regulation covers the banking sector as a whole, as even smaller banks operating in the same manner may via their actions endanger the stability of the financial markets. Good

examples of this are the banking crisis in Finland in the 1990s and the current Spanish crisis originating from the savings bank sector. Both cases were also characterised by a lack of ownership control.

The principle of proportionality has a role to play in regulation, in order to avoid unnecessarily increasing the administrative burden on small market participants without justification. In practice, however, international regulation does not leave much room for the application of this principle. All must meet the new stricter minimum requirements. The principle of proportionality is applicable to banks and insurance companies mainly regarding internal controls, such as risk management. When future impact assessments of regulation are conducted, it would be worthwhile to separately examine how regulation affects the competitive conditions, cost basis and administrative burden of smaller market participants. In the insurance sector, for example, the application of even standard Solvency II models may be difficult for smaller insurance companies.

The bulk of both national supervisors' and EU supervisory authorities' time has in recent years been, and will in the near future be, allocated to the preparation of regulatory reforms. These also require devoting a considerable amount of work to information technology projects and to the development of reporting, in order to ensure effective monitoring of compliance with the new requirements. It would therefore be important to get the various regulatory projects implemented as soon as possible, but, of course, without compromising quality, so we can focus on our main task – supervision, and bringing it in line with new regulation.

### **Corporate governance has become increasingly important**

In its strategy for 2013–2015 approved in the autumn, the FIN-FSA underlines the importance of supervised entities' strong risk-bearing capacity and high-quality governance. Boards are responsible for ensuring the organisation of high-quality risk management and internal control.

The FIN-FSA has conducted a number of on-site inspections related to sound governance and risk management. In the Finnish financial sector as a whole, risks are relatively well managed. Market participants with problems in profitability and capital adequacy also often have the biggest need for improvements in risk management. Supervised entities with well-functioning governance arrangements also usually manage their business well. The FIN-FSA addressed with vigour the shortcomings detected. Accordingly, during the year under review, the FIN-FSA issued three warnings due to weaknesses in the organisation of risk management and internal control. It

was found in later inspections that the sanctions had made a considerable preventive contribution to improving other institutions' risk management, too.

The FIN-FSA also conducted inspections of corporate governance at pension providers. The inspections revealed, among other issues, that extensive powers granted portfolio managers do not always support the monitoring and steering of the achievement of investment targets by the boards. Smaller pension providers, in turn, were found to have shortcomings in the management of risks related to complex investment products. In its own recommendation issued to pension insurance companies in late autumn, the FIN-FSA underscored the importance of active steering by the boards, the significance of risk management and transparency. The regulatory reform concerning pension providers' internal governance, which is under preparation at ministerial level, also puts emphasis on the responsibilities of governing bodies.

### **Upward pressure on customer fees and margins**

Banks have recently increased their fees and margins, justifying the increases by changes in the operating environment and regulation. The operating environment is undeniably especially challenging for banks: the banking sector's net interest income has declined by a quarter over the past five years and upcoming regulatory reforms and new tax-like payments will give rise to cost pressures. However, regulatory reforms have also been used as a pretext: increases have in some situations been justified by an appeal to regulation-induced costs on somewhat loose grounds.

With costs going up, service providers have a need to raise their margins and other fees. Nevertheless, customers must be able to rely on financial institutions as stronger contracting parties and on service providers' strict compliance with the contracts and agreements made, particularly with respect to longer-term contracts – such as loans and insurance policies. Service providers should already take long-term risks into account when making the original agreements.

Pricing of basic banking services must be reasonable, if only for statutory reasons. The FIN-FSA's particular supervisory focus is on the pricing and availability of these services. For example, the FIN-FSA has addressed the high fees charged for the cash payment of bills.

Housing loan margins in Finland are the tightest in the euro area. For years already, the FIN-FSA has been drawing banks' attention to the fact that housing loan margins should fully reflect the credit risk and also cover the bank's own funding risks. A few years ago, banks granted housing loans at margins as tight as 0.3 of a percentage point. This sort of pricing was not risk-based. Changes in the operating environment and banks' higher

cost levels have led to a need for banks to re-price their lending. But this is not possible unless loan terms expressly provide for certain exceptional situations allowing margin increases. Such situations may include a weakening in the bank's own capital adequacy and an increase in costs due to new regulation and directly affecting the loan in question. It follows from Finnish consumer legislation that exceptional situations need to be interpreted narrowly. The FIN-FSA has already noted earlier that the margin cannot be increased if, during the loan period, changes are made to the loan terms and conditions that had already been agreed in principle at the time of granting the loan. Examples of these are short term exemptions from amortisation and exchanges of collateral.

### **Service providers responsible for new products**

During the financial crisis, many retail investors have found they had previously purchased products whose risks they had not fully understood. Some products were so complex that not even the service providers who sold the products could always foresee how they would behave in different market situations. Nor had the sellers clarified with sufficient accuracy the suitability of the products for the buyer's risk profile or investment objectives.

There are a number of projects under way within the EU to remedy these problems. Regulation will clarify and harmonise product-related disclosure obligations and sales practices. Supervisors, in turn, will review new innovative products, analyse the related risks from the investor's point of view and, where necessary, warn of the risks. Supervisors have also been empowered to prohibit marketing of products in certain extreme cases.

All these projects merit support. There is currently also a need for them, as service providers have begun to develop exotic high-yielding products. There is also demand for such products because of the low level of interest rates.

It is, however, important to remember the role of different actors. Regulation should not be directed towards imposing an obligation on supervisors for ex ante product approval and service providers should act in such a responsible manner as to make it unnecessary for supervisors to intervene ex post in the marketing of products via prohibitions. Consequently, the FIN-FSA has underlined service providers' responsibility – including both product developers and distributors. Market participants need to have in place clear and consistent processes for product development, product approval and sales. As part of these processes, market participants must give consideration to the type of risk suitable for different investor categories. The service provider's board bears the ultimate responsibility for well-functioning processes.

### **New macroprudential tools to be implemented**

Property market bubbles have been the cause of most financial crises in recent decades. In advanced industrial countries, the direct fiscal costs of banking crises have accounted for an average of 2.1% of the banking sector's balance sheet. Financial crises have deepened and prolonged the resultant economic recession. According to the International Monetary Fund, output losses have cumulatively amounted to more than 20%, on average, of annual GDP, compared with the pre-crisis growth trend.

The financial crisis showed that the tools available to supervisory authorities to stave off risks to macroprudential stability were insufficient. New items, macroprudential instruments, are to be added to the authorities' toolkit. One way to rein in overheated lending is to require banks to accumulate higher levels of capital by changing the risk parameters for capital adequacy calculation and by restricting lending relative to the borrower's income or the collateral value of the acquisition. In the light of experience from individual countries, lending restrictions such as loan-to-value limits are an effective way of stabilising housing market performance. They have the advantage of directly affecting credit demand. Capital requirements operate indirectly and more slowly via banks' credit supply by, for example, reducing banks' interest in increasing lending volumes, and possibly by raising the costs of lending.

In the latter part of the year, there was much discussion in the media about the terms and conditions of lending for house purchase, and especially the plans to restrict the maximum size of loans relative to collateral values. Criticism was notably directed at the proposal submitted by Minister Antti Tanskanen's working group for a loan ceiling, under which the FIN-FSA could restrict the amount of bank lending granted against a residential mortgage. The proposal would restrict the use of purchased housing property as collateral for the housing loan. The granting of unsecured additional credit for the same purpose would still be possible. As the terms and conditions for such additional credit would be tighter (a shorter loan period and a higher margin), demand for it would be lower. Experiences of the use of the loan ceiling have been good in Sweden, where banks' lending practices are now on a sounder footing.

The specific goal of the proposal is to prevent a debt-driven rise in asset prices. The loan ceiling could help achieve several objectives: rein in excessive household debt accumulation and dampen the mutually reinforcing negative feedback loop between excessive household indebtedness, credit growth and an overly strong rise in housing prices.

Macroprudential supervision will be a strategically important area for the FIN-FSA in the future. The analysis

providing the basis for decisions on the use of macroprudential tools will be developed in close cooperation with the Bank of Finland. Such analysis needs to be of a high quality, as a significant degree of discretion is attached to the use of macroprudential instruments. For example, the loan ceiling would by no means be in use all the time, being imposed only when overheated housing markets so required. In such situations, use of the loan ceiling would be clearly in the interests of society, the banks, their customers and taxpayers alike.

### **Why is decentralised supervision not enough?**

European decentralised supervision has proved its weakness in preventing crises. According to the critics, national supervisors were unable to foresee the depth of the financial crisis and to prevent the emergence of property bubbles and did not require banks to take remedial action in time, such as added transparency and necessary corrections in balance sheet values. Contributing reasons include shortcomings in supervisory powers and the lack of macroprudential tools, but perhaps also a reluctance to take the necessary action to bring the nationally important banking sector onto a sound footing. National viewpoints have dominated, hampering the flow of information and consistent implementation of supervision across countries.

Admittedly, a lot has also been done. The European Banking Authority (EBA), in whose work all EU supervisors and central banks participate, has sought to harmonise supervisory practices, required banks to strengthen their capital bases and brought transparency to banks' sovereign exposures. However, its measures were not enough, as it has lacked sufficient powers to influence national supervisory responses.

In order to restore confidence in the European banking sector, political decision-makers have only had one alternative to solve the dilemma: to create supranational, high-quality supervision to replace the current national supervision.

### **Towards supranational supervision**

Towards the end of the year under review, EU policy-makers reached agreement on the establishment of a Single Supervisory Mechanism for banks in the euro area (for more information, see the article on p. 40). The ECB will be directly responsible for the supervision of the most significant banks of each euro area country and, in addition, for the operation of the whole supervisory system. Going forward, national supervisors will participate in practical supervisory work regarding the most significant banks in cooperation with the ECB and assume responsibility for the supervision of smaller banks, albeit in compliance with

uniform instructions. The new system will be more credible, as it is not dominated by national viewpoints. The ECB will also have powers to address overall banking-sector risks threatening stability.

Seamless cooperation between national supervisors and the ECB is a precondition for the success of the new supervision regime. The ECB will naturally be the decision-making body, but supervisory teams composed of national supervisors must be able to provide the ECB with thorough analyses in support of decision-making. The ECB will also need to ensure that national supervisory practices across countries are consistent and of high quality.

The objective is to build up a framework of comprehensive, and simultaneously well-functioning and high-quality supervision. This is a significant effort, as the ECB has no previous mandate for banking supervision. The funding basis must also be solved in a meaningful way. Supervised entities will pay the costs incurred by ECB banking supervision. The work load of national supervisors will grow, at least in the beginning as the new supervisory mechanism is phased in. This should not mean, however, that supervised entities will have to pay overlapping supervisory fees.

### **The new Single Supervisory Mechanism in practice**

As regards Finland, Nordea Bank Finland Plc, OP-Pohjola Group and Danske Bank Plc would come under the direct supervision of the Single Supervisory Mechanism. This means in practice that the most important supervisory decisions concerning these banks would be made on a centralised basis at the ECB. On the other hand, the parent companies of Nordea Bank Finland Plc and Danske Bank Plc operate outside the euro area, with responsibility for their group-level supervision lying with Danish and Swedish supervisors. The supervisory colleges led by these authorities seek to reach agreement on, for example, the capital and liquidity buffers of the groups and subsidiaries. Accordingly, the FIN-FSA's competence would no longer extend to the setting of these buffers in the future. It is important from the perspective of risk assessment in the Finnish financial sector and participation in centralised decision-making that the FIN-FSA continue to take part in Nordic cooperation between supervisors as a supervisory college member. It is to be hoped that, to ensure consistent and balanced supervision, Denmark and Sweden will also join the Single Supervisory Mechanism as soon as possible.

### **A single crisis resolution system is needed**

Single supervision requires a single crisis resolution mechanism aimed at safeguarding financial stability in the event of bank failures. In addition to national crisis resolution authorities, a common euro area crisis resolution authority should

also be set up. This would be empowered to take action for restoring a failing bank's viability, for example by winding down the bank's operations or by selling parts of it. The aim is that, in such a process, no public support would be needed or that its share would be considerably less than has been the case until now. The rescue would primarily involve using shareholders' and creditors' funds (*bail-in*). Additional recapitalisation would be ensured either from a national resolution fund or, in respect of banks under direct ECB supervision, from a single resolution fund pre-financed by the banks. Notably, however, no decisions on a single crisis resolution mechanism or a resolution fund have yet been taken.

Currently, the negative feedback loop between banks and sovereigns remains strong. The aim of the mechanisms for single supervision and single crisis resolution is to help break this connection. However, regulation continues to include elements that, on the contrary, actually strengthen the link. Even future regulation will encourage banks and insurance companies to favour sovereign risk in their investments, thereby contributing to banks' increasing willingness to invest in government paper. With governments' access to market funding becoming more difficult, banks have made significant investments in their respective governments' debt securities, especially in the southern European countries with debt problems. The question of the treatment of sovereign risk is in regulation a politically sensitive issue.

### **Operating environment undergoing change**

The number of supervised entities is increasing and the FIN-FSA's powers are being extended. On the other hand, the FIN-FSA will need to adjust to the changes entailed by banking union. At the time of writing this preface, it is not fully clear what those changes will be. In any case, the FIN-FSA faces the challenge not only to maintain its high professional competence but also to utilise more effectively the synergies from the integration of financial and insurance supervision and the relationship with the central bank.

I am convinced that we will be able to cope with the forthcoming changes, although the changes will certainly be reflected in our work. The values of our organisation provide a good basis for us at the FIN-FSA to strive ahead. Together we adapt to new challenges and work effectively and responsibly. For this, I would say a sincere thank you to the entire FIN-FSA staff.

Helsinki, 6 March 2013

**Anneli Tuominen**



## Mission

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

## Vision

The Financial Supervisory Authority is a highly respected and influential player within the European supervisory framework.

## Strategic objectives

- Effective prevention of problems within a challenging operating environment that threaten the stability of and trust in Finland's financial markets
- Top-ranking quality and efficiency among European supervisors – reliable supervisor in times of crisis
- Proportionate and as uniform regulations and supervision as possible to enable a level playing field for the Finnish financial markets
- Responsible provision of financial services and products in the Finnish financial markets

## Strategic choices

### Risk-based and efficient supervision

- Using timely analysis we shall enable proactive and accurately focused supervisory measures
- We shall increase the share of inspections and inspection visits in our supervisory work
- We shall intervene firmly in irregularities observed in the financial markets
- We will strengthen our staff's competence, reinforce our work processes and support activities consistent with our values

### Supervised entities' strong risk-bearing capacity and high quality governance

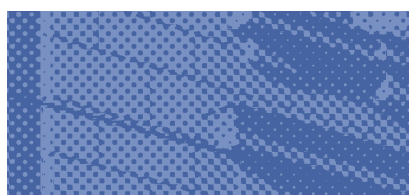
- In our supervisory activities we will focus on ensuring the prerequisites of stable business activity
- We require that the supervised entities' boards of directors ensure the setting up of high quality risk management and internal control arrangements
- We require that capital adequacy and liquidity buffers cover significant risks including uncertainties underlying the measurement approaches
- We require reconstruction and resolution plans from our supervised entities
- We shall undertake efficient macro-prudential supervision in close co-operation with the Bank of Finland

### High-quality customer and investor protection

- We require the internal procedures of service providers take account of the demands of customer and investor protection
- We require the production of quality information for investors and reporting processes that ensure that this occurs
- We will increase our stock exchange trading supervision cover through European cooperation
- We will improve the visibility and availability of our customer information provision

### Productive cooperation between supervisors

- We will focus resources within the EU's supervisory framework on issues central to the Finnish financial markets
- We promote adoption of the best supervisory practices in the EU
- We promote a high-quality supervisory framework within the bank union
- We utilise cooperation between competent authorities in development of the supervisory frameworks



# 2013-15





## Operational efficiency and risk-focused supervision

- Supervision was directed at risks deemed relevant, such as bank liquidity, the insurance sector's investment portfolios and risk management, and information provided to customers.
- In April and September, FIN-FSA published its assessments of the position of the Finnish financial sector, which was assessed as having remained stable.
- Internal crisis management preparedness was upgraded, for example via a crisis simulation exercise.
- FIN-FSA issued three public reprimands and three public warnings. In addition, FIN-FSA imposed 14 administrative fines and made five requests for police investigation. The warnings were based particularly on omissions concerning organisation of internal control and risk management. The bulk of the administrative fines were related to omissions regarding regular reporting.

## Supervised entities' strong risk-bearing capacity and high-quality governance

- Inspections in chosen risk areas were targeted especially at the adequacy of risk management and internal control.
- Separate analyses were conducted of procedures in lending for house purchase and real estate investments by pension providers.
- FIN-FSA laid emphasis on promoting initiatives important for Finland in the field of prudential regulation for the banking and insurance sectors and solvency reform concerning the pension insurance sector.

## High-quality customer and investor protection

- Supervision was focused on, for example, disclosures by market participants on their own financial position and information on product-related risks.
- Monitoring of customer protection did not reveal any major shortcomings in market practices or the quality of investor information.
- Regulations and guidelines were issued for the disclosure of expenses and income in connection with long-term savings agreements and insurance policies.

## Productive cooperation between supervisors

- FIN-FSA prioritised its resources for projects of key relevance to the capital adequacy, competitiveness and structural features of the Finnish financial sector. Aspects related to customer and investor protection were also taken into account.
- Wider use was made in FIN-FSA's own work of comparative information provided by EU supervisors.
- FIN-FSA continued active Nordic cooperation, for example by fostering introduction of harmonised insurance-sector internal solvency models and assessment criteria for monitoring technical provisions.



On 25 January, FIN-FSA organised an English-language seminar, directed at the management of supervised entities and listed companies, on the theme *'How can we make regulation and supervision best support the health of financial markets?'*.

Speakers at the event included the chairpersons of the EU financial supervisory authorities: Andrea Enria of the EBA, Gabriel Bernardino of EIOPA and Steven Maijor of ESMA. The European Commission was represented by Mario Nava, Deputy Head of Unit. Jyri Häkämies, Minister of Economic Affairs, addressed the seminar as the Finnish Government's representative, while the financial sector's point of view was brought forward by Johnny Åkerholm, President and CEO of the Nordic Investment Bank. In her opening remarks, Anneli Tuominen analysed questions of principle in regulation and supervision.

## Debt crisis and deteriorating economic situation key sources of risk

During the year under review, the operating environment for the European financial sector was marked by the European debt crisis and its various secondary effects. The debt crisis did not have significant direct negative effects on the Finnish financial sector, which was in a stable condition in the review year. Banks experienced no problems in accessing market funding, and, compared with elsewhere in Europe, the price of funding was reasonable. Insurance companies and pension providers achieved good returns on their equity investments, due to a general rise in prices on the stock market. The amount of direct assets in the GIIPS<sup>1</sup> countries was small.

The outlook for banking business and earnings declined. Low interest rates depressed the profitability of basic banking business by weakening the accumulation of the largest earnings item, net interest income. The prolonged period of record-low interest rates was challenging for both banks and insurance companies.

For insurance companies, low bond rates in particular undermined life and pension insurers' return on investment on their interest-rate instruments. Government and corporate bonds with good credit ratings yielded returns either lower than, or at best equal to, inflation. Admittedly, the positive stock market trend somewhat bolstered earnings from Finnish insurance companies' investment activities and boosted their solvency.

Although the real interest on bank lending<sup>2</sup> was negative, there was a decline in loan applications from both households and businesses. Growth in the loan stock slowed, particularly in the second half of the year. Despite this, nominal growth in GDP was lower than the growth in MFIs' stock of lending, and the ratio of the loan stock to GDP rose, indicating an increase in the level of debt.

At the end of the year, there was a strong contraction in the Finnish economy. Investment continued to be sluggish, and unemployment began to rise slightly. The value adjustments to bank credit were, however, not significant, although the growth in household indebtedness and payment defaults are a serious signal of a negative trend. Household debt relative to disposable income rose to 119% (against 116 % at the end of 2011).

## Plethora of measures by the authorities calmed the markets; decision on European banking union

The problems and risks facing banks and governments are intertwined, as banks have played a key role in funding government debt. The credit risk costs of many governments and banks operating in their countries developed uniformly.

At the end of February, the European Central Bank (ECB) conducted a second large-scale supplementary longer-term refinancing operation (LTRO) in which banks were offered unlimited central bank credit with a maturity of 3 years. This considerably eased banks' liquidity situation. Since July, the ECB has been working to calm market expectations by releasing the capacity for conditional direct monetary policy interventions. The ECB may, if necessary, purchase government bonds on the secondary markets, if the government concerned seeks support from the European Stability Mechanism.

At the end of June, the heads of European Union Member States decided to commence rapid preparations for the creation of a Single Supervisory Mechanism for European banks. According to a decision taken in December, a Single Supervisory Mechanism (SSM) for banks in the euro area is to be established in connection with the ECB. See the article on page 40.

Each in their own areas of responsibility, the EU's three financial supervisory authorities<sup>3</sup> acted in cooperation to implement measures to reinforce customers' and investors' confidence in the financial markets. In regard to banks' government bond assets, the European Banking Authority (EBA) published information based on market values and completed monitoring of large European banks' needs to reinforce their capital adequacy and augment their capital. Their capital adequacy was reinforced to the tune of EUR 200 billion, primarily through measures to increase their equity capital.

The measures taken by authorities and governments improved general sentiment on the markets, particularly in the second half of the year. This was reflected in, among other things, a rising trend in share prices since the summer. Risk premia and government bond yields declined towards the end of the year, and the financial markets became notably calmer. For example, the lowering of credit ratings for many governments and banks scarcely affected the pricing of risk.

At the end of the review year, the greatest problem was that the economies of almost all European countries either contracted or showed only extremely modest growth. The

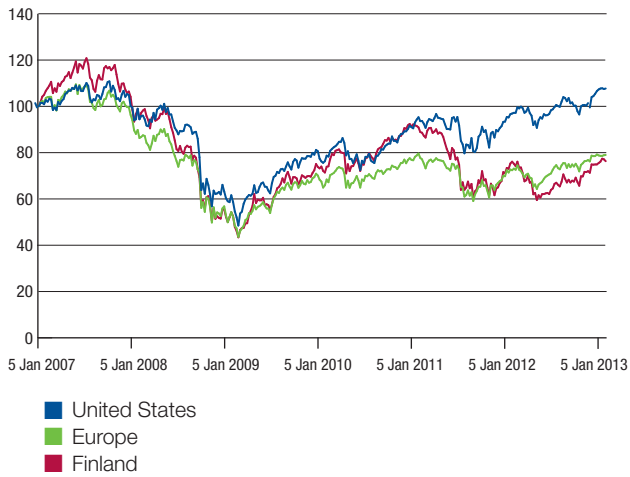
1 Greece, Italy, Ireland, Portugal and Spain.

2 Taking account of inflation.

3 European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and European Securities and Markets Authority (ESMA).

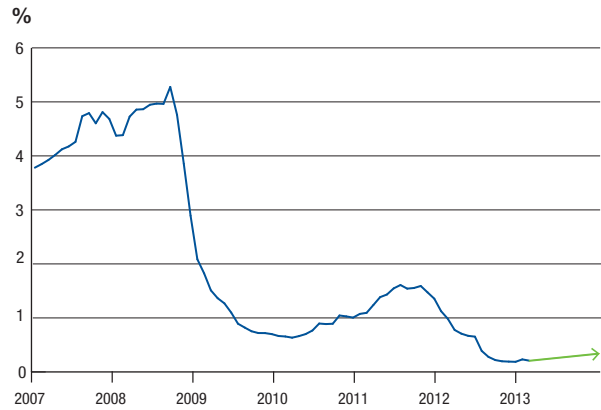
## Share prices in the United States, Europe and Finland

Index, 5 Jan 2007 = 100



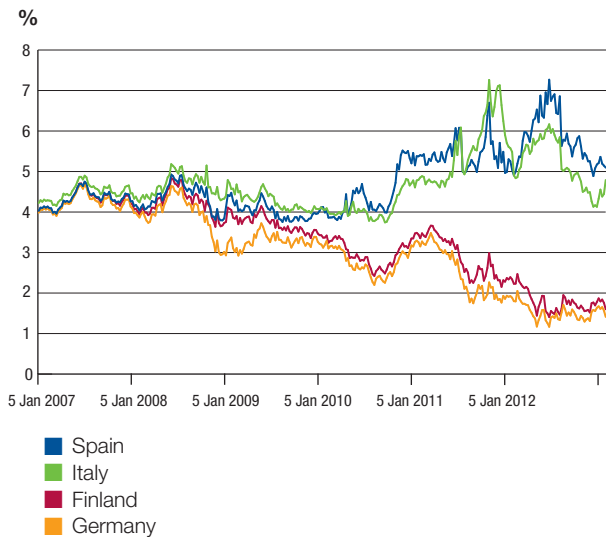
Weekly data, last observation 1 March 2013.  
Source: Bloomberg.

## 3-month Euribor and market forecast (arrow)



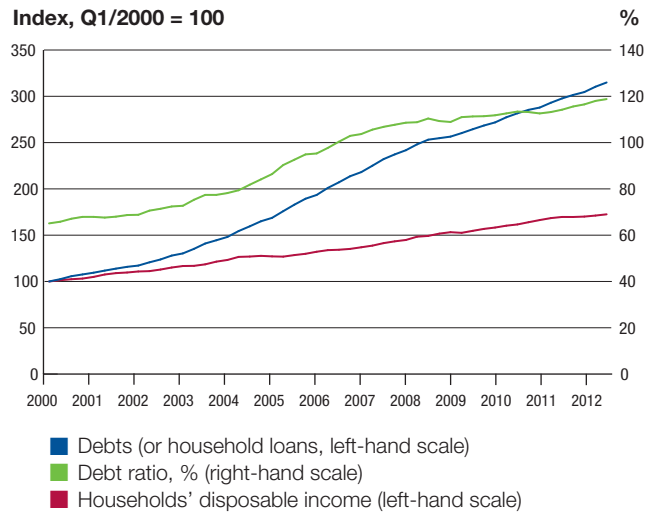
Source: Bloomberg.

## Four countries' 10-year government bond yields



Weekly data, last observation 1 March 2013.  
Source: Bloomberg.

## Household debt ratio in Finland (Debt as a percentage of disposable income)



Source: Statistics Finland.

main reason for this was the debt crisis allied to household and corporate uncertainty over the future.


At the beginning of 2013, the situation on the financial markets was calm compared with how it had been in the spring of the review year. However, the operating environment is still very sensitive and vulnerable to negative

developments. According to the forecasts, low interest rates and the weak state of the economy will continue through 2013, even were economic growth in Europe to pick up towards the end of the year. For the financial sector this means that the operating environment will remain challenging.

### Changes among fee-paying entities

- The review year saw the birth of a third major player on Finland's non-life insurance market, when Tapiola and Lähivakuutus decided to merge to form a new mutual financial conglomerate (LähiTapiola). The group includes 19 new, regional mutual insurance companies, formed from the fusion of local insurance associations. Following these changes, there are now just six fisheries insurance associations operating as insurance associations on the Finnish market.
- During the course of the year authorisation was granted to two life insurance companies (Aurum Sijoitusvakuutus and SHB Liv) and two payment institutions (Neste Markkinointi and Point Transactions Systems). In addition, a further six operators offering payment services whose activities do not require authorisation were also registered. No new credit institution authorisations were granted. The number of OP-Pohjola's member banks was reduced by 10, as a result of mergers. One non-life insurance company (IngoNord) surrendered its authorisation due to its withdrawal from insurance activities.
- In the review year, no pension foundations or funds providing statutory employment pension insurance were wound up. The fund meeting at the entrepreneurs' pension fund Yrittäjien Eläkekassa Oma decided on 26 April to place the fund in a state of liquidation as provided in the Employee Benefit Funds Act. The transport services pension fund Liikennepalvelualojen Eläkekassa Viabek was still in the process of liquidation. An attorney appointed by FIN-FSA is monitoring both liquidation processes.
- At the end of the year, the boards of Eläke-Fennia and Eläke-Tapiola agreed a letter of intent concerning the commencement of work on planning a merger between the two companies.
- On 29 December, Helsinki Court of Appeal gave its judgement in a dispute relating to a share underwriting commitment. The Court ordered the main owner of Sofia Bank, Seppo Sairanen to pay the bank EUR 2.3 million plus interest and legal costs based on the share underwriting commitment. The deadline for appeal to the Supreme Court expired on 26 February 2013.
- At the end of the review year, the Main List of the Helsinki Stock Exchange contained 122 companies, while the Prelist contained one. New arrivals included Scanfil, which was formed when Sievi Capital split in two, and Sotkamo Silver, already quoted on the Stockholm Stock Exchange, which now made a parallel listing in Helsinki. The Main List saw the departure of Aldata Solution, Nordic Aluminium and Tekla.
- At the end of the year, the First North List contained three companies, of which Silli Solutions was a new arrival. Powerflute left the list.

For the total number of supervised and other fee-paying entities, see page 70.

 For basic information on all supervised entities, see the list of supervised entities: [Fin-fsa.fi](http://Fin-fsa.fi) >

**About us > Supervised entities**

## Banking sector operating profit improved slightly and capital adequacy remained solid

Banking sector profitability remained reasonably solid despite the challenging operating environment. The operating profit for the sector rose to EUR 2.6 billion, up 11% from the previous year. Net operating income grew by a total of 6% from the previous year. Operating expenses increased 2%. Impairments amounted to EUR 331 million in net terms, 33% more than in 2011.

Overall, however, the profitability of core banking activities declined, and net interest income as well as net income from fees and commissions decreased. The improvement in the operating profit for the sector was based on an increase in income from trading and investment activities and insurance operations.

Net interest income for the banking sector decreased by a total of 4% in 2012. Developments in this item varied significantly across the sector during the year, depending on a bank's net volume growth in credit and deposits, funding structure and possible hedging against decreasing interest rates. Net interest income for the banking sector is also expected to decline in the current year as the interest rates on the existing loan stock are revised downwards in connection with interest rate resets to correspond to the current lower reference rates. On the other hand, the decrease in net interest income is being contained by higher margins on new loans and the likely continuing moderate growth in the loan stock.

The prevailing very low level of interest rates is particularly weakening the profitability of traditional core banking activities, which mainly lean on the net interest income generated from the margin between loan and deposit interest rates. Net interest income accounted for 46% of net income for the banking sector, compared to an average of 59% before the decline in interest rates in 2006–2008.

The combined share of trading and investment activities and insurance operations rose to 30% of net income. In 2006–2008, their average share was 16%. By its very nature, this income varies over time more than net interest income, and it is not spread evenly across large and small banks. There are therefore differences in the profitability of different banking groups.

In order to improve profitability, banks began to raise interest rate margins on new loans and their fees on banking services. The decrease in the average interest rate on new drawdowns of housing loans came to a halt towards the end of the year, although the short-term market rates used as key reference rates continued to decline.

The availability of market-based funding for European banks improved in the latter half of the year due to the ECB's market-supporting measures and statements. This was reflected in an increase in the volume of banks'

bond emissions. In Finland, too, the availability of funding improved, particularly for small banks. Finnish banks have issued primarily covered bonds, but also some uncovered bonds.

At the end of the review year, the capital adequacy of the banking sector stood at 17.0%, and the ratio has improved by about 2.8 percentage points since the end of 2011. At the end of the review year, the Tier 1 capital ratio was 16.1% (compared with 13.6% at the end of 2011). The banking sector's capital buffer above the statutory minimum requirements amounted to EUR 10.4 billion at the end of the review year, the same level as at the end of September (EUR 9.1 billion at the end of 2011).

In addition to the issuance of subordinated bonds, positive developments in fair value reserves and a wider application of internal ratings based approaches (IRBA) in the calculation of the capital requirement for credit risk, the reasons underlying these positive developments in the capital adequacy figures also included internal cross-country guarantees within international banking groups. Guarantees provided by the foreign parent company reduced the minimum regulatory capital requirement, while intra-group dividends paid abroad reduced equity. As a whole, the banking sector's equity capital decreased during the review year by EUR 1.3 billion, while the minimum capital requirement decreased even more.

## Pension institutions' solvency solid

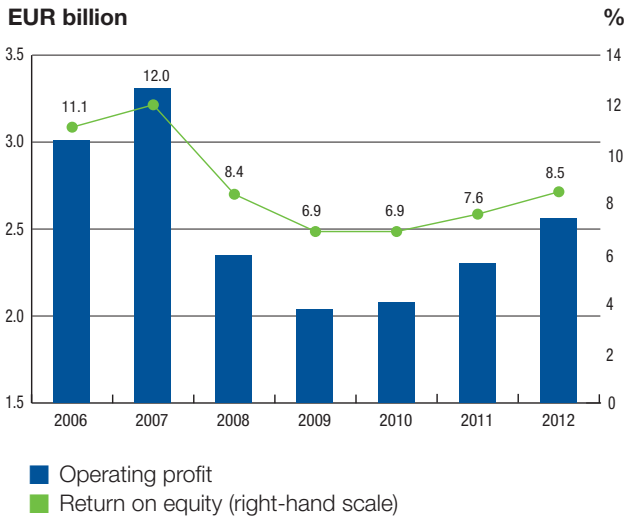
The review year turned out much better for pension institutions' investment activities and solvency than estimated at the beginning of the year in light of the European debt crisis and expected financial market developments. The investment assets of all institutions engaging in statutory pension activities<sup>4</sup> increased during the year by a good EUR 13 billion. At the end of the review year, investment assets stood at EUR 146 billion.

During the review year, pension insurance companies, pension foundations and pension funds achieved an average return of 8.4%. The highest returns stemmed from a rise in the value of equity and fixed-income instruments as interest rates and credit risk premia declined. The solvency margin rose by EUR 3.7 billion, which strengthened the solvency ratio considerably to stand at 26.2% at the end of the year. Risk-taking increased in line with the increasing solvency margin, and therefore the amount of solvency margin relative to the risk-based minimum solvency margin remained 2.5-fold throughout the year.

The financial markets calmed down during the year.

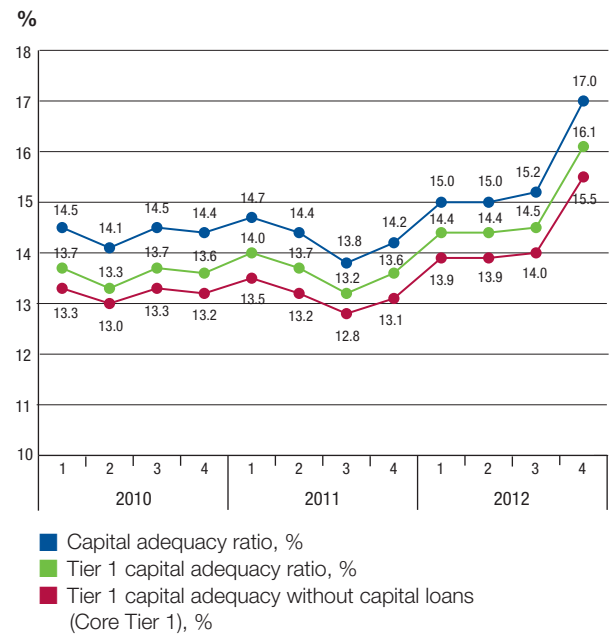
<sup>4</sup> Pension insurance companies, TyEL pension foundations and funds, the Seafarers' Pension Fund, the Farmers' Social Insurance Institution, Keva and the State Pension Fund.

## Operating profit<sup>5</sup> and return on equity for the banking sector



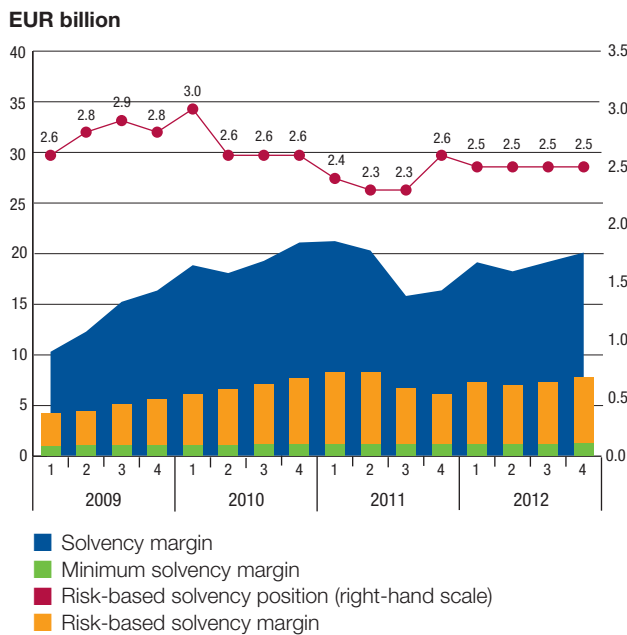
Source: Financial Supervisory Authority.

## Banking sector's capital adequacy ratios



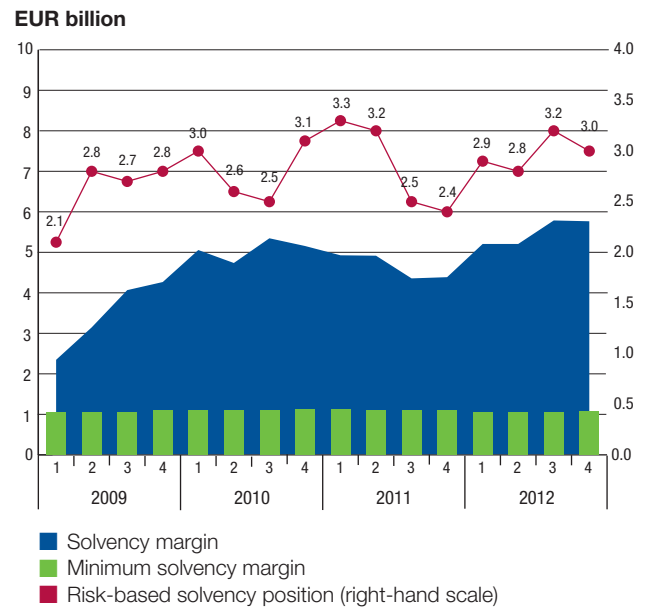
Source: Financial Supervisory Authority.

## Solvency of earnings-related pensions sector



Source: Financial Supervisory Authority.

## Solvency of life insurance sector

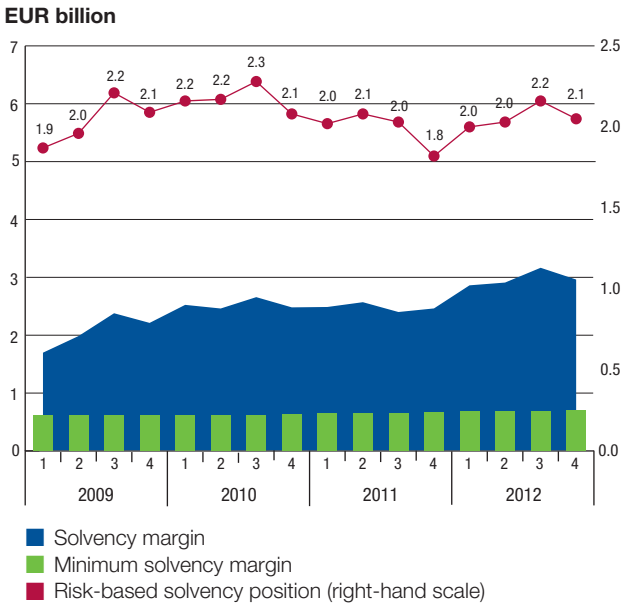


Source: Financial Supervision Authority.

<sup>5</sup> An extraordinary profit of EUR 470 million in 2007 has been omitted from the graph.

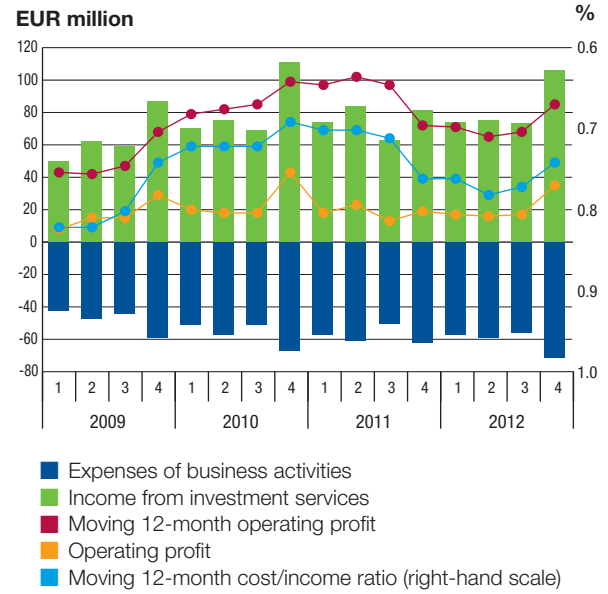


## Solvency of non-life insurance sector



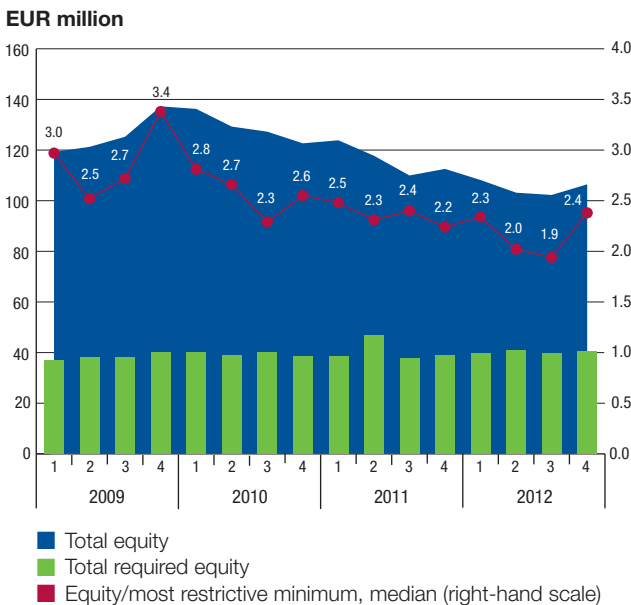
Source: Financial Supervisory Authority.

## Investment firms' income, expenses and operating profit by quarter



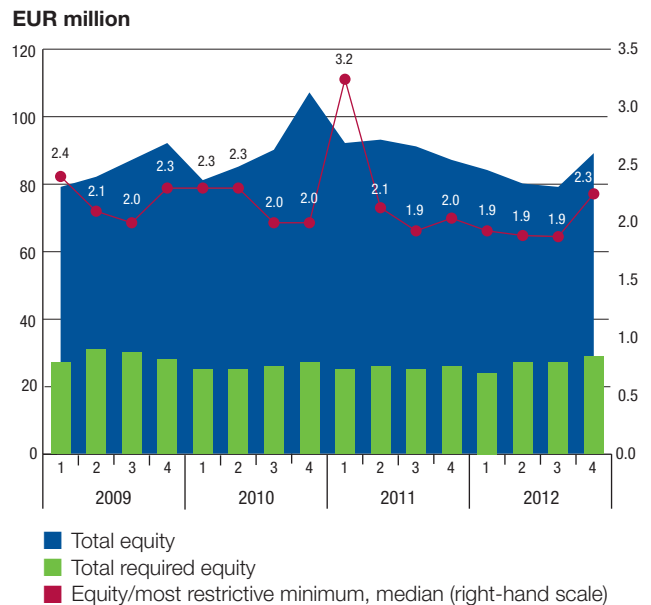
Source: Financial Supervisory Authority.

## Investment firms' capital adequacy (whole sector)



Source: Financial Supervisory Authority.

## Management companies' capital adequacy (whole sector)



Source: Financial Supervisory Authority.

Nevertheless, the weak performance of the real economy in Europe and the prolonged financial crisis constitute material risks to pension institutions' solid capital positions. The protracted low level of real interest rates hinders the generation of investment returns and may thus contribute to a weakening of solvency.

### **Solvency of life insurance sector strengthened**

The year was much better than the previous one for life insurance companies. Premiums written increased by almost 7% to about EUR 3.9 billion. The sale of insurance policies was particularly brisk in the last quarter of the review year. Sales in October to December made up over 30% of the premiums written in the year as a whole. The sales concentrated on unit-linked life insurance savings policies and capital redemption contracts. Banks formed a significant sales channel for these products.

There were no major changes in the breakdown by asset class. Fixed-income investments still constituted over 60% of the investment assets, and equities about 20%. In contrast, within the asset classes there was a slight shift from money market investments to government bonds. The average total return on life-insurance companies' investments rose to 9.7%.

Solid investment returns and positive profits improved the solvency of the sector. The solvency margin increased from the previous year's EUR 4.4 billion to about EUR 5.7 billion. The solvency position or solvency margin relative to the statutory minimum solvency margin strengthened to stand at 5.4 (2011: 4.0) at the end of the year. The small dent in the solvency position in the final quarter was explained by profit distribution amounting to about EUR 66 million. The risk-based solvency position based on proactive supervision strengthened slightly less than in the previous year. The capital requirement decreased slightly, but a concurrent increase in market-based technical provisions consumed part of the increased solvency margin. At the end of the year, the risk-based solvency position for the sector stood at about 3 (2011: 2.4).

Despite the favourable year, agents in the life insurance sector are facing risks with the potential to reduce their returns and solvency positions. In particular, the low level of interest rates constitutes a problem for life insurance companies. If protracted, it will affect particularly those companies whose insurance portfolio consists to a significant degree of guaranteed-return products and companies whose investment portfolio has a significantly shorter maturity than the technical reserves. It will be hard to reach the present level of returns once maturing fixed-income investments have to be reinvested.

Companies have prepared for continuing low interest rate environment by accumulating their technical reserves,

thereby seeking to reduce the average return requirement on their technical reserves. Furthermore, new sales are focused almost exclusively on unit-linked products, whose market risk is borne by the policyholder.

### **Solid investment returns strengthened non-life insurance companies' solvency**

The review period was considerably better than 2011 for the solvency and profitability of non-life insurance companies. Solvency in the sector improved on the back of favourable developments on the investment markets and claims incurred. Growth in premiums earned continued steadily.

The solvency margin of non-life insurance companies grew to almost EUR 3 billion and the key solvency figures improved. At the end of the year, the ratio of the sector's combined solvency margin to the minimum amount was 4.3 (2011: 3.7), although profit distributions proposed at the end of the year decreased solvency from the figures reported during the year. The risk-based solvency position, which takes into account the revaluation risks in the investment portfolio in addition to underwriting risks, improved to 2.1 (2011: 1.8). Also, the solvency ratio relative to technical reserves on own account strengthened to 58% (2011: 53.7%).

The aggregate result of the non-life insurance sector was EUR 1.1 billion. In the previous year, the aggregate result was negative, at EUR -0.1 billion. The result was strengthened particularly by solid investment returns. Investment income at fair value was 8.7% on average, compared to 1.4% in the previous year. There was variation across companies, but all companies had positive investment income. Equity investments turned in a particularly solid return. Finnish non-life insurance companies have increased their equity allocation, which is higher than in other European countries on average. However, the investment allocation can still be considered relatively low-risk, and the maturity of the interest rate risk of fixed-income investments can be considered moderate.

The operating result of the sector also developed favourably. The combined ratio stood at 99.3%, and insurance technical activities were profitable at an aggregate level. Profitability was boosted by favourable developments in claims incurred. The claims ratio was 78.4%, whereas in the previous year weather-related damages had driven it to 86.2%. In addition, calculation base changes resulting from a decrease in the discount rate on pension-type technical provisions were smaller than in the previous year. However, there were large differences in companies' profitability, and many companies had a negative balance on technical account. Premiums written in the sector grew by 6.2%.

### **Investment firms' operating profits increased**

Investment firms' income increased 8% from the previous year, to EUR 327 million. In particular, fee income from asset management grew and represented over 60% of investment firms' total income. Fee income from asset management depends largely on developments in asset values. The rise in stock prices that continued throughout the latter half of the year certainly supported the growth of performance-based fees. Operating profit for the latter half of the year clearly exceeded the first half year's profits. On aggregate, the operating profit for the full year amounted to EUR 85 million, EUR 13 million more than in the previous year. Although investment firms' profits as a whole were solid, the number of loss-making companies remained almost unchanged. These are typically small companies. Mergers and other corporate restructurings took place, particularly among small investment firms. The capital adequacy of investment firms as a whole is at a good level. Equity capital for the sector as a whole is about 2.6-fold relative to the required minimum level.

### **Investment fund assets increased**

Management companies' income contracted 2% from the previous year, to EUR 535 million. Operating expenses also decreased, but not in the same proportion. Operating profit during the year amounted to EUR 61 million, EUR 5 million less than in the previous year. Some small management companies made a loss in the review year. Equity in the sector exceeded the required minimum level by a factor of 3. Net subscriptions in investment funds were positive in each quarter. In an environment of low interest rates, subscriptions focused particularly on bond and equity funds. These two fund categories account for 85% of all investment fund assets. The combined assets in all investment funds amounted to EUR 66.7 billion at the end of the year, representing a growth of EUR 11 billion.

FIN-FSA's activities in the year under review were guided by its strategy for 2012–2014, against which the activities in this report are analysed. The new strategy approved in the autumn for 2013–2015 is described on page 7.

## Strategy 2012–2014

### Mission

Our primary objectives are to maintain financial stability and confidence in the financial markets and to foster customer and investor protection and the protection of the insured.

### Vision

The Financial Supervisory Authority is a dynamic and highly respected supervisor and contributes to the development of a high-quality European supervisory culture.

### To promote these objectives we focus our supervisory activities on

- the risk management and financial viability of entities operating on the financial markets;
- the appropriateness of business practices observed in customer relationships and market activities and the quality of information provided to customers and investors.

### Our aim is to ensure

- healthy development and a level competitive playing field on Finland's financial markets;
- appropriately sized regulation and supervision; and
- customers' improved awareness of the financial markets.

## Strategic objectives and choices

### Operational efficiency and risk-focused supervision

- Up-to-date, quality analysis of operating-environment and financial-sector risks
- Regulation of the different supervisory sectors that is as uniform and integrated as possible
- Readiness for rapid, focused decision-making in a crisis
- Top-ranking quality and efficiency among European supervisors
- Derive full benefit from close relationship with the central bank
- Fluent and positive cooperation with other authorities
- A supportive and motivating climate at work, and activity in accordance with our values

### Supervised entities' strong risk-bearing capacity and high-quality administration

- Our inspections will focus on assessing the reliability of risk management and internal control.
- We will sharpen the focus of our risk assessments, emphasising the adequacy of capital and liquidity buffers.
- We will assess entities' operational risks and require adequate financial provision for said risks.
- We will contribute to organising macroprudential supervision and foster readiness for crisis management.

### High-quality customer and investor protection

- We will require the internal procedures of service providers to take account of the demands of customer and investor protection.
- We will require financial sector participants to provide quality information on their financial position, products and services plus the related risks.
- We will enhance the scope and visibility of educational information provided to customers.
- We will intervene vigorously in the event of inappropriate activities on the financial markets.

### Productive cooperation between supervisors

- We will focus resources at a sufficiently early stage on international projects of key relevance to the stability and smooth functioning of Finland's financial markets.
- We will foster the adoption within the EU of the best European supervisory practices.
- In our own work, we will draw on the work of other European supervisors.
- We will enhance real-time exchange of information between supervisors.

## Risk-focused supervision

In line with its strategy, FIN-FSA directed supervision at the risks deemed most relevant. In the review year, the risks brought up by the financial and debt crisis were prominent in all areas of supervision.

The analytical toolkit designed for monitoring the financial position and risks of supervised entities was further developed. This improved the focus of risk-based supervision. Supervised entity-specific risk measures and threshold values defined for these were introduced in order to determine the necessary supervisory intensity. Cooperation with the Bank of Finland was stepped up in the analysis of risks affecting the operating environment and the financial sector.

FIN-FSA upgraded its internal crisis management preparedness and reviewed the timeliness of its crisis management plan. In this work, use was made of a crisis simulation exercise carried out in September. The purpose of the crisis management plan is to ensure that timely and adequate crisis management procedures are in place. Cooperation between domestic and Nordic supervisory authorities was active. The areas of cooperation included impact assessments of the debt crisis and contingency measures.

Reporting projects related to new EU regulation and EU financial supervisory authorities' data collection moved ahead in FIN-FSA's own work as planned, but delayed EU regulation postponed the introduction of new supervisory reporting. The reforms under way bring further efficiency and consistency to the supervision of various sectors, thus complementing the sizeable reporting reforms undertaken earlier by FIN-FSA.

As regards supervision of solvency, the new reporting requirements for the banking sector are expected to come into use in 2014, and those for the insurance sector no later than the entry into force of Solvency II regulation. EU regulation is extending data collection to the investment fund sector. In the second half of the year, FIN-FSA commenced reporting on sales volumes of investment products, customer complaints and special inspections to ESMA. FIN-FSA supported supervised entities' preparations for reporting changes by informing them of upcoming requirements as early as possible.

### Analyses and publications

#### Analyses to support proactive and risk-based supervision

In review year, the risks brought up by the debt crisis were highlighted in all areas of supervision. On the basis of an analysis undertaken in this connection, risks were focused particularly on banking sector liquidity, the insurance and

pension sector's investment portfolios and risk management, and product information provided to customers. Changes in the operating environment – especially the low level of interest rates – increased business risks. Low interest rates reduce net interest income, which is an essential part of income for the profitability of small banks in particular. The rate of return achieved by life insurance companies on the market also threatens to be lower than guaranteed in their life insurance policies.

FIN-FSA maintained an enhanced level of supervision in respect of investment risks and solvency until the end of July. Among other things, this meant more frequent reporting than normal by pension providers and insurers. Banks were required to report on their liquidity positions at a higher frequency throughout the review year.

The liquidity situation in Finnish banks remained generally good, with no problems in access to funding. Deposit growth also helped improve the liquidity position. The largest banks could also raise long-term market funding without difficulty, as before – albeit at a higher price than prior to the financial crisis.

There were still short-lived disruptions in interbank payment transmission. In order to reduce disturbance exposure, FIN-FSA required banks to undertake measures to improve the systems and submit reports on the improvements made.

Stock and bond market volatility was reflected in greater fluctuations in investment returns and the solvency of insurance-sector operators, leading to widening differences in companies' investment income performance and solvency positions. Structural differences in insurance companies' investment portfolios were also larger than before.

From the point of view of supervision, it is essential that higher risks due to changes in the operating environment are identified at an early stage. To ensure this, FIN-FSA made increasing use of the Bank of Finland's analysis of macroeconomic and financial market risks. Deployment of various alternative calculations and scenarios was increased. The Bank of Finland was also closely involved in the activity and information exchange of FIN-FSA's analysis group for the banking sector. The proposal completed in November for organising macroprudential supervision in Finland (see p. 53) means more intensified cooperation.

#### The position of the financial sector was assessed to be stable, but risks had increased

FIN-FSA published regular analyses of supervised entities' financial position and risks. Extensive analyses of the financial sector's risk-bearing capacity were published in April and September, and more concise prudential reports on the banking sector, pension insurers, and life and non-life insurers were released in May and November.

According to the reports, the Finnish financial sector's position remained stable throughout the year, but adequate risk provisioning was required of those operating in the sector. The reports also highlighted the EU financial sector's increased risks. It was further assessed that in Finland weakening economic activity posed a higher risk to banks in particular. Moreover, the long-sustained low level of interest rates weighed on banks' net interest income.

### **Stress tests reviewed capital positions**

In spring, FIN-FSA conducted and released the results of national stress tests with a view to assessing the risk-bearing capacity of the financial and insurance sectors. The tests were carried out in cooperation with the Bank of Finland, supervised entities and the Finnish Centre for Pensions. The scenario was the same for all supervised entities. To ensure commensurability, the results took no account of potential adjustment measures by supervised entities' management, which supervised entities would undertake in a real stress situation.

The stress test results showed that a significant weakening of the operating environment would cause adjustment pressure particularly in the life insurance and pension insurance sectors, namely mainly a lowering of the risk level of investments for several companies. The results for the banking and non-life insurance sectors indicated that, overall, risk bearing capacity had remained strong since the previous year.

FIN-FSA and the Bank of Finland also conducted together a separate banking-sector stress test for the International Monetary Fund. The results of this test helped confirm that, according to an overall assessment, the capital buffers of the Finnish banking sector would withstand profitability pressures caused by a strongly deteriorating operating environment.

### **EBA calculations on recapitalisation needs implemented**

During the review year, the EBA did not conduct a stress test with national supervisors, but continued monitoring recapitalisation needs revealed by the 2011 test. In December 2011, the EBA issued a recommendation concerning large European banks under which 27 banks were required to strengthen their Core Tier 1 capital by a total of EUR 76 billion by the end of June. The capital adequacy of banks participating in the EBA recapitalisation exercise was strengthened by a total of more than EUR 200 billion from December 2011 to June 2012.

Of Finnish banks, an assessment of capital needs was conducted on the OP-Pohjola Group. In addition, Nordea Bank Finland, belonging to the Nordea Group, and Sampo Bank (Danske Bank also in Finland as from 15 November), belonging to the Danske Bank Group, participated in the

exercise through their parent companies. The OP-Pohjola Group continued to meet the capital requirement according to the EBA recommendation, owing to its high Core Tier 1 capital position and low level of sovereign exposures, and was not required to strengthen its capital base. Nordea and Danske Bank Groups were also considered to meet capital requirements without a need for recapitalisation.

### **Several separate publications concerning the insurance sector**

In addition to regular information releases concerning the position of the financial sector, FIN-FSA's publications included periodic analyses of the profitability of statutory employee compensation insurance and compliance with the principle of equity in life insurance. Moreover, a study based on life insurance companies' mortality rate statistics was published.

According to the profitability analysis for statutory employee compensation insurance (2002–2011) released in November, the level of premiums collected can be considered prudent. The underwriting result was in line with the long-term average. From the perspective of profitability, 2011 came in at a loss. Profitability was impaired not only by the turbulent investment market but also by exceptionally large calculation base changes to technical provisions. Moreover, owing to the exceptionally low level yields on the bond markets, several corporations reduced the rate of interest applied to the discounting of technical provisions, which increased the amount of claims incurred.

According to a report published in May, information provided by life insurance companies regarding compliance with the principle of equity in 2010 improved on the previous report. Companies with the weakest level in their previous communications particularly improved the quality of their information.

In December, FIN-FSA published a study based on life insurance companies' mortality rate statistics and a forecast of life expectancy of persons insured under life insurance policies. The study presented mortality analyses by insurance product line not included in earlier studies. FIN-FSA will update the information content of the report at 5 to 10-year intervals. FIN-FSA uses the study as a reference in assessing the appropriateness of life expectancy criteria applied by insurance companies.

According to available evidence, the average life expectancy of those insured under voluntary pension and life insurance policies is longer than the average for the Finnish population. The difference between the mortality rate of persons insured under life insurance policies and the population mortality rate is less for women than for men. According to the results of the study, in life insurance there are also differences in mortality rates by insurance product line.

## Crisis management preparedness

### Internal crisis management preparedness was improved

FIN-FSA continued to further develop its own contingency plans, increased staff training, maintained cooperation with domestic authorities and Nordic supervisors, and participated in EU-level crisis management cooperation.

In its practical work, FIN-FSA needs to be prepared for disruptions and crisis situations. Regular exercises are conducted to deal with such situations, consisting of either organising in-house exercises – as in the current year – or participating in wider national or international exercises. In the autumn, an internal simulation exercise was carried out to test the functioning of crisis guidance in a fictitious occurrence of disruption. Another aim was to test the decision-making system in a crisis situation.

Issuance of internal guidance for each sector of supervised entities and additional training of persons participating in the practical resolution of potential crisis situations were identified as key areas for further work. The effects of new EU legislation and banking union are taken into account in international cooperation.

## Reform of data collection and analytical systems

### Risk measures and threshold values enable early intervention

FIN-FSA updated its risk measures and threshold values used to identify supervised entities in need of more intensive supervision. Risk indicators were customised by sector of supervised entities so that they best illustrate each sector's key risks and take account of differences between sectors in solvency regulation. Where necessary, supervised entities are required to report more frequently than normal and problem areas may be chosen as specific inspection targets. Risk indicators, the system of supervisory threshold values and a 'differentiation analysis' make ongoing supervision more effective and improve FIN-FSA's capacity for proactive intervention. The system was used in allocating risk management inspections for smaller banking and insurance-sector operators in particular.

In targeting inspections and other supervisory measures for small supervised entities, use is made of the differentiation analysis, which enables selection of those with the highest risk exposure from among a large group of supervised entities. The differentiation analysis is based on data reported to the authorities on profitability, capital positions and risks and on independent reviews of bank risks and capital adequacy assessment processes. The differentiation analysis also relies on information obtained in ongoing supervision.

### Major reporting projects delayed

FIN-FSA prepared for ongoing large reporting reforms by contributing to the preparatory work of the EBA, EIOPA and ESMA, by communicating the upcoming changes to the sector concerned and other stakeholders, and by planning and implementing new reporting frameworks and templates. Completion of the EBA's technical reporting standard was delayed, which led to a decision to postpone the introduction of the revised financial reporting framework (FINREP) until early 2014. Reforms related to reporting concerning capital adequacy and reporting on liquidity and on leverage ratios were postponed due to the prolonged preparation of EU legislation. Reporting pertaining to the insurance sector's Solvency II reform is deferred pending the entry into force of the regulatory regime.

ESMA launched data collection in support of monitoring financial innovation and consumer trends and prepared reporting concerning alternative investment funds.

In the review year, FIN-FSA commenced the development of an analytical tool to improve supervisory efficiency with regard to securities trading and moved ahead with the development work concerning a new instrument for analysing financial information.

In July, FIN-FSA issued new regulations and guidelines on mortgage bank reporting, which became effective on 31 December. The regulations and guidelines are applicable to both mortgage and deposit banks as well as credit institutions that FIN-FSA has granted mortgage banking authorisation. The aim of the data collection is to ensure compliance with the requirements of the new Mortgage Bank Act and to supplement the monitoring of reliability and stability in the banking system.

Payment institutions began to report information on their financial standing, capital adequacy and risks. The reporting takes place either biannually or annually. The reporting frequency is affected by, among other factors, whether the payment institution has authorisation or whether its business only requires registration.

### Threat of administrative fines has improved reporting

During the review year, more than 14,000 reports related to different themes were received from supervised entities. Correct and timely, to the extent possible, submission of reports is of utmost importance for supervision. In 2011, FIN-FSA was empowered to impose administrative fines for reporting delays and errors. The introduction of administrative fines has materially improved compliance with deadlines. The review year witnessed the imposition of 12 administrative fines for reporting failures.

## Supervised entities' strong risk-bearing capacity and high-quality administration

FIN-FSA inspections covered risk areas heightened by the debt crisis. The inspections were balanced to cover the various sectors subject to supervision and selected risk areas, without forgetting smaller supervised entities. Inspections in the selected risk areas were focused particularly on the adequacy of risk management and internal control.

FIN-FSA provided a lot of feedback to supervised entities on the basis of the inspections. Some inspection findings led to administrative sanctions. These sanctions have induced supervised entities to generally enhance their risk management and internal control.

In addition to inspections, FIN-FSA carried out separate investigations of banks' codes of conduct for housing finance and of pension providers' real estate investments.

An annual supervisory review was drawn up on all large supervised entities, including an assessment of capital adequacy relative to risk position and the quality of capital planning. Standard annual reports and summary reviews were prepared on smaller supervised entities.

The methodology of supervisory review was developed, particularly as regards the utilisation of stress tests in capital adequacy assessment. FIN-FSA also drew up new instructions for its own assessment of capital adequacy management.

FIN-FSA continued the assessment of internal models used in the calculation of banks' capital requirements. Four authorisations were granted and one new application was received.

FIN-FSA put effort into advancing ongoing large regulatory projects concerning capital adequacy and solvency requirements for the banking and insurance sectors and the reform of pension providers' solvency regulation. Cooperation with the responsible ministries was brisk and effective.

Preparatory work on EU regulatory reforms progressed as planned, but delays in EU regulation also postponed enforcement of domestic regulation. FIN-FSA ensured timely issuance of its own regulations and guidelines relating to these reforms and will adjust its own supervisory practices prior to the enforcement of regulation. The respective sectors were also informed of regulatory projects on a regular basis. For further information, see the section on regulation, p. 48–61.

## Inspections

### Inspections improved supervised entities' risk management

Inspections in selected risk areas were focused particularly on the adequacy of risk management and internal control and on senior management's responsibility for arranging these functions. FIN-FSA's aim is to ensure that supervised entities maintain high quality in the organisation of these functions. Plentiful feedback was provided to supervised entities to improve their risk management and internal governance.

### Particular focus on liquidity risk inspections in the banking sector

Bank inspections focused on topics such as market and liquidity risks, operational risks and payment card processes in banks of different sizes.

Banks' liquidity buffers were assessed as broadly adequate in the review year. Banks had upgraded the stress testing of their liquidity risk, but further need for improvement was detected in the establishment of the size of liquidity buffers. Some inspections revealed that the liquidity buffers needed more highly liquid assets. Certain inadequacies were also observed in contingency funding plans. In one case this led to the issuance of a public reprimand, where it was observed that reporting to the Board of Directors had not been adequately comprehensive to enable the Board to take decisions on changes in risk positions and risk limits. Hence, risk limits had also been breached and the bank had not taken corrective action or placed the breaches before the Board for consideration.

In inspections of credit risk, FIN-FSA began special inspections of corporate credit, due to the deterioration in the operating environment. In inspections of local banks, deficiencies were observed in credit rating assessments of corporate and private customers alike.

FIN-FSA also inspected codes of conduct for housing finance and carried out a related sample survey (see p. 26).

### Banks increased efforts to reduce disruptions in payment transmission

Inspections of banks' payment systems and card processes continued. The focus was on risk management, payment security and business contingency. Several service providers had introduced security-enhancing features in card and online payments, such as the card holder's ability to restrict use of the card, or verification of online payments via another channel, for example a mobile phone. It was observed that contingency plans and other documentation had not taken SEPA changes in payment transmission fully into account.



Transmission of SEPA payments and preparation for disruptions were scrutinised in the spring inspection round to obtain an overall picture of the situation. A number of banks had set smooth payment flows as a strategically important target since, for example, at the beginning of SEPA migration disruptions had been detected particularly in payment transfers. Banks had generally increased efforts to enhance payment reliability and ensure smooth payment transmission.

### **Assessment of market risk management in banking and insurance sectors**

A key theme of inspection was to assess, in banks and insurance companies alike, the adequacy of market risk management and control relative to risk taking, risk-bearing capacity and the scale of activities.

Insurance sector inspections revealed deficiencies in the arrangements for market risk management and risk control functions, and development needs in the measurement of market risk and coverage of internal reporting. Mitigation of risk taking was also found to be lacking, since extensive powers granted to investment activities did not often support efficient governance of the investment function in an adequate manner. One inspection led to the issuance of a public warning due to significant breaches of risk management requirements.

Banks' market risk inspections concentrated, against a background of low interest rates, particularly on the assessment of interest rate risk management. The inspections revealed deficiencies in the arrangements for market risk management and risk control, and development needs in the measurement of interest rate and spread risk and in the establishment of limits. In two cases, the risk management deficiencies were so significant that the inspections led to sanctions.

### **Progress in insurance companies' Solvency II preparations**

Inspections of insurance companies' methods for the calculation of technical provisions continued. The aim was to assess supervised entities' readiness to comply with the future Solvency II framework and the calculation process for technical provisions, particularly the correctness of information and level of documentation used in the calculation. Based on the inspections, it was assessed that insurance corporations' Solvency II preparations had progressed well. Key outstanding challenges relate to life and health risks as well as the testing and documentation of calculations. The incompleteness of regulation is hampering supervised entities' preparations.

### **Management of operational risk a broad area**

Inspections of operational risk were concentrated on the different areas of operational risk, which include

- IT systems
- continuity planning
- information security
- functioning of payment systems
- customer identification and
- prevention of money laundering.

The inspections examined the functioning of risk assessment and of monitoring and reporting of incidents or other harmful events. Due to delays in regulation on insurance companies, inspections were mainly targeted at supervised entities in the financial sector. Supervised entities were urged to, for example, increase the frequency of risk assessment and reporting to the Board and to specify continuity plans for key business areas. One inspection, conducted in cooperation with Nordic supervisors, focused on one supervised entity's arrangements for operational risk management in wholesale banking.

As regards inspections of the prevention of criminal misuse of the financial system, FIN-FSA continued assessing customer identification procedures and methods for monitoring business operations. The inspections placed particular focus on how the regulatory identification and management of risks relating to money laundering and terrorism financing have been arranged in supervised entities' practical activities. Arrangements for ongoing monitoring proportionate to the quality, scope and risks of customers' operations were still found to be at an inadequate level in some supervised entities.

### **Internal governance arrangements a particular challenge for small supervised entities**

Based on inspections of internal control and governance, it was found that arranging internal governance poses a particular challenge for small supervised entities in the financial and insurance sectors. Inspections revealed significant deficiencies, and findings led to some administrative sanctions.

In the inspections of investment firms' and management companies' internal governance, a specific topic was the compliance function, which aims to ensure that a company adheres to regulation. Increasing and more complex regulation poses a challenge for governance in small supervised entities in particular.

In its supervisory review, FIN-FSA examined internal governance in 49 companies not belonging to a banking and insurance conglomerate. It was observed that about every fifth company had deficiencies in governance



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## Corporate Governance

The term corporate governance does not have an exact and generally accepted Finnish equivalent or definition. In the Finnish language, corporate governance is often defined as the practices and processes by which an organisation is directed and controlled; an overall perspective on business operations, ie discussions on companies' lines of authority and responsibility, and the related market mechanisms and corporate law. In the narrowest sense, the perspective refers to the relationship between the shareholder and company management; in the broadest sense, the perspective is on the regulation of business activities.

Corporate governance can in practice be understood as sound internal governance aimed at ensuring that a company is managed in a proper and effective manner. The principles of corporate governance are based on law; or, expressed the other way around, the statutory obligations concerning governance are part of the regulation of corporate governance. The national legislation and legislative initiatives on corporate governance are also affected by EU regulation. In addition to the basis provided by legislation, the principles of corporate governance are supplemented by self-regulation. The principles are observed mainly by listed companies, but they have an undisputed role also in the management of companies on which society has imposed more specific legal norms.

Disruptions in the global financial markets and financial intermediation spread in autumn 2008 and turned into an wide-ranging financial crisis that triggered a recession that also affected Finland. Finland experienced a deeper recession than most countries; in 2009, Finland's GDP declined by 8.5% and exports decreased by about a fifth.

It seems clear that the majority of the key financial market actors underestimated the likelihood and severity of the crisis that began in 2008. Early identification of the signs of the crisis was hampered by the fact that corporate managers were more or less unwilling to disclose losses that were likely but uncertain. Nor were governments among the first to point to the weak outlook for the economy. Even though the signs of the crisis were probably evident, the probability, severity and consequences as well as tools to prevent it were hard to perceive.

Many factors have been cited as reasons for the crisis. The key factors include government indebtedness or unhealthy banking competition, but also uncontrolled actions by company management or distorted incentive schemes that steered companies to act in an unsustainable manner. Economics differs from medicine, among other things, in the sense that, unlike in medicine, when the patient dies an autopsy cannot be performed to find out what killed him. There can thus be many different views of what caused the crisis.

It is appropriate to discuss the lessons learned from the crisis. From a global perspective, it is clear that several financial market participants failed in their risk management. The crisis also revealed deficiencies in supervision. International cooperation between supervisors and macro-prudential supervision were also inadequate. Other deficiencies of financial market regulation have also been debated, eg ineffective regulation of credit rating agencies, the rapid increase in shadow banking and the fact that shadow banking is not regulated.

The financial crisis also raised questions about the insurance market. An assessment of the national insurance sector shows that the portfolio allocation of non-life, life and pension insurance, particularly the weighting of shares, underlined the importance of effective risk management and investment skills for the success of insurance undertakings. Life insurance, in particular, was hampered by the extremely exceptional developments in interest rates. It seemed

that implementation of the rules of earnings-related pension schemes was even more problematic than implementation of the rules in other parts of the insurance sector. This was due to the fact that pension insurers' solvency margins decreased significantly as a result of the crisis, and, at the same time, the crisis revealed the weaknesses of solvency regulations. Problems in regulation led not only to legislative initiatives being implemented rapidly, but also to a more extensive reform of the solvency framework for earnings-related pension schemes. These are part of the foundations of society, which further underlines the importance of overall corporate governance. The role of the boards and risk management in steering insurance companies' operations was highlighted in a situation in which changes in the operating environment were so unprecedented in scale that even legislators were unprepared for the situation.

In the aftermath of the crisis, Finland's Ministry of Finance proposed amendments to the principles of corporate governance in financial markets under the Credit Institutions Act. The Ministry of Social Affairs and Health is also reforming the regulations on the governance of insurance companies.

In addition to the structure of legislation, other areas that required reassessment were corporate governance, the transparency of management actions and internal and external control. The main global lesson was that the right people have to take due action, in an appropriate regulatory environment, for the right reasons and in a transparent manner, under appropriate internal and external controls. In terms of external control, the lessons are that in order to generate added value and promote investor protection and market stability, financial supervision must be credible. The supervision of insurance markets, in turn, must be credible to safeguard the stability of insurance markets and hence the interest of beneficiaries. The credibility of supervision in both financial market sectors requires competence, proactive action and the skills and courage to identify problem areas and intervene before they cause harm on the markets.

In addition to legislative reform, other topics of discussion have included the Financial Supervisory Authority's (FIN-FSA) right and obligation to supervise the implementation of corporate governance and regulations on corporate governance on the financial markets. Under the Act on the Financial Supervisory Authority, the activities of FIN-FSA are aimed at ensuring financial stability and the necessary smooth operation of credit, insurance and pension institutions, and other supervised entities, so as to safeguard the interests of the insured and maintain confidence in the financial markets. FIN-FSA is also responsible for fostering reliable corporate governance systems in those financial market participants whose financial position it monitors. FIN-FSA may also guide its supervised entities to applying best practices in internal control and the management of financial risks where it has been impossible to incorporate into legislation sufficiently specific mandatory provisions on the qualitative requirements for the management of financial risks. The section of law also includes the fostering of *corporate governance* principles in supervised entities. Special statutes also include similar references. For example, the Insurance Companies Act stipulates that FIN-FSA must, in particular, monitor that insurance companies have in place adequate and reliable corporate governance systems.

The monitoring of corporate governance is not an optional task for FIN-FSA. It is obligated by law to foster reliable corporate governance systems in the entities it supervises. In its instructions and guidelines, FIN-FSA is paying increasing attention to the fulfilment of this obligation. Credible and appropriate monitoring of the principles of corporate governance in supervised entities is in the interests of the general public, companies and society as a whole.

arrangements and capital planning. Company-specific deficiencies will be dealt with in practical supervisory work and taken into account in the planning of supervision.

### Separate surveys

In addition to the inspections, FIN-FSA carried out separate surveys of pension providers' real estate investment and banks' codes of conduct for housing finance.

#### **Return on or price development of related party and customer trades did not differ from pension providers' other real estate investments**

In March–August, FIN-FSA conducted a survey of pension providers' real estate investments. In this survey FIN-FSA assessed

- the general principles of real estate investment
- customer and related party trades
- valuation practices
- investment allocation and
- possible risk concentrations.

There were substantial differences between pension providers in the principles of real estate investment and in investment activity itself. Documentation of real estate investment principles was relatively superficial in some institutions.

The survey did not detect any signs that the sale prices, income or value performance of real estate featured in related party or customer trades differed, as a whole, from other real estate investments. However, the significant share of customer trades emphasises the importance of a well-specified investment strategy and internal control so as to ensure that real estate transactions do not raise suspicions of intentions that are foreign to the investment of pension assets.

Pension providers' real estate portfolios were, as a rule, well diversified as regards individual investment targets. However, there was strong geographical concentration in real estate investments. Investments by the large pension companies, in particular, were typically concentrated in the Helsinki metropolitan area.


#### **LTV ratios of housing loans have remained high**

FIN-FSA examined the current state of lending for house purchase with a survey consisting of all the housing loans drawn down by private customers in Finland in the period 29–31 May 2012. The purpose of the sample survey was to find out how banks comply with the FIN-FSA recommendation of 2010 on a loan-to-value (LTV) ratio of 90%. Further

themes were customers' financial leeway, interest rate margins, interest rate linkages and loan repayment periods.

The results of the survey showed that there were still some deficiencies regarding compliance with the FIN-FSA recommendation on LTV. By contrast, banks properly comply with the recommendation of testing customers' repayment capacity with an interest rate of 6%. Separate inspections revealed that some banks had also markedly improved the quality of their credit granting process, in accordance with FIN-FSA instructions.

High LTV ratios and a small share of self-financing lead to upward pressures on housing prices and increase customers' risk of becoming overindebted. A deterioration in the economic situation then poses a significant threat to households' financial capacity. On the basis of the sample survey, it can be assessed that a number of households that drew down a housing loan in 2012 would have problems if interest rates were to rise to the levels prevailing prior to the financial crisis. The share of fixed-rate loans in Finland is still small, and the share of loans with a very long repayment period (over 25 years) has decreased.

 For more information on the housing loan survey (in Finnish), please visit: [Finanssivalvonta.fi](http://Finanssivalvonta.fi) > **Julkaisut ja tiedotteet > Analyysit ja tutkimukset**

#### **Calculation of housing loan LTV ratio to be harmonised**

A working group comprising representatives of FIN-FSA and supervised entities prepared a harmonised model for all supervised entities for the calculation of the LTV ratio and the harmonisation of calculation practices. This reporting will improve FIN-FSA's information on developments in housing finance and can also support macroprudential supervision in the future.

 For more information (in Finnish), please visit: [Finanssivalvonta.fi](http://Finanssivalvonta.fi) > **Julkaisut ja tiedotteet > Valvottavatiedotteet > 2012 > Valvottavatiedote 16.5.2012–28/2012**

### Capital adequacy assessment of supervised entities

#### **Annual supervisory reviews prepared on largest supervised entities**

FIN-FSA monitors and assesses supervised entities' risks, risk management arrangements, liquidity positions and capital adequacy on a continuous basis. A supervisory review is prepared at least annually on the largest supervised entities, assessing the adequacy of their own funds relative to their risk position. As regards smaller supervised entities, an annual report or sector-specific summary reviews are drawn up, concentrating on the assessment

of risk and the capital situation in the sector as a whole. In addition to the assessment of capital adequacy, the reviews typically include corrective action required of supervised entities, for example measures to improve risk management arrangements, methods or practices.

The supervisory review points out key development issues that are discussed in meetings with the supervised entity's senior management. After this, the supervisory review will be submitted for consideration by the Board of the entity.

The supervisory review policy describes the general principles followed by FIN-FSA in the assessment of supervised entities' capital adequacy. However, the principles are emphasised differently for the financial and insurance sectors, due to differences in sector-specific regulation. Capital adequacy assessment was developed further, particularly with respect to the utilisation of stress tests. In addition, new instructions were drawn up for supervised entities on the treatment of the different risks in their internal capital adequacy assessments.

As part of the supervisory review, FIN-FSA examines supervised entities' arrangements for internal governance. In the year under review, there was particular interest in how credit institutions' remuneration schemes comply with regulatory requirements. Overall, it can be stated that the schemes complied with regulation and FIN-FSA dealt with deviations as part of ongoing supervision. The inspections did not reveal cases where remuneration would have led to excessive risk taking.

### **Internal models for the calculation of capital requirements**

Banks may apply for the authorisation of an internal model for the calculation of the capital adequacy requirement tailored on the basis of bank-specific risks. Supervised entities often aim at capital adequacy below the standard requirement, but opposite cases are also possible.

In assessing new internal modes to be applied in the calculation of capital adequacy for credit risk, FIN-FSA focused both on models for retail exposures and on foundation and advanced models for corporate exposures. Banks for which authorisation had already been granted expanded the application of models to new exposure groups and juridical units. The capital adequacy framework also enables the application of models in the measurement of credit equivalent amounts for counterparty risk. In the next few years, the focus of work on the assessment of credit risk models will shift to ongoing supervision of how the models are applied.

Assessment of internal models for banks' trading books was continued with respect to the changes in internal models required by the CRD III reform. The focus was on models applied to the calculation of additional

capital requirements for specific risk and additional capital requirements covering all price risks.

As for insurance companies, projects concerning pre-application of internal models under Solvency II continued. This work will proceed on a more solid basis once EIOPA's interim guidelines and final Solvency II regulation are finalised. EIOPA will launch a consultation on the interim guidelines during spring 2013.

Model application projects concerning large supervised entities are often pan-Nordic. FIN-FSA has worked in cooperation with the supervisory authorities of Sweden and Denmark, in particular.

## **Preparation for regulatory reforms**

### **Close cooperation with ministries**

In developing extensive capital adequacy regulatory projects (CRR/CRD IV and Solvency II) concerning the banking and insurance sectors, FIN-FSA aimed at promoting, together with the relevant ministries, issues important to Finland. These included, among other things, additional requirements pertaining to nationally systemically important supervised entities, methods for the calculation of banks' and financial conglomerates' own funds and, for the insurance sector, the treatment of long-term exposures and solvency management requirements.

FIN-FSA participated in the preparation of solvency regulation for the earnings-related pension insurance sector in working groups of the Ministry of Social Affairs and Health and working groups set up to assess the reform of the solvency regulations for the private-sector earnings-related pension scheme. The special focus of this work was on issues relating to the calculation and management of solvency. FIN-FSA prepared a detailed proposal for the reform of the solvency framework for earnings-related pension institutions.

Solvency II will bring material changes to the supervision of insurance companies. Despite project delays, FIN-FSA specified changes required by its own supervisory process and internal division of work.

Report by the Ministry of Finance's macroprudential working group, see p. 53.

### **FIN-FSA informed entities of regulatory changes**

FIN-FSA organised several information meetings for supervised entities on regulatory projects and changes to supervisory practices. These covered projects by the EU financial supervisory authorities in all sectors. Supervision releases were published on changes affecting Finnish supervised entities. Progress with projects and topical issues in the financial sector were also discussed in regular meetings with participants in the sector and the relevant interest group.


## High-quality customer and investor protection

In line with its strategy, FIN-FSA focused its supervision on service providers' internal processes and information produced by actors in the financial sector on their financial position, products, services and related risks. Supervision also aimed to ensure that customer and investor information represents high quality and is up-to-date in the context of the present high market uncertainty.

Inspections and reviews were made to find out whether the agents had conformed with the appropriate code of conduct with their customers and that supervised entities have appropriate internal processes. Based on a review of basic banking activities, FIN-FSA paid attention to the service fees charged by a few banks. Inspections concerning the appeal process at unemployment funds and the customer claims process at banks and insurance companies called the supervised entities' attention to sufficient monitoring of the handling process. Management companies' procedures concerning errors in net asset value calculation did not conform in all respects to the companies' internal guidelines or the position of FIN-FSA, and the companies were required to rectify the shortcomings.

FIN-FSA focused its supervision in a risk-based and proactive manner on how the heightened economic uncertainty affected investor information provided by listed companies. The euro crisis and companies' weakened financial position was reflected in IFRS supervision, where attention was paid to issues relating to financial instruments in the banking sector, the sufficiency of information provided by listed companies on liquidity and covenants as well as goodwill impairment tests.

Supervision visits on the disclosure obligation continued. FIN-FSA also explored how listed companies had taken instructions and recommendations given at previous visits into account. The supervision of trading looked into the accuracy of transaction reporting by securities intermediaries. On the whole, no major deficiencies were found in either market practices or investor and customer information. FIN-FSA required corrective actions where individual deficiencies were found and imposed a few administrative sanctions.

 All supervisory measures (sanctions, cancellations of authorisations, marketing prohibitions) are listed at [Fin-fsa.fi](http://Fin-fsa.fi) > **Supervision** > **Supervisory measures**.

The expanding EU regulation was also reflected in FIN-FSA's work. FIN-FSA participated in level 2 and level 3 regulation initiatives by ESMA, EIOPA and the EBA in accordance with its priorities. It also continued the reform

of regulations and guidelines on the securities markets in line with the wide reform of the Securities Markets Act. In October, FIN-FSA published regulations and guidelines for reporting the expenses and returns of long-term savings agreements and insurance policies, and in December it published nine renewed regulations and guidelines for consultation, see p. 48.

## Banking sector

### Basic banking services still readily available, but provision of services has changed

FIN-FSA assesses<sup>6</sup> the availability and pricing of basic banking services offered to personal customers on an annual basis. The review is based on supervision observations and a survey targeted at banks early in the year. Basic banking services refer to

- ordinary deposit accounts
- means of withdrawal (eg an online debit card verifying the balance in real time in connection with a transaction) and
- execution of payment orders.

Basic banking services do not include cash, accounts with an overdraft facility or credit cards, for example.

According to FIN-FSA's estimate, basic banking services were still generally speaking readily available, but on the other hand the number of payment terminals and private customer branches had been reduced from the previous year. The number of payment terminals decreased by almost 30%, and the number of private customer branches by almost 10%. In contrast, the number of customer terminals and automated teller machines remained unchanged, and the number of other service points – such as service points at grocery stores – increased.

At the same time, many private customer branches had reduced the provision of cash services by limiting the service to only a portion of the business hours of the branch. For these reasons, the availability of banking services may have been compromised locally, particularly with respect to customers that have no access to online banking or payment cards. This could be the case especially for elderly customers.

The pricing of services had not changed materially, although about a quarter of banks stated their pricing had

<sup>6</sup> The review is based on both supervision observations and feedback received from the markets as well as a survey sent to deposit banks and branches of foreign credit institutions offering basic banking services. The survey is made annually on the basis of the situation in March. In the review year, a total of 282 banks responded to the survey.

been revised since the previous survey. Most of the revisions were price increases, but some reductions had also been made. Online banking and payment service charges were generally at the previous year's level, and the direct debiting service was still free of charge. Over half of the banks responding to the survey offered a service package including basic banking services, and its monthly price varied from zero to EUR 5.49 depending on the payment card selected. The most common price range was EUR 2.50–2.99 per month. Pricing of the services depends considerably on various loyalty schemes and packages tailored to specific customer groups.

FIN-FSA called attention to the fee charged by 13 banks for processing the paying of an invoice in cash. Some banks charged a maximum EUR 7–12 for paying an invoice in cash at a bank branch. A price this high serves to undermine the customer's right to receive basic banking services at a reasonable price, and FIN-FSA recommended such prices be brought down to a reasonable level. The recommendation led to the sought after outcome at ten banks.

The survey was revised based on a recommendation by the European Commission, and statistical information was also collected for the Commission.

### Own choices affect service prices

Banking customers may also by their own choices affect what they pay for their banking services. It pays to compare the fees charged by banks for services, the availability of the services and any other services potentially available and to choose the individually most appropriate ways for banking on the basis of the comparison. It is also a good idea to find out what kind of new possibilities for banking and service points outside bank branches are available, and at what prices these services are offered. FIN-FSA has recommended that banks give guidance to customers in selecting appropriate services.

## Insurance sector

### Appeal processes at unemployment funds subject to inspection

FIN-FSA inspected the processing of appeals at 11 unemployment funds. The possibility of appeal is an essential remedy for the customer. At the funds inspected, FIN-FSA looked into the actual handling process of appeals and the resources used as well as the internal control governing the appeal process.

The resources used in the appeal process varied greatly depending on the size of the fund. In contrast, the quality of treatment of appeals, for example in terms of the responses of the fund or speed of the process, did not reflect the size of the fund. Internal control of the process depended more on the commitment of the operative management of the fund than on its size.

FIN-FSA called the attention of some funds to their high self-rectification percentages, which may reflect problems in the handling of applications for benefits. Some resolutions of the appeal body had not been implemented, which endangers or can, in the worst cases, preclude legal security for the appellant. With respect to the deficiencies, FIN-FSA required the funds to improve their internal control and also to pay attention in their organisation to the responsibility of the board of directors.

### Guidelines for handling customer complaints

FIN-FSA inspected the procedures for handling customer complaints at insurance companies and banks. Appropriate handling of customer complaints is an essential part of customer protection, and from the insurance company's or bank's point of view it can be considered part of risk management.

The inspections were geared to ensure that the internal processes for handling customer complaints take the requirements of customer protection into account. Behind the inspections, there was also the desire of the European supervisory authorities to ensure appropriate handling of customer complaints. EIOPA issued guidelines for national supervisors on how to supervise the handling of complaints by insurance companies.

These instructions call attention to eg

- the documented principles for handling customer complaints
- provision of sufficient information for filing a complaint
- monitoring and analysis of the reasons for complaints
- handling of complaints at insurance companies and
- possibilities to appeal further, for example to the Insurance Complaints Board or Consumer Disputes Board.

FIN-FSA has attached the relevant parts of the guidelines to its set of regulations and guidelines.



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## Impact of regulatory changes on the activities of listed companies

Although most of the present regulatory changes concern agents in the financial industry, they also have both direct and indirect implications for the activities of listed companies. Efforts are, however, being made to alleviate the administrative burden on listed companies and to relax certain disclosure requirements. However, keeping track of regulatory changes is becoming increasingly difficult as the regulation structure becomes more fragmented due to new EU Regulations.

### Tightening regulation of the financial sector also has an impact on listed companies

During the financial crisis and the subsequent debt crisis a lot of new regulation has been issued and more is still being prepared. The most important objective is to prevent future financial crises and to ensure that all agents with an impact on financial stability are covered by the scope of regulation.

A large proportion of the present round of regulatory changes are targeted at agents in the financial industry, such as banks, insurance companies and providers of investment services. The tightening regulation on these entities may, nevertheless, also have an indirect impact on the operations of listed companies, for example due to increased financing costs or harder access to bank finance. One consequence of this is an expansion of the corporate bond markets.

Some of the regulatory changes have a direct impact on listed companies. The Alternative Investment Fund Managers Directive may also cover listed real-estate investment companies. Similarly, the European Market Infrastructure Regulation (EMIR) on OTC derivatives is applicable to any undertaking trading in OTC derivatives contracts. Furthermore, the Regulation on central securities depositories that is currently under preparation would grant issuers the right to choose the CSD in which to issue their securities.

### Efforts are being made to alleviate the administrative burden on listed companies

The Directives concerning listed companies, namely the Prospectus Directive, the Market Abuse Directive and the Transparency Directive, included an obligation to review their practical application after five years of their entry into force. Based on the reviews, changes in these Directives have been proposed within the EU.

The amendments are aimed at easing the administrative burden on listed companies and lowering the threshold for seeking a stock market listing. However, the amendments are not intended to endanger the present level of investor protection.

The amendments to the Prospectus Directive have already been transposed into national legislation. The Commission Regulations laid down under the Prospectus Directive have also been amended. The amendments to the Prospectus Directive and Regulation lowered in particular the prospectus requirements for small and medium-sized enterprises as well as for companies with a market capitalisation of less than EUR 100 million. Material concessions were also made to the prospectus requirements concerning rights issues. The most important change in the prospectus requirements was that there no longer needs to be a separate operating and financial review in the prospectus; this could be replaced by the annual report.



As regards the Transparency Directive, the Commission has proposed abandonment of quarterly reporting. The Market Abuse Regulation, in turn, would harmonise regulation on listed companies' ongoing disclosure requirement and insider registers.

The EU's objective is to harmonise regulation on securities markets (a single rule book), which would considerably ease cross-border activities between Member States. Therefore EU legislation in this area will increasingly consist of directly applicable Regulations. This will lead to fragmented regulation, as regulation concerning listed companies will no longer be centralised in the Securities Markets Act and regulations issued thereunder; these will now have to be read in conjunction with EU Regulations.

### **New Securities Markets Act relaxed disclosure obligations**

The new Securities Markets Act entered into force on 1 January 2013. Among the most important objectives of the wide reform of the Securities Markets Act were to enhance the clarity and understandability of the Act, to harmonise it more closely with EU regulation and to decrease the use of additional national requirements. One specific objective was to reduce the administrative burden on listed companies.

The most significant change for listed companies was a relaxation of the requirements on the presentation of future prospects. From now on, the Act requires that future prospects are presented once a year in the context of the Annual Report. Listed companies may naturally continue to present their future prospects on a more frequent basis. In regard to this, FIN-FSA considers it important that listed companies act consistently in presenting their prospects. In other words, the chosen frequency of publication should be followed in both good times and bad.

No significant changes were made to the continuous disclosure obligation. Due to the change concerning the presentation of future prospects, however, FIN-FSA has underscored that listed companies should continue to monitor the materialisation of the prospects they have published and issue a profit warning if there is a material change in their prospects.

For the time being, the regulation governing insider registers remains unchanged. The point of departure for the Act is that maintenance of the public insider registers would be transferred to FIN-FSA. However, the transfer was not implemented at this stage, since the Market Abuse Regulation being prepared within the EU will have an impact on the SMA provisions on insider registers.

In early 2013, FIN-FSA will renew its regulations and guidelines concerning securities markets in order to align them with the new regulations.

### **Other current regulatory initiatives**

In December, the European Commission published a company law action plan, according to which the Commission will, during 2013, issue proposals for Directives amending, among other things, regulation of corporate governance and improving the possibilities for issuers to obtain information on their shareholders. The Commission will also study whether the activities of proxy advisors (entities preparing voting recommendations) should be subject to closer regulation.

## Investment products

### Collection of information for monitoring consumer trends and financial innovations commenced

In September, ESMA's Financial Innovation Standing Committee (FISC) began the collection of information for monitoring consumer trends and financial innovations. The objective is to get an up-to-date view of the new types of investment products on the market and consumer trends related to investment products. Henceforth, national securities regulators will report regularly to ESMA on sales volumes, customer complaints and concluded thematic inspections related to investment products.

The Committee also reviewed initiatives by national supervisors to intervene in the sale of complex investment products to retail investors. FIN-FSA participated in the implementation of the review and in finding out whether new harmonised supervision practices should be created on the sale of complex structured investment products to retail investors. The review will be completed during 2013.

### Management companies' NAV calculation instructions at a good level, but practice not always on a par with instructions

FIN-FSA inspected the procedures concerning net asset value (NAV) calculation errors at 12 fund management companies. NAV calculation is a key activity for investment funds, the accuracy of which places great demands on the administration of a management company. The objective of the inspection was to ensure that supervised entities' procedures regarding NAV calculation errors are appropriate in terms of both risk management and the equality of unitholders.

Management companies' internal procedural instructions on NAV calculation errors demonstrated good quality, but their activities in practice did not conform with the instructions in all respects. In practice, most deficiencies were found in the reporting to unitholders and particularly to FIN-FSA. In its inspection letters, FIN-FSA required the supervised entities to rectify the shortcomings.

### Key Investor Information Document replaced simplified prospectuses

The UCITS IV Directive<sup>7</sup> governing investment funds moved the funds' simplified prospectuses into history to be replaced by the Key Investor Information Document (KIID). This summarises an investment fund's key information in a standardised format set out on two pages and is provided to the prospective investor prior to the investment decision. In the autumn, FIN-FSA conducted a review of how

the KIIDs met the requirements. According to the review, the information provided in the KIIDs can be considered of rather good quality.

### Cross-border movement of investment funds was facilitated; more assets under management in Finland

In the review year, management companies made use of the new opportunities provided by the UCITS IV Directive to set up feeder funds and the possibility to merge investment funds operating in different EEA states. As part of the process of handling merger decisions, FIN-FSA assessed the information provided on the mergers in order to ensure that the information provided to unitholders was sufficient to assess the impacts. Unitholders must be provided with information on, for example, the reasons for the merger, the impacts on unitholders and their rights to receive additional information and material.

Due to the amendment of the Directive, the similarity of merging investment funds' investment policies is no longer assessed. During the review year, some assets also shifted from other EEA states to funds managed in Finland. Investment funds managed by Finnish management companies were not merged across the border to funds managed in other EEA states.

### New supervised entities and registered fund managers

The AIFMD<sup>8</sup> Directive must be implemented at national level on 22 July at the latest. The Directive applies to management companies managing non-UCITS investment funds (funds other than those in compliance with the UCITS Directive). The Directive also brings about entirely new supervised entities. It also applies to, among others, entities managing venture capital, real estate, infrastructure, hedge, commodity and raw material funds as their regular business.

The Directive starts out from the basic position that alternative investment funds will only be offered to professional investors, although national legislation may allow their offering to retail investors, too.

At the turn of September and October, FIN-FSA arranged two information sessions to agents in the industry. These sessions dealt with the key contents of the Directive, scope of application, reporting obligations and the obligation of agents to be included in the scope of the Directive to apply for authorisation or registration. During the review year, several agents were also met whose activities could be included in the scope of the Directive going forward.

<sup>7</sup> Undertakings for Collective Investment in Transferable Securities (2009/65/EC).

<sup>8</sup> Alternative Investment Fund Managers Directive (2011/61/EU).

Information on the AIFM regulation initiative can be found at [Fin-fsa.fi > Regulation > International regulatory projects > Regulation of alternative investment funds – AIFMD](#).

You can subscribe to a newsletter at [Fin-fsa.fi > Publications and press releases > Subscription to electronic publications](#).

### Good practices observed in prospectus inspections

ESMA conducted a peer review on the supervision practices for prospectus inspections, where FIN-FSA was found to fully comply with the good practices determined by ESMA and laying the foundation for inspections. Each authority's operation was reviewed so that the authorities themselves assessed their operation based on questions sent by the Review Panel<sup>9</sup> and sent documentation supporting their responses where necessary.

The Review Panel assessed the responses provided by 29 authorities and made a report in which it presented an assessment whether each authority can be considered to have observed its recommendations. According to the report, 25 authorities (86%) observed good practices in full.

### Supervision of information disclosure and financial reporting of listed companies

#### Proactive risk-based supervision continued

Supervision of disclosure by listed companies was focused on risk-based grounds, and in an uncertain market situation special attention was paid on the guidance provided by companies and warnings issued on any related changes. Attention was also paid on how listed companies took market circumstances into account in describing their near-term risks and uncertainties.

FIN-FSA underscored proactive supervision and sought to promote good disclosure practices. Supervision visits to listed companies were continued and mainly directed at small-cap listed companies. The visits were used to assess, among other things, the companies' disclosure practices. Companies were given individual feedback, and suggestions for improvement were presented in respect of disclosure obligation issues. In the view of FIN-FSA, these companies as a rule complied with their disclosure obligations in an appropriate manner.

<sup>9</sup> The objective of the Review Panels is to conduct peer reviews in order to assess whether regulation in EU Member States is uniform and meets the requirements of EU regulation. At the same time, the supervision practices of national supervisory authorities are also assessed and best practices are developed.

### Guidelines and recommendations discussed at supervision visits affected companies' operating procedures

FIN-FSA studied how the recommendations and guidelines discussed at supervision visits (18 visits) conducted in 2009–2010 had affected the operating procedures of the companies. The questions concerned, for example, disclosure practices and disclosure policy, determination of material issues to be disclosed, result follow-up and profit warnings, and the content of financial reports.

Eight companies stated they had compiled a disclosure policy or similar document recommended by FIN-FSA after the supervision visit and six companies stated they had updated a disclosure policy made already before the visit; some of the companies also published the disclosure policy on their website. The companies had also sought to determine material issues to be disclosed, but some companies emphasised that materiality continues to be considered case by case. Some companies stated they had paid more attention after the supervision visit on result follow-up and the preparation and treatment of result forecasts by the board of directors, as well as to their clarity. However, few companies had been able to determine the permitted spread for the changes in their result forecasts. FIN-FSA recommended to many companies that they expand the description in their interim report on material events during the review period and their impacts on profit performance and the financial position. Almost all of the companies professed to have assessed the statements provided in their interim reports and to have sought to expand the descriptions after the supervision visit.

### Uncertainty caused by the euro crisis left its imprint on IFRS supervision

The ramifications of the euro crisis and the weakened economic state were reflected in IFRS supervision, where special attention was paid to

- financial instruments in the banking sector
- information provided on listed companies' liquidity and covenants and
- goodwill impairment tests.

IFRS supervision is focused by ESMA's determinations and is increasingly conducted as part of Europe-wide supervision coordinated by ESMA. At the end of the year, ESMA published a statement concerning loans renegotiated by banks with their distressed customers (forbearance) and information provided on them in IFRS financial statements. In addition, ESMA coordinated a Europe-wide review of financial statements (42 companies) with particular focus on the accounting treatment of bonds



**Anne Nisén**

Risk Specialist

## Payment markets are changing

Payment transmission is one of the key functions of traditional banking. It has undergone major changes in recent years, and the rapid pace of change seems set to continue. As a result of European integration, Europe has become, in effect, the domestic payments market for many countries. Legislative reform and technological advances have enabled the entry into the market of totally new types of payment services and service providers. The increasingly widespread use of payment cards has reduced the use of and need for cash. Banks' cash services have also been reduced. The changes are even reflected in fraud statistics.

### Payments to become pan-European; domestic payments discontinued

Finland, as a member of the EU and the Eurosystem, is part of a wider economic area that has common goals, not least in the efficiency of payment systems. Finland migrated to SEPA (Single Euro Payments Area) credit transfers in 2011, among the first countries in Europe.

Migration to SEPA has required new solutions for the structure of payment systems, including domestic payments. Banks operating in Finland have agreed on clearing and settlement solutions for SEPA payments with EBA Clearing, a service provider operating outside Finland. Now domestic interbank payments are also settled during the night via a clearing house located in Europe. At the same time, the domestic payment system has been discontinued. As a result of the solution chosen, banks have significantly fewer opportunities for influencing the clearing and settlement system and its properties compared with the former domestic solution, due to the fact that EBA Clearing provides services Europe-wide.

In addition to changes in payment systems, SEPA has required banks to make major changes in their other systems as well. Major system changes always increase the exposure to disruptions. The propensity to disruptions seems to increase the longer the processing chain for payments and the larger the number of participants. Payment transmission continues to experience a large number of disruptions. The majority of these have caused short delays in the settlement of the payments in the customers' accounts. FIN-FSA required banks to take urgent action to improve the reliability of payment transmission.

Under Finnish national legislation on emergency powers and contingency arrangements, payment transmission is one of the operations critical to society. The contingency planning requirement also applies to situations in which operations have been outsourced outside Finland. Payment service providers operating in Finland must have the capacity for payment transmission in emergency conditions. EU integration and the fact that payment transmission is increasingly executed by European service providers pose challenges for the coordination of efficiency requirements and national obligations to prepare for emergency conditions. FIN-FSA considers it important that banks' infrastructure solutions take into account the obligation to ensure domestic payment transmission in a situation where a European clearing and settlement system that has been introduced is not available for one reason or another.

FIN-FSA supervises the payment systems of banks operating in Finland. Its ability to supervise processes outside Finland's borders is more limited than for supervising payment transmission taking place in Finland.

### New actors and services

The EU's Payment Services Directive has enabled and facilitated the market entry of new companies. On top of the traditional banking infrastructure, a new layer of service providers has been

created that can utilise the existing payment infrastructure and, at the same time, apply more flexible operating practices provided for in legislation. Cross-border provision of payment services from other EU countries is also possible. At the same time, technological advances have paved the way for totally new, innovative payment services, such as mobile payment solutions and services based on NFC cards.

The security of new actors and services needs to be ensured to maintain confidence in payment services. Supervision is hampered by the fact that not all new service providers are entities supervised by FIN-FSA. The situation would improve somewhat if the parties responsible for basic infrastructure, such as banks, were to impose on the other parties minimum security requirements for system interfaces. A similar trend is taking place in Europe. *The European Forum on the Security of Retail Payments*, a European Central Bank working group between representatives of national central banks and supervisors, including FIN-FSA, will publish in spring 2013 harmonised recommendations on the security of internet payments.

### **Increase in malicious software attacks and card crime**

Surveys conducted in recent years show that the majority of purchases are paid by card and the majority of invoices are paid online. Malicious software attacks on banks' online services have increased significantly and there has also been a rise in card crime.

Supervised entities can reduce the misuse of payment card data acquired through criminal means by adjusting the card readers of ATMs so that it is impossible to copy the magnetic stripes of cards. Banks have enabled the geographical restriction of card usage, which has reduced the misuse of copied payment card data.

Previously malicious software attacks targeted primarily the customers of the largest banks, but, in the review year, the online services of small banks were also attacked. The number of customers targeted by the attacks is a couple of hundred and total losses have thus far been relatively small.

Banks have sought to improve the security of online banking in a number of ways. An example of measures visible to customers are the SMS payment confirmations that the payer is requested to send to confirm unusual payments.

FIN-FSA monitors the threats caused by malicious software and card crime through eg disruption reports submitted by the banks, and, where necessary, discusses with the banks ways of improving the security of banking services.

### **The use of cards reduces the need for cash**

The use of various types of cards has reduced the need for cash. Banks have sought to adjust operations correspondingly and reduced their cash services by eg discontinuing cash services in certain branches or restricting their availability to only part of the business day. At the same time, banks have removed ATMs in locations with the lowest business volumes.

The reduction of cash services particularly affects special groups, eg senior customers who are physically unable or do not know how to use card and online services.

FIN-FSA monitors the availability of cash services as part of its annual survey on basic banking services. In the review year, FIN-FSA also conducted a separate survey on banks' cash services and plans for them. FIN-FSA issued a statement in the spring, noting that the level of cash services is still reasonable, despite some regional differences. Cash services are a key part of banks' operations. FIN-FSA considers it important that banks ensure sufficient availability of cash services.

issued by the Greek government in financial statements for 2011.

In the supervision of impairment testing, FIN-FSA calls the attention of listed companies to impairment processes as well as the information to be disclosed. The objective is to improve the quality and reliability of financial statements.

The economic situation has raised questions about the reliability of companies' goodwill impairment testing on a broader level in Europe, since the amount of impairment losses booked has been small. European financial statement supervisors steered by ESMA reviewed the notes on goodwill impairment testing in listed companies financial statements (235 companies). ESMA's observations are in line with FIN-FSA's view on deficiencies in the notes on goodwill impairment testing. In particular, inaccurate descriptions and standard phrases about the bases of the tests and their sensitivities to change are of no use to investors.

Information on related parties are a new focus area in IFRS supervision. Disclosures on related-party transactions have a special role in financial statement reporting, since related parties may conduct exceptional transactions which would not be made by non-related parties. FIN-FSA observed that there was room for improvement in the related-party information on key management personnel provided by listed companies. Deficiencies in reporting hindered comparison between companies on management compensation.

The objective of the new supervision procedures developed during the year is to promote mutual interaction between FIN-FSA and the various parties participating in financial reporting (audit committees, auditors and the supervisor of auditors) in order to improve the effectiveness of supervision.



### Markets releases and events for listed companies

During the review year, four *Markets* releases were published (in Finnish). These addressed observations on interpretations concerning the disclosure obligation, insider issues and regulation. The releases contained information on, for example, statements by ESMA. The *Markets* release is used to inform market participants on observations and statements relating to IFRS supervision.

Market Supervision arranged two similar events on topical issues in December, addressing primarily IFRS supervision themes. A majority of listed companies were represented at the events.

Listed companies are served by a dedicated *Listedcompanies.fi* website maintained in Finnish, Swedish and English.

 Please visit: [Listedcompanies.fi](http://Listedcompanies.fi)

### Cases of suspected market abuse inspected by FIN-FSA in 2002–2012

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Total inspected cases</b>	<b>65</b>	<b>57</b>	<b>61</b>	<b>41</b>	<b>62</b>	<b>65</b>	<b>62</b>	<b>74</b>	<b>70</b>	<b>80</b>	<b>85</b>
Abuse of insider information	24	28	24	18	29	45	27	37	27	34	23
Market manipulation	11	11	12	6	10	5	11	17	11	23	35
Disclosure obligation: regular ongoing disclosure of major holdings and primary markets	30	18	21	13	21	12	12	16	25	16	23
Other	–	–	4	4	2	3	12	4	7	7	4

## Supervision of securities market infrastructure

### Attention in international cooperation between authorities on preparation for market disruptions

FIN-FSA supervised the financial market infrastructure in close cooperation with the Bank of Finland. In the review year, the most important cooperation projects were the comprehensive revision of the Securities Markets Act, EU-level projects related to central counterparties, securities settlement and CSDs as well as Euroclear Finland Ltd's (the central securities depository) and Euroclear Group's cooperative supervision together with other supervisors and central banks as well as the cooperation related to central counterparty (CCP) clearing.

FIN-FSA assessed the smoothness and reliability of Euroclear Finland Ltd's clearing and the company's outsourcing and development projects. As regards NASDAQ OMX Helsinki Oy (Helsinki Stock Exchange), supervision focused on changes in market models for trading, internal market surveillance activities of the stock exchange and the organisation of operations by the stock exchange to ensure reliability and continuity of trading. In the context of Nordic supervisory cooperation on NASDAQ OMX, joint assessments were made on the arrangement of operations as well as common policies in significant control issues, among other things. In the supervision of Nordic exchanges, attention was paid to the preparation for market disruptions.

## Supervision of trading and inspection of market abuse

### Deficiencies emerged in inspection of securities intermediaries' procedures and internal processes

During the review year, inspections were made on the diligent execution of customers' orders and reporting on securities transactions to customers. In addition, the inspections were expanded to include securities intermediaries' internal processes, such as the treatment of orders, reporting of suspicious securities transactions and transaction reports submitted to FIN-FSA. Deficiencies of varying degree surfaced in the inspections, and FIN-FSA required corrective measures in this regard.

Based on supervision observations made in the previous year, FIN-FSA gave one public warning on deficiencies in internal control and risk management in securities intermediation and neglect of the separation of client funds. During the review year, FIN-FSA also gave a public reprimand based on inspection observations on the sound corporate governance, internal control and procedures of a securities intermediary. In addition, FIN-FSA sanctioned an administrative fine of EUR 10,000 for a securities

intermediary on deficiencies in the coverage and accuracy of transaction reporting.

The preventive impact of the administrative sanctions given on the basis of the supervision observations was visible during the inspection and supervision visits made during the rest of the year. In connection with the inspections conducted towards the end of the year, attention was also paid to how securities intermediaries had taken into account ESMA's guideline on the organisation of activities in an automated trading environment. The guideline also relates to high-frequency trading (HFT)<sup>10</sup>.

### Investigation of accuracy of client information in transaction reporting

Through securities intermediaries' transaction reporting, FIN-FSA receives information on transactions executed on different marketplaces (exchanges, multilateral trading facilities, such as Burgundy, Chi-X). The information is used in, for example, investigation of abuses.

The transaction reporting obligation was extended in September 2011 to customers' identifying information, including name, personal ID and address. In March and April, FIN-FSA reviewed the accuracy and quality of customer information submitted to it. The review was made by running a check on predetermined criteria on all transaction reporting data sent by securities intermediaries over six months. The review revealed individual deficiencies of varying degree, the most significant ones being the total lack of customer identifiers or use of the same information for many different customers. FIN-FSA gave individual feedback to supervised entities and required measures to rectify the errors.

The accuracy of information provided to FIN-FSA is an absolute requirement for effective market supervision, and the accuracy of transaction reporting will be subject to regular supervision going forward.

### Significant short positions exceeded expectations

As of the beginning of September, FIN-FSA was notified of significant short positions on stocks listed on the Helsinki exchange and Finnish government bonds. FIN-FSA publishes on its website any net short positions that reach or exceed the threshold of 0.5% of the company's issued share capital. Short positions in sovereign debt will not be published.

During the first month, FIN-FSA received 327 notifications on short net positions. After the initial notification rush, there have been about 5–15 new notifications

<sup>10</sup> High Frequency Trading refers to automated short-term trading taking place even in the matter of thousandths of a second where computer software independently decides to buy and sell decisions without human intervention based on specifically determined parameters, market information or news.

of positions exceeding the threshold on a daily basis. FIN-FSA will report notified short positions to ESMA on a quarterly basis. For more information, see 59.


### 85 cases of suspected market abuse inspected

During the review year, FIN-FSA had a total of 85 cases of suspected securities market abuse under inspection. The figure for 'Total inspected cases' indicates the cases concluded during each year.

The rise in the number of abuse cases is partly explained by stock price fluctuations. High volatility automatically triggers alerts on transactions executed, in which case suspicions of abuse are inspected. The proportion of wash sales out of the inspected abuse cases continued to be significant. Suspicions of abuse of insider information decreased due to the small number of mergers and acquisitions and low economic activity.

FIN-FSA received 28 (16 in 2011) notifications from brokers on suspicious securities trades or other transactions. The market supervision of the stock exchange submitted 22 notifications (29 in 2011).

### Customer education

One of FIN-FSA's statutory tasks is to provide information on the financial markets to the public. The primary channel of customer education was the  **Financialcustomer.fi** web service, and one of the goals for the review year was to improve its visitor numbers. The visitor number indeed increased by 77% from the previous year. In the latter half of the year, there were about 6,400 visitors a month on average. Google keyword advertising was able to reach additional visitors to the web service through keywords related to housing loans. Other ways were participation in various public events and meetings with journalists for discussing topics concerning customers. The themes included online banking security and investment products falling outside the scope of supervision. Media interviews concerning housing loans totalled about 30.

Customer education was targeted particularly at young savers, for example by updating and adding questions to the Financial Wizard quiz, the results of which can be shared on a competitor's own Facebook page.

For over ten years, FIN-FSA has participated in the *Sijoitus-Invest* ('Investment') event and held short presentations. This time, 13 short presentations were held at the November event. Among the most interesting subjects were the characteristics of authorised financial services and frauds as well as comparisons of different investment product categories. Lectures on basic topics for savers and investors were held at the *Vero* ('Tax') event in March and in the Bank of Finland Museum in April. During the

review year, journalist meetings on investor protection were launched.

In matters dealing with customer protection and customer education, FIN-FSA works in collaboration with the Finnish Financial Ombudsman Bureau (FINE) and The Finnish Competition and Consumer Authority<sup>11</sup>. FIN-FSA participates in the activities of the Advisory Council on Financial Management administered by the Ministry of Employment and the Economy. FIN-FSA also participated in the National Consumer Research Centre's two-year research project on promoting young people's financial skills, which was concluded in the review year. The project group proposed coordinated cooperation between different educators, a clear division of efforts and the creation of an education strategy.

### Telephone help line responds to customer enquiries

FIN-FSA's telephone help line handles customer enquiries from the banking, insurance and investment sectors, advising on, for example, the procedures that must be observed by different service providers operating on the financial markets. In 2012, the help line dealt with some 310 enquiries. During the year, FIN-FSA also handled some 280 written customer enquiries. Of all enquiries, about two thirds were concerned with banking, over a quarter with insurance and less than one in ten with investment. Enquiries on banking related mostly to returns. With respect to insurance, the most common questions concerned the claims procedure and the schedule for handling a claim.



<sup>11</sup> The Finnish Competition and Consumer Authority (FCCA) began operations on 1 January 2013. The agency was created by joining the Finnish Competition Authority and the Finnish Consumer Agency.



## Productive cooperation between supervisors

FIN-FSA focuses its resources in the EBA, EIOPA, ESMA and the European Systemic Risk Board (ESRB) on areas that are of key importance for the Finnish financial sector, in terms of capital adequacy, competitiveness and structural characteristics, as well as customer and investor protection. In the early stages of preparation, FIN-FSA already prioritised the individual issues which it would contribute to handling. FIN-FSA regularly defines the priorities and objectives of the afore-mentioned work. For the year under review, FIN-FSA set the following objectives:

- identification and prevention of threats to the financial system
- enhancement of supervision and proportionate regulation
- intensification of European supervisory cooperation.

FIN-FSA pointed out that the tightening of regulation should be focused appropriately and with consideration. FIN-FSA's representatives participated in eg the reform of capital adequacy/solvency and liquidity regulation for banks and insurance companies and the reform of securities markets legislation.

The key issues in EU-level supervisory cooperation were:

- efficient supervision of the functionality of risk management
- smooth oversight of cross-border Groups
- efficient crisis management mechanisms.

In the area of customer protection, the key issues were innovative investment products and services and improvement of their supervision.

In its work, FIN-FSA utilised more extensively than before the reference data produced by EU supervisory authorities. The usability of such data is improving as EU-level data collection and supervisory reference data become more comprehensive.

Nordic supervisory cooperation was active. Cooperation was boosted by the introduction of the banking sector's new capital adequacy and liquidity regulations. FIN-FSA also promoted the introduction of uniform Nordic assessment criteria in the supervision of the insurance sector's internal models for the calculation of capital adequacy and technical provisions.

The euro area's Single Supervisory Mechanism for banks will change supervisory models and cooperation. Preparatory work on the mechanism was launched in the autumn. The ECB, in cooperation with national supervisors,

will formulate detailed supervisory processes and practices. FIN-FSA is participating in the work together with the Bank of Finland. For more information, see the insert 'Single Supervisory Mechanism for banks in the euro area' on page 40.

### EBA

FIN-FSA supported the work of the EBA in developing a single rulebook for banking regulation in the EU in two areas: reform of capital adequacy regulations (CRR/CRD IV) and preparation of an EU-wide crisis management framework. FIN-FSA participated in the preparation of EBA regulations important for Finland in expert groups and in the decision-making on regulations on the EBA's Board of Supervisors.

FIN-FSA has stressed that the EBA should increase assessment of the credit portfolio quality of EU banks and the comparability of data disclosed by banks on their exposures. FIN-FSA considers it important that supervisory measures utilise as extensively as possible uniform EU-level data collection and promote the rapid introduction of new reporting templates, eg in the supervision of liquidity positions.

Due to the sensitive market situation, the liquidity positions of the largest European banks were monitored weekly and other data on the financial situation of the banks was updated regularly. EBA monitoring covers over 50 banks. FIN-FSA was responsible for submitting the data on the Finnish banking sector and participated in preparation of the assessments. For more information on the execution of the EBA's capital requirement calculations, see page 20.

FIN-FSA continued to strongly support enhancement of the day-to-day supervision conducted by supervisory colleges (eg dissemination of information) and the improvement of cross-border crisis management arrangements.

The EBA examined risks relating to complex financial products from the perspective of the consumer and analysed credit-granting practices in terms of customer protection, preparing guidelines on responsible mortgage lending. The EBA and ESMA also analysed the risks relating to ETFs<sup>12</sup> from the viewpoint of the service provider, preparing a statement on good risk management practices in ETF activities and issuing an opinion on practices concerning Euribor benchmarks and market indices.

<sup>12</sup> Exchange Traded Funds.



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The writer is closely involved in the preparatory work on supervisory models.

## Single Supervisory Mechanism for banks in the euro area

On 13 December, the ECOFIN Council decided on the organisation of single banking supervision for the euro area through the aegis of a Single Supervisory Mechanism (SSM). Political agreement on establishing the SSM in connection with the European Central Bank (ECB) had been reached at the EU summit in June. EU countries outside the euro area may also participate in the SSM if they wish to do so.

An EU Regulation concerning the supervisory tasks of the ECB and the operation of common supervision will likely enter into force in the first half of 2013. According to the draft Regulation, the ECB will be responsible for the prudential supervision of large (the most significant) banking groups as from 1 March 2014 (or 12 months from the adoption of the Regulation) in cooperation with national supervisors, which will continue to perform the practical supervisory work. National supervisors will also continue in the future to conduct much of the supervision concerning other banks. However, supervisory practices will be harmonised for all banks.

Banks subject to the common euro area support mechanisms (European Financial Stability Facility or European Stability Mechanism, EFSF/ESM) will immediately come under ECB supervision. The SSM only covers banks. Insurance supervision will remain entirely at national level.

In addition to the SSM, a single bank resolution mechanism and deposit insurance have also been discussed in connection with the banking union project. Nevertheless, no official proposals for these have been submitted. A lively debate will probably be seen in 2013 on the establishment of centralised frameworks for a resolution authority and a resolution fund. By contrast, the conditions for setting up centralised deposit insurance or joint responsibility for deposit insurance schemes do not yet appear to exist, owing to considerable national differences. Joint responsibility for deposit insurance is not a particularly essential or urgent project from the viewpoint of banking union objectives. Instead, a single bank resolution mechanism will be needed to complement common supervision. The relationship of supervision to current resolution systems and those that may unfold at national level will also need to be defined.

### Why single banking supervision?

The aim of establishing single banking supervision is to have a uniformly high standard of supervision in place in all countries falling within the sphere of such supervision. This is needed to restore confidence in the banking sector. Although banks' funding costs have recently declined, the lack of investor confidence still weakens the banking sector's chances of both refinancing in the debt market and raising new equity capital. Many banks continue to depend on central banks for financing. Moreover, European banks' problem credits have generally increased. Economic growth requires that banks' lending capacity is on a stable footing. Lending capacity, in turn, requires access to market funding, sound management of balance sheet risks and maintenance of adequate levels of capital.

Recent supervisory failures have eroded confidence in national supervision. National viewpoints have also hampered the flow of information and crisis management between authorities in various countries. Supervision will become more uniform in quality and undergo improvements as various countries apply the same high-standard supervisory criteria and practices.

In particular, the supervision of large, multinational banks will benefit from significant efficiency gains in the Single Supervisory Mechanism. Home and host country supervisory responsibilities will become integrated, thus markedly reducing the adverse impact of different interests that may emerge.

Sufficiently strict and consistent monitoring of banks' balance sheet values and stress-testing are especially critical for the credibility of supervision. The Single Supervisory Mechanism allows the introduction of practices binding on all supervisors. Development of common reporting and control systems will also enable a more effective centralised monitoring of banking-sector stability.

In banking union, the ECB will be able to address the risks threatening the banking sector in a powerful and supranational manner. The European Banking Authority (EBA) was not provided with strong tools to intervene in the operations of banks at risk. By contrast, the ECB has the possibility of taking over the direct supervision of any bank.

A further aim of the Single Supervisory Mechanism is to weaken the negative linkage between governments and banks. Sovereign financing problems have been directly reflected in the banking sector: the price of bank funding, for example, has closely followed governments' own financing costs. Bail-outs may also have led to sovereign over-indebtedness and weak economic activity, as in Ireland. However, supervision alone is not enough to break the fateful connection between governments and banks. This calls for a single crisis management mechanism and a reduction of sovereign risk in the banking sector. In fact, the connection has recently strengthened in some countries (notably Spain and Italy) because of growing bank claims related to sovereign loans. These claims are strongly concentrated on the home country.

### Organisation of single banking supervision

The Single Supervisory Mechanism for banks will comprise centralised supervisory responsibility and decision-making in respect of the most significant banks and a uniform supervisory framework for all banks. National supervisors will still play a pivotal role in the practical work of supervision even in respect of the largest banks.

The draft Regulation defines the most significant banks as banks with balance sheets exceeding EUR 30 billion or 20% of the respective Member State's GDP. However, at least the three most significant banks of each Member State participating in the Single Supervisory Mechanism must be involved. Thus, the three largest banks in Finland would be involved: Nordea Bank Finland, Danske Bank's Finnish subsidiary and OP-Pohjola Group. On notification from a national supervisor, and at the discretion of the ECB, the ECB could also take over direct supervision of other significant banks.

A *Supervisory Board* to be established in connection with the ECB will be the most important body for supervisory decisions in the future. The Supervisory Board will be composed of the representatives of national supervisors and central banks as well as of representatives of the ECB. The Governing Council of the ECB, as the supreme decision-making body of the Eurosystem, has the right to veto the decisions of the Supervisory Board. The Governing Council of the ECB cannot alter a draft decision but, in the event of disagreement, must return the draft to the Supervisory Board, stating the reasons for its divergent position.

Each member of the Supervisory Board will have one vote in a voting procedure. However, decisions concerning regulation and overall guidance will be taken by qualified majority. Supervisors of countries other than the euro area Member States may also participate in the Single Supervisory Mechanism by entering into close cooperation arrangements. At the time of writing this article, no decisions have yet been made. If a situation is to emerge where a supervisor outside the euro area announces its non-compliance with a decision issued by the Governing Council of the ECB, the ECB may decide to terminate the close cooperation arrangement.

Consequently, key supervisory decisions concerning the most significant banks, such as

- imposition of capital adequacy and liquidity requirements
- supervisory requirements at conglomerate level
- terms of authorisation and possible withdrawal of authorisation and
- sanctions and early intervention in the case of problem banks

will be taken on a centralised basis. The ECB's powers will extend to financially oriented financial conglomerates (where the role of financial-sector business is greater than that of insurance business) but not to insurance companies belonging to such conglomerates. The national supervisory powers of FIN-FSA will remain unchanged (eg right of access to information and right of inspection), enabling full participation in the supervision of large banks and in assessing risks to the stability of the Finnish financial markets. The work load of national supervisors is likely to increase in the development phase, when the Single Supervisory Mechanism is being built up, but national supervisors' resource needs for banking supervision may later decline.

According to the Regulation, the use of macroprudential tools (such as countercyclical capital requirements) will remain within the remit of national decision-making powers. This is a good solution, as the specific features and stability risks of national markets must be taken into account in macroprudential supervision. The ECB is, however, empowered to set higher prudential requirements if national approaches are deemed insufficient. This, in turn, will ensure consistent and sufficiently strong measures from the perspective of the euro area as a whole.

The ECB may also issue common regulations and guidelines concerning the supervision of all banks, with the aim of extending harmonised supervision to the whole banking sector. Centralised monitoring of the banking sector will also cover the sector in its entirety. This is important, as significant problems have stemmed from smaller banks, as with the Spanish savings bank sector.

### **Practical preparations launched**

The ECB, jointly with national supervisors, is to formulate detailed supervisory processes and practices for implementing supervision. This work was already launched in the year under review. FIN-FSA participates in the work together with the Bank of Finland. It is important to have efficient supervisory processes and practices in place and, whenever necessary, to ensure prompt reactions and decision-making. Consideration must be given to both the nature and the large amount of supervisory decisions and how ongoing supervision can be flexibly pursued. Delegation of supervisory tasks to national level must be particularly clear and transparent – including for the supervised banks themselves.

Planning and implementation of supervision for large banking groups is likely to be organised in specifically designated joint supervisory teams headed by the ECB and comprising staff from both the ECB and national supervisors. It will in future be possible that ECB staff members may participate in inspections together with national supervisors. In addition to determining supervisory models and arrangements, key preparatory tasks include definitions for reporting requirements and registers of supervised entities along with elaboration of legally valid decision-making processes.

There will also be close cooperation between the ECB and the European Banking Authority (EBA), with the objective of extending the development of uniform supervisory practices to the single market area as a whole.

### **Supervision of Nordic banking groups**

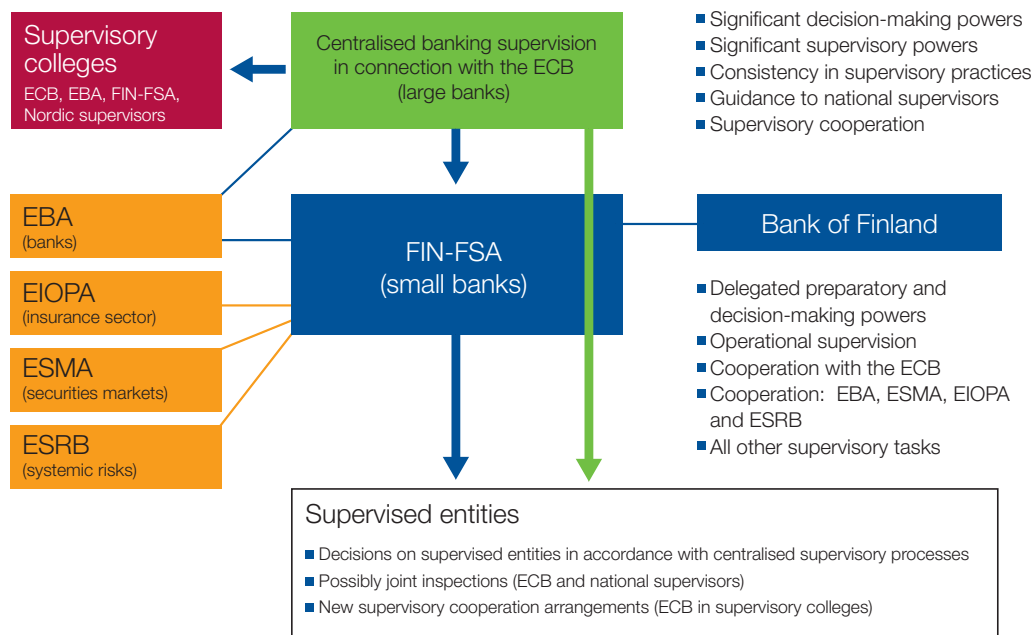
Swedish and Danish supervisors will be responsible for the supervision of Nordea and Danske Bank as before, on a consolidated basis and at the level of the entire group of companies (unless the countries decide to participate in the Single Supervisory Mechanism). Cooperation between the supervisors and practical supervisory work will be carried out in supervisory colleges, which will

- regularly review consolidated risk positions
- prepare the supervisors' joint supervisory review of the risks and capital adequacy of the groups and their significant subsidiaries
- monitor risks
- exchange information on risk exposures
- plan and conduct joint inspections and
- maintain contingency plans for crisis situations.

Capital and liquidity buffers will be required from both the groups and their subsidiaries. A subsidiary's capital levels will have to cover local risks and stress situations.

Although, in the Single Supervisory Mechanism, an ECB representative will most probably act as the responsible member in supervisory cooperation, FIN-FSA will also participate in the future work of supervisory colleges, in the capacity of a national supervisor belonging to the Single Supervisory Mechanism. This is important because of Nordic banking groups' considerable weight in the Finnish financial system. If Sweden and Denmark were to participate in single banking supervision, supervisory responsibility for the groups would shift to the ECB.

## Supervision in banking union



### Recommendations for Internet payments prepared as part of ECB cooperation

In the ECB working group *European Forum on the Security of Retail Payments*, EEA central banks and supervisors prepared common minimum recommendations for the security of Internet payments. The recommendations will be published in spring 2013. FIN-FSA is committed to transposing the recommendations into its regulations and supervising compliance.

## EIOPA

As in previous years, EIOPA's work focused on Solvency II, and particularly on special issues concerning the calculation of technical provisions and capital adequacy. As to finalised standards, the focus was on mutual consistency and drawing attention to the principle of proportionality. Regarding the reporting system of supervised entities, EIOPA's objective has been to promote balance between supervisors' information needs and the costs to the supervised entities.

In December, EIOPA published an opinion on interim measures regarding Solvency II. EIOPA's aim is to publish guidelines in 2013 on insurance companies' system of governance, the approval of internal models and reporting to supervisors. The guidelines have not yet been finalised: EIOPA will launch a public consultation on the matter in spring 2013. National supervisory authorities should have the guidelines in place as of 1 January 2014.

FIN-FSA welcomes the fact that certain aspects of regulation, particularly governance and risk management, will be introduced proactively. After EIOPA has finalised its guidelines, FIN-FSA will take a position on how and to what extent the guidelines will be implemented in Finland.

EIOPA published a report on good disclosure and selling practices for variable annuities<sup>13</sup>. The report includes a list of questions to help insurance companies ensure, during the sales situation, that the customers have a good understanding of the product, the charges, terms in relation to redemption/maturity and any specific risks that they should be aware of. The aim is to promote common supervisory approaches and practices in the selling of these products. EIOPA also published a report on industry training standards applied by competent national

<sup>13</sup> Variable annuities (VAs) are unit-linked life insurance contracts with investment guarantees provided by the insurance undertaking which, in exchange for single or regular premiums, allow the policyholder to benefit from the upside of the unit, but be partially or totally protected when the unit loses value.

authorities. The reports do not include actual guidelines or recommendations.

EIOPA issued to competent national authorities its '*Guidelines on Complaints-Handling by Insurance Undertakings*'. In spring 2013, FIN-FSA will incorporate the guidelines into its collection of regulations and guidelines, as applicable.

EIOPA – like the EBA and ESMA – monitors consumer trends and innovations, analyses them from the perspective of financial stability and consumer protection and, where necessary, proposes regulatory and supervisory measures. In the review year, EIOPA focused on collecting data on trends and the supply and volume of products and services in various markets.

## ESMA

ESMA too, was engaged in the ongoing comprehensive reform of the EU framework for securities regulation, preparing technical standards and Level 2 advice for the Commission on

- the Prospectus Directive
- the Directive on Alternative Investment Fund Managers (AIFM Directive)
- the Regulation on short selling
- the European Market Infrastructure Regulation (EMIR)
- the Regulation on credit rating agencies.

In some of the legislative initiatives, preparation of technical standards will continue in 2013. FIN-FSA was particularly involved in the preparation of Level 2 advice on the Prospectus Directive and the AIFM Directive.

In addition to binding regulation, ESMA worked extensively on promoting investor protection and the harmonised application of EU regulations. Examples of this work include preparation of guidelines and recommendations, provision of opinions and supervisory instructions to the authorities and issuing of statements to market participants. The guidelines and recommendations discussed eg the responsibilities and organisation of the activities of investment service providers and the functioning of mutual funds. The opinions provided to the authorities related to the appropriateness and proportionality of national restrictions on short selling, exemptions from the disclosure of bids granted to operators of regulated markets and interpretation of the UCITS Directive. In late 2012, ESMA issued a public statement on concessions due to borrowers' financial difficulties (forbearance practices) and their treatment in IFRS financial statements. ESMA also decided its common enforcement priorities and published them for the first time. The priorities will be taken into consideration in

the enforcement of IFRS financial statements for the year under review.

ESMA's Review Panel conducted peer reviews on the supervisory practices of supervisory authorities.

The peer reviews focused on

- prospectus review practices
- compliance with the CESR guideline on money market funds
- supervision of market abuse and
- supervision of the Markets in Financial Instruments Directive.

The results of the peer review show that FIN-FSA complied in full with the good practices of prospectus inspection and supervision of market abuse and with the CESR guideline on money market funds. The peer review of supervisory practices concerning the Markets in Financial Instruments Directive is still ongoing. In addition, the Review Panel examined the use of sanctions imposed in 2008–2010 under the Market Abuse Directive. The results show that the sanctionary powers and their use differed significantly between countries. In terms of the number of sanctions, Finland did not diverge from the reference markets. The administrative sanction proceedings in Finland are among the quickest in Europe, while the penal sanction proceedings are among the slowest.

## Joint Committee

The Joint Committee of the European financial supervisory authorities is responsible for assessment of the banking and insurance sector's and securities markets' systemic risks and for preparing regulations on financial and insurance conglomerates. The Joint Committee operates mainly via four sub-committees, which focus on

- cross-sectoral risks
- consumer protection and financial innovations
- regulation of financial conglomerates and
- prevention of money laundering and terrorist financing.

The Sub-Committee on Cross Sectoral Risks analysed and prepared regular risks assessments for the Joint Committee, the ESRB and the EFC-FST<sup>14</sup>. The risk assessments also included policy recommendations to the authorities. The Sub-Committee started work on

streamlining supervisory authorities' risk dashboards and improving their comparability.

The Sub-Committee on Consumer Protection and Financial Innovation launched preparations on the requirements for the key information document for Packaged Retail Investment Products (PRIIPs) and recommendations on the handling of customer complaints and on product development processes. The Sub-Committee also compiled best practices on consumer information for use by supervisory authorities.

The Sub-Committee on Financial Conglomerates prepared advice for the Commission as part of the review of the Financial Conglomerates Directive. The Sub-Committee was also responsible for preparations on the uniform principles for group-level capital adequacy calculations; progress in this work is linked with the entry into force of the CRD IV regulations.

The Sub-Committee on Anti Money Laundering prepared two reports. One of the reports compared national implementation of the provisions on customer identification and supervisory practices (simplified customer due diligence and beneficial owners customer due diligence), while the other compared the application across EU Member States of anti-money laundering and anti-terrorist financing regulations relating to electronic money issuers. The Joint Committee approved the supervisory authorities' protocol on cooperation on anti money laundering supervision, prepared by the Sub-Committee.

## ESRB

The ESRB regularly assesses the condition of the EU financial sector and macroprudential risks as well as issuing warnings, and where appropriate, making policy recommendations for the prevention and mitigation of risks. The ESRB cooperates with the EBA, EIOPA and ESMA in data collection, risk assessment and preparation and follow-up of policy recommendations.

The ESRB develops necessary data collection systems in coordination with the other EU authorities in order to avoid overlaps and alleviate the reporting burden.

On two occasions in the year, the ESRB published a macroprudential risk dashboard that provided a detailed description and assessment of systemic risks based on quantitative information.

In addition to assessment of the macroprudential situation, the ESRB's work programme in the review year included discussion of a number of international regulatory initiatives from a macroprudential perspective. The ESRB also examined shadow banking, banking sector linkages and macroprudential tools, among other things.

The ESRB recommendation to EU Member States on the macroprudential mandate of national authorities

14 Economic and Financial Committee – Financial Stability Table (EU).

entered into force in January. At the same time, the ESRB also published a recommendation to national supervisory authorities on the risk management of credit institutions' US dollar-denominated funding. In December, the General Board of the ESRB issued two recommendations. A recommendation addressed to the EBA and the national supervisory authorities concerns the management of banks' funding risks, while a recommendation addressed to the European Commission deals with the regulation of money market funds. Implementation of the recommendations was postponed to early 2013.

FIN-FSA's representatives on EU financial supervisory bodies are listed on pages 76–77.

### **Nordic supervisory cooperation**

Nordic supervisory cooperation was active and Baltic supervisors participated more extensively than before. The national supervisors of cross-border financial conglomerates reached agreement on supervised entities' capital adequacy requirements at Group level. The monitoring of Nordic financial conglomerates and the timely exchange of supervisory information (eg on liquidity management) was increased during the review year. Due to the debt crisis, the assessment of the adequacy of supervised entities' contingency planning became a priority and a subject of follow-up work in the supervisory colleges.

Nordic supervisory authorities' senior management convene annually. During the review year, the key topics discussed at the meetings were macroprudential supervision, crisis management and regulatory initiatives.

At the Nordic meetings of banking and insurance sector supervisors, the key banking sector issues were the convergence of capital and liquidity requirements for cross-border supervised entities and more uniform assessment criteria for risk weightings in capital adequacy calculations. In insurance sector supervision, the focus was on assessment criteria for technical provisions and the industry's challenges in an environment of low interest rates. The convergence of assessment criteria for internal models applied in the calculation of capital adequacy was a topical issue in both the banking and insurance sectors.

The introduction of Solvency II regulation is a particular challenge for companies with cross-border activities. Two Nordic working groups worked for the convergence of supervisory approaches and practices during the review year. One of the working groups discussed the calculation of life-insurers' technical provisions, while the other discussed insurance companies' internal models. The working groups also sought to establish common positions on key issues for the Nordic insurance markets and thereby influence ongoing EU regulation.

Together with the Ministry of Finance and the Bank of Finland, FIN-FSA participated in the work of the Nordic Baltic Crisis Management Group and its sub-group, the Nordea Crisis Management Group. The aim is to create a sufficient level of preparedness for cross-border crisis management and resolution. The challenges in the areas of cooperation include national differences in the organisation of macroprudential supervision, secrecy issues restricting the exchange of information between supervisory authorities and differences in the priorities of home and host member states.

## **Operational efficiency**

The Board assesses the quality and effectiveness of FIN-FSA's operations and reports regularly to the Parliamentary Supervisory Council. In addition to quality and effectiveness, the efficiency of operations is analysed based on quantitative indicators, the achievement of which is assessed biannually. For the year under review, FIN-FSA had set an indicator for each strategic priority, totalling 15. Half of the objectives were fully achieved. In the areas with the most significant underachievement, FIN-FSA will assess whether internal development measures are required.

The defining of core processes was completed with the finalisation of the analysis and reporting process for ongoing supervision.

Internal document management was updated in cooperation with the Bank of Finland, and FIN-FSA's Intranet was also modernised and renamed 'Valo' ('Light'). Possible forms of cooperation with the Bank of Finland in analysis, data collection and administrative functions were examined in a separate report prepared by an external consultant. The findings presented in the report are now being examined and analysed.

The occupational health service conducted a survey targeted at the entire FIN-FSA staff. The rate of response to the survey was high. Based on the results, a wellbeing-at-work plan will be prepared and concrete measures defined to maintain and improve working capacity. An employee satisfaction survey is carried out regularly, once every two years, the next one in 2013.

FIN-FSA's costs and staff numbers remained within the approved framework. The figures are listed on page 67.



**The core processes are those processes crucial to the conduct of FIN-FSA's operations. They are**

- Analysis and reporting
- Granting of authorisations
- Supervisory reviews
- Inspection
- Issuing of sanctions


FIN-FSA continued the broadly based updating of its reporting and analysis system. The updated system enables a more multidimensional analysis of supervised entities' financial situation and risks. The new system will also improve the use of resources. FIN-FSA also began to develop a new analysis system for the supervision of securities trading.


**Number of sanctions increased due to administrative fines imposed for neglect of the reporting obligation**

In the review year, FIN-FSA issued three public reprimands and three public warnings and imposed a total of 14 administrative fines. The increase in the number of administrative fines was due especially to fines imposed for reporting delays and errors. In the period under review, FIN-FSA made five requests for investigation by the police.

**Administrative sanctions and requests for investigation**

	2008	2009	2010	2011	2012
Public reprimand	1	5	3	3	3
Public warning	1	–	–	–	3
Administrative fine	–	–	1	5	14
Request for police investigation	5	–	3	4	5

 Administrative sanctions [Fin-fsa.fi > Supervision > Administrative sanctions](#)

 A list of supervisory measures published by FIN-FSA is available at: [Fin-fsa.fi > Supervision > Supervisory measures](#)

Activity in the preparation of new regulation remained brisk. Due to the financial crisis, the objectives and key content of regulation were previously broadly agreed at G20 summits, with project preparation being pursued in the EU. However, a number of regulatory projects, such as regulation concerning short selling and OTC derivatives markets, did not proceed on schedule. As a result, there was unreasonably little time to prepare lower level regulation, and preparatory work was characterised by haste. There was also insufficient time to coordinate the more specific substance of regulation at global level, which means that, especially in the case of the regulation on OTC derivatives, European actors will probably have to report according to both the EU and the US model.

The majority of preparatory work in projects agreed at G20 level has already reached a fairly advanced stage, but further global regulatory needs were also identified. There is particular pressure for regulation in respect of shadow banking and systemically important institutions. The forthcoming regulatory framework for shadow banking will probably focus particularly on reporting requirements for repurchase agreements and securities lending, and on money market funds.

In addition to global projects, several regulatory projects were launched in the EU with the aim of repairing European financial market structures, preventing new crises and strengthening financial market stability. These projects were targeted particularly at the banking sector and included banking union, a proposal for a directive establishing a framework for the recovery and resolution of credit institutions and investment firms, and the report on the reform of the EU banking sector's structures, prepared for the European Commission by a High-Level Expert Group chaired by Erkki Liikanen, Governor of the Bank of Finland. A regulation on central securities depositories was drafted to strengthen securities clearing and settlement processes and enhance competition. A legislative package on consumer protection included a proposal for a regulation on a key information document for packaged retail investment products (PRIIPS), a revision of the Insurance Mediation Directive (IMD) and amendments to the UCITS Directive. Negotiations on the previously launched reform of the banking and insurance sectors' capital adequacy and solvency requirements and the project to amend EU Directives on the securities sector continued throughout the year.

Regulatory projects of EU authorities (EBA, EIOPA and ESMA) have also required a lot of effort from national authorities. The majority of work was concentrated on preparing technical standards and level 2 advice. In addition to these, EBA, EIOPA and ESMA drafted guidelines and recommendations to complement existing regulation or improve the consistency of its application.

One of the key projects in domestic regulation concerned the comprehensive reform of securities markets legislation, which was approved by Parliament in December. In November, the working group for macro-prudential supervision, headed by Honorary Minister Antti Tanskanen, proposed measures to improve the supervision of overall financial market stability. Of the working group's proposals, the possibility that FIN-FSA could set a ceiling on loan size attracted most attention in the media. The regulation of employee pension insurance companies was also reformed.

## Progress with the overhaul of FIN-FSA's set of regulations and guidelines

FIN-FSA's new collection of regulations and guidelines incorporates the separate sets of regulations and guidelines on the insurance and financial sectors into a single collection that is uniform in structure and as consistent as possible in terms of content. The reform is being carried out in stages in such a way as to incorporate any national or EU-level legislative amendment processes. Progress in overhauling the regulations and guidelines has partly been slowed by delays in the reform of financial sector capital adequacy and liquidity regulation and the insurance sector's Solvency II reform. The new collection of regulations and guidelines is envisaged to be almost finalised during 2013.

In the year under review, FIN-FSA issued regulations and guidelines concerning the following subject areas:

- Outsourcing
- Hedging, accounting and financial reporting of insurance companies' technical provisions
- Calculation principles for industry-wide pension funds' technical provisions
- Calculation principles for company pension funds' technical provisions
- Authorisation procedures and risk management relating to mortgage banking
- Reporting relating to mortgage banking
- Auditing
- Reporting of largest counterparties by banks
- Reporting of expenses and income on long-term savings and insurance products
- Pension providers' solvency and coverage of technical provisions and pension provisions

- Regulations and guidelines on accounting, financial statements and management reports: insurance companies, pension providers, insurance associations, insurance holding companies, branches of third-country insurance companies and statutory pension institutions
- Regulations and guidelines on accounting, financial statements and management reports: industry-wide pension funds and company pension funds
- Regulations and guidelines on accounting, financial statements and management reports: sickness funds and funeral and redundancy relief funds.

### Main sections of the new collection of regulations and guidelines

1. Commencement of activities
  - supervised entities' authorisations
  - registrations and
  - notifications
2. Organisation of operations
  - organisation of supervised entities' internal governance
  - internal control and
  - prevention of money laundering
3. Risk management and related reporting
4. Accounting, financial statements and management reports
5. Capital adequacy/solvency and technical provisions and related coverage
6. Code of conduct
  - supervised entities' marketing
  - conduct of business in customer relationships
  - consumer contracts
7. Operation of securities markets
  - prospectuses
  - issuers' disclosure obligation
  - obligation to disclose major holdings
  - insider registers and
  - transaction reporting
8. Miscellaneous regulations and guidelines
  - Regulations and guidelines that do not belong under any other section, such as those on unemployment funds

Through its regulations and guidelines, FIN-FSA also brought into effect in Finland ESMA's recommendations and guidelines in the following subject areas:

- Systems and controls in an automated trading environment
- Certain aspects of the MiFID suitability requirements
- Certain aspects of the MiFID compliance function requirements.

In the year under review, FIN-FSA launched consultations on 19 draft regulations and guidelines.

## Banking sector

### European Central Bank empowered to supervise large banks

In autumn, the European Commission presented a proposal for a regulation on the European Central Bank's (ECB) forthcoming tasks in supervising euro area banks and cooperation between the ECB and national supervisors in banking supervision. At the same time, the Commission proposed amendments to the regulation on the activities of the European Banking Authority (EBA). The ECOFIN Council consisting of EU ministers of finance agreed on the content of the proposals at its meeting in December. FIN-FSA welcomes the efforts to improve the quality of banking supervision in the entire EU area with harmonised requirements on supervision. From the Finnish perspective, it is important that regulations and supervisory practices ensure continued efficient Nordic supervisory cooperation and appropriate division of work between the ECB and FIN-FSA in the supervision of the Finnish banking sector. FIN-FSA presented the key aspects for Finland in the preparation of EU regulation in cooperation with the Ministry of Finance and participated in the practical preparation of banking supervision in the ECB together with the Bank of Finland. The aim is to establish the new Single Supervisory Mechanism (SSM) gradually so that the ECB will be fully in charge of the supervisory tasks assigned to it by no later than 1 March 2014.

See article *Single Supervisory Mechanism for banks in the euro area*, p. 40.

### Progress in revising capital adequacy and liquidity regulation for the financial sector

The extensive reform of banks' capital adequacy and liquidity regulation continued in the year under review. In July 2011, the European Commission submitted a proposal for a new Banking Directive and related EU Regulation to

implement within the EU the Basel III recommendations issued by the Basel Committee on Banking Supervision (BCBS) in 2010. The proposal aims to restore financial market stability and stable economic growth and, in particular, to further the single rulebook for the EU. In May 2012, The European Parliament and the Council presented their own draft amendments to the Commission's proposal. Negotiations on the final regulatory texts continued beyond the year. As a result, the regulatory framework was postponed and the new legal texts are expected to enter into force at the beginning of 2014 at the earliest.

The new regulatory framework requires credit institutions to considerably increase the amount of their higher-quality equity capital eligible for capital adequacy calculation and improve its quality, thereby enhancing the sector's ability to absorb losses. Loss-absorption capacity will also be improved by various additional capital requirements (capital buffers). Credit institutions will be required to hold a specific fixed capital buffer and a variable (countercyclical) capital buffer imposed by the macro-supervisory authority in situations where credit growth is too fast. Additionally, to maintain financial stability and to address structural problems in the financial markets, national discretion is to be introduced into EU regulation concerning systemic risk buffers, as well as provisions on the imposition of additional capital requirements on systemically important financial institutions (SIFIs)<sup>15</sup>.

To complement the risk-based minimum capital requirements, a new simple non risk-weighted limit on leverage, in other words a leverage ratio, is to be imposed on credit institutions. The thinking behind this is that the leverage ratio will act as one of the regulatory instruments to cool overheating in the financial system. The purpose of the leverage ratio is also to ensure credit institutions' capital adequacy even if their internal models applied in capital adequacy calculations were to underestimate some risks.

An important reform is the imposition of quantitative liquidity requirements on credit institutions. Credit institutions will be required to hold on their balance sheets such amounts of high-quality and liquid assets as would enable them to withstand short periods (about 1 month) of financial stress. Subsequently, they will also be required to hold adequate levels of long-term funding. The BCBS relaxed the requirements in early 2013. For further information, see the table on p. 51.

The regulatory framework will also include new requirements on credit institutions' corporate governance and supervision, emphasising, for example, senior management's supervisory function as well as the role of risk management and control. The regulatory reform will also

introduce broader and harmonised sanction powers for supervisors.

From the perspective of the Finnish financial sector, the most significant regulatory projects are those related to regulatory capital (own funds) and liquidity requirements. Strengthening credit institutions' capital adequacy and liquidity is also important with respect to the current sovereign debt crisis. It is also important for Finland to ensure there is adequate liquidity in foreign banking groups' subsidiaries and branches accepting deposits in Finland. Adequate liquidity reserves should be based in Finland in order to provide safeguards for Finnish depositors' interests under all circumstances. Insolvency legislation is not harmonised across EU countries, and transfers of funds from abroad to Finland cannot be guaranteed. FIN-FSA has also wanted to ensure adequate supervisory powers over branches so as to prevent branches' potential liquidity problems from spilling over to Finnish banks.

The rules pertaining to the calculation of credit institutions' minimum capital adequacy and liquidity requirements will be brought into effect with an EU Regulation directly binding on all Member States. Although FIN-FSA is in favour of maximum harmonisation, it considers it important that, in future, national authorities have the possibility to tighten capital adequacy and liquidity requirements for macroprudential reasons.

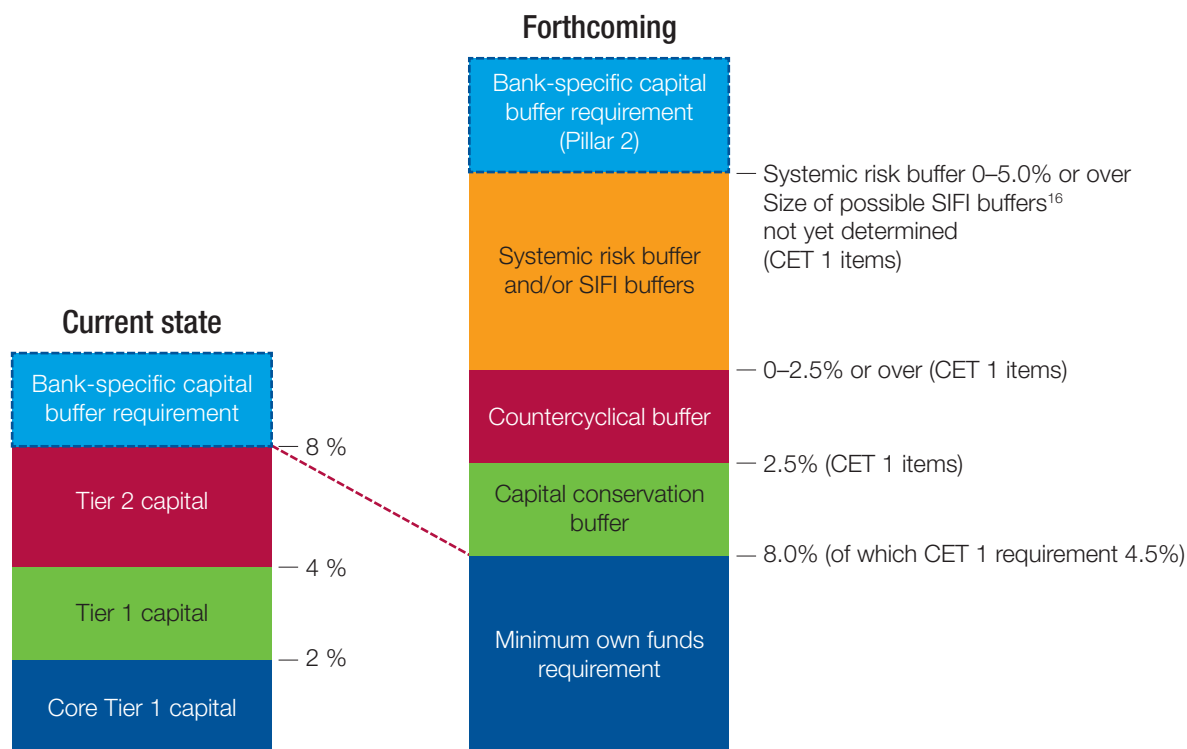
It has not yet been decided in Finland whether the possibility in the Directive to impose a systemic risk buffer will be transposed into national law. According to the memorandum of the macroprudential working group (Antti Tanskanen's working group) of 6 November, the working group does not propose any regulation on a systemic risk buffer at this stage due to the incompleteness of EU legislation. Instead, regulatory needs in this area will be assessed separately later, after finalisation of the EU legislation. The Government bill concerning the revision of the Credit Institutions Act is envisaged to be presented to Parliament during 2013, and the introduction of the systemic risk buffer should be assessed in this context.

To ensure a level playing field and promote stability on the financial markets, Finland should have the same tools for the prevention and management of systemic risks as other countries. FIN-FSA considers it very important that all additional capital requirements that the new Capital Requirements Directive allows to be imposed on credit institutions crucial to financial market stability be incorporated in national law.

This tool is necessary so as to ensure especially the capital adequacy of systemically important banks, which include subsidiaries of foreign banking groups operating in Finland. Systemic risk buffers help to limit risks to the system as a whole arising from the large size of a single bank or banking sector.

<sup>15</sup> The expression 'systemically important credit institutions' refers at least to internationally important or global institutions (G-SIFIs), but the concept can also cover nationally important SIFIs.

## New requirements under EU legislation



### Timetable<sup>17</sup> for leverage ratio and liquidity requirements

	2012	2013	2014	2015	2016	2017	2018	2019
<b>Leverage ratio</b>	Monitoring	Monitoring	Reporting begins	Possible publication			Binding requirement	
<b>Liquidity risk:</b>								
Liquidity coverage ratio	Monitoring	Monitoring	Reporting begins	Minimum requirement introduced*				
Net stable funding ratio	Monitoring	Monitoring	Reporting begins				Minimum requirement introduced	

\* Minimum requirement introduced gradually in 2015–2019.

16 SIFI = systemically important financial institution.

17 The timetable is an estimate that will become firmer during 2013 as EU legislation progresses.

## Work continued on preparing the Crisis Management Directive for the EU banking sector

On 6 June, the European Commission submitted a proposal for a Directive concerning the recovery and resolution of banks and investment firms. According to the key principles of the proposal, bank crisis situations should be resolved without endangering financial stability and exposing taxpayers alone to bearing the costs involved. Banks will be required to draw up recovery plans to enable controlled restructuring of operations in crisis situations. Correspondingly, authorities will draw up resolution plans to be used in crisis situations for making structural changes in banks without endangering financial stability or the continuity of critical financial services.

The new proposal will increase the responsibility of owners and investors. Proposals that improve supervisory authorities' powers for early intervention are in line with FIN-FSA's objectives. Similarly, it is of utmost importance to improve crisis management in cross-border banking groups. FIN-FSA presented its view on further preparation of the Directive in cooperation with the Ministry of Finance. The Directive is due to be transposed into national law by 31 December 2014.

## Financial transaction tax featured in the EU

In autumn 2011, the European Commission presented a proposal for a Directive on a new system of financial transaction tax. It was decided to continue preparing the proposal in the context of 'enhanced cooperation' involving only some Member States. Finland decided not to participate in the preparations. The Commission proposes that a transaction-specific tax be levied on all financial transactions. The tax rate would be 0.1% of the transaction price. For derivative contracts the tax rate would be 0.01% of the notional amount of the contract. The scope of the proposed tax is relatively broad, as it would cover various financial instruments and derivative contracts in both regulated and non-regulated markets.

FIN-FSA has taken a reserved stance on the introduction of the financial transaction tax. It is apparent that the proposed tax would weaken the international competitive position of small and remote financial markets such as Finland's. It is likely that the tax would result in the shift of transactions to countries not subject to the tax. This could further weaken the functioning of stock markets in Finland and the competitive position of financial institutions operating solely on national markets relative to large international institutions. If the transaction tax is implemented, the geographical scope of application should be as wide as possible, preferably global.

## Bank tax effective from the beginning of 2013

At the end of 2012, the Finnish Parliament passed a bill on a temporary bank tax. The law will apply in tax years 2013–2015. However, it will not be in force simultaneously with the possible EU Directive on Crisis Management. The new law imposes a tax on deposit banks fixed to the amount of risk-weighted assets in a bank's capital adequacy calculation. The tax is 0.125% of risk-weighted assets.

In connection with the drafting of this law, FIN-FSA pointed out that even if Finnish banks have coped relatively well with the financial crisis that began in 2008, the drawing out of the crisis has increased the risks to banks' business operations and the pressures on their profitability. The proposed bank tax will serve to increase these pressures. According to FIN-FSA, it would have been better to collect the tax in a specific financial market stability fund, as in Sweden. Divergent systems across countries can, for example, have an impact on the location of banks' business operations and balance-sheet items. The tax is particularly strongly directed at corporate lending and may therefore weaken economic growth.

## Additional requirements for nationally important banks

Large bank sizes and complex and multinational bank structures increase the systemic risks on national financial markets, too. To prevent systemic risks and contain the associated effects, stricter regulation was also prepared for systemically important banks operating on national markets.

Provisions on the setting of a systemic risk buffer were prepared in the proposals for the EU Capital Adequacy Directive. The purpose was to ensure that, in addition to globally systemically important banks, nationally important banks would also be required to draw up recovery plans for crisis situations. The EBA drafted recommendations on the requirements and key content of recovery plans.

FIN-FSA considered it important that risks caused by systemically important banks can be prevented proactively and that possible crises can be resolved in a controlled manner. FIN-FSA supported tighter capital adequacy and crisis management regulation for systemically important banks in the interests of national financial market stability. To ensure a level playing field for banks operating in different countries, any additional requirements on systemically important banks should be introduced via EU-level regulation.

On the basis of the definition criteria in EU regulation for a systemically important bank, we can make the preliminary assessment that at least Nordea Bank Finland and

OP Pohjola are systemically important for the Finnish financial markets.

In November 2011, the Financial Stability Board (FSB), representing the G20, presented a list of banks regarded as globally systemically important financial institutions (G-SIFIs). Nordea was the only Nordic bank identified on the list. In the year under review, in supervising Nordea, the supervisors applied FSB's recommended action that calls, for example, for stricter capital adequacy requirements (systemic risk buffer) for systemically important banks than for other banks. These banks must also draw up recovery plans for crisis situations, while the authorities are charged with drawing up resolution plans at group level. FIN-FSA participated in the preparation of the plans in cooperation with Nordic and Baltic supervisors.

### **FIN-FSA to be given powers for macroprudential supervision**

On 6 November, a working group headed by Honorary Minister Antti Tanskanen submitted its proposal for the organisation of macroprudential supervision. According to the proposal, FIN-FSA would be given powers to decide on measures to ensure financial stability. Such decisions would be taken by the FIN-FSA Board, after considering statements by the Bank of Finland, the Ministry of Finance and the Ministry of Social Affairs and Health.

Legislative amendments were proposed to empower FIN-FSA to restrict the amount of credit secured by housing, real estate and/or securities relative to the fair value of the collateral (maximum loan-to-value ratio). Such a decision would be based on an assessment of the situation on the housing loan market. It was also proposed that FIN-FSA could set a fixed capital conservation buffer on banks amounting to up to 2.5% of risk-weighted assets. Furthermore, it was proposed that FIN-FSA be empowered to set a variable counter-cyclical capital buffer (0–2.5%) on banks. FIN-FSA considered it important that further deliberations on powers relating to macroprudential supervision should still assess whether credit institutions crucial to overall financial stability should be required to hold a systemic risk buffer.

Anneli Tuominen, Director General of FIN-FSA, was a member of the macroprudential working group. The Government is expected to submit its proposal for a new law during spring 2013.

### **Liikanen's expert group proposed structural restrictions on banks**

The High-Level Expert Group on reforming the structure of the EU banking sector, which was chaired by Erkki Liikanen, Governor of the Bank of Finland, presented its final report on 2 October. The group assessed ways to change structures for the establishment of a safe, stable and efficient banking system. The system should serve the needs of citizens, the EU economy and the internal market. The group proposed five measures relating to banking structures.

These were

- separation of high-risk trading from other activities within a banking group
- recovery and resolution plans
- use of designated bail-in instruments to ensure investor involvement
- review of capital requirements on trading assets and real estate-related loans and
- strengthening corporate governance and risk control within banks.

The High-Level Expert Group was of the opinion that structural changes can support Basel III capital adequacy regulation. Effective implementation of the recommendations requires that the proposals be taken into account when preparing EU banking regulation.

### **EBA prepared draft technical standards relating to capital adequacy regulation**

The EBA prepared draft regulatory technical standards and draft implementing standards. Binding technical standards will provide more specific instructions on how to apply the EU's Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV). The EBA's draft standards will be submitted to the Commission for adoption. The standards are expected to enter into force according to the schedule for the new capital adequacy framework (CRR, CRD IV), ie in early 2014. From the perspective of Finland, the most important draft standards drawn up in 2012 were those pertaining to the structure of banks' regulatory capital, the calculation of financial conglomerates' regulatory capital, the reporting of liquidity and leverage ratios, the common reporting of capital requirements (COREP) and financial reporting (FINREP). The mandatory implementation of FINREP has been postponed to the beginning of 2014, when common reporting of liquidity and leverage ratios is also envisaged to be introduced.

## SEPA End-Date Regulation

The SEPA End-Date Regulation<sup>18</sup> will also have an impact on banking in Finland. The regulation defines the deadline for migration to SEPA (Single Euro Payments Area) in the EU and EEA countries. Euro area countries must implement changes required by the regulation by 1 February 2014. The regulation imposes changes especially on banks' payment systems. For Finland, the biggest change will be the abolition of the national direct debit scheme. In other European countries, national direct debits will be replaced by the SEPA direct debit scheme. Banks operating in Finland have opted for another solution and will convert the existing direct debit mandates to automatically debited e-invoices during 2013.

## Harmonised minimum requirements for the security of internet payments

The European Forum on the Security of Retail Payments, a working group for national central banks and supervisors set up by the ECB, prepared harmonised minimum requirements for the security of internet payments. The requirements were circulated for comments in spring 2012 and are published in early 2013. The recommendations must be implemented within one year from their publication, ie in the first half of 2014. FIN-FSA is committed to transposing the recommendations in its regulations and supervising compliance therewith.

## Ongoing projects in FATF

In February, the Financial Action Task Force (FATF) endorsed a new version of its recommendations (International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation, or the FATF Recommendations). There are now, in all, 40 FATF recommendations, since the formerly separate 9 special recommendations on terrorist financing were integrated with other standards in connection with the revision of FATF recommendations. The recommendations were also regrouped, and risk-based assessment was addressed in its own recommendation. The recommendations will also be reflected in European regulation. A revision of the Third Money-Laundering Directive is under way, and implementation of the Directive will also bring changes to national regulation on combating money laundering and terrorist financing.

FATF reviewed the methodology for assessing compliance with its recommendations. The new methodologies

(Technical compliance methodology and Methodology to assess effectiveness on AML/CFT regime) will be finalised in early 2013. Thereafter, FATF will commence evaluations in Member States in line with the new methodologies.

## Insurance sector

### Delay in Solvency II implementation

Implementation of the revised solvency regulation for life and non-life insurance companies, the Solvency II Directive, will be further delayed. The original Directive was adopted as early as 2009, but is still to be amended by the 'Omnibus II Directive'. The entry into force of the original Directive had to be postponed, and the postponement is likely to be renewed. As negotiations on the amendments to be made via the Omnibus II Directive are still pending, the final date of entry into force is not yet known.

The amendments to be made via the Omnibus II Directive stem from the new European system of financial supervision and changes in EU regulatory procedures. In addition to these technical changes, the financial crisis has also made it necessary to reassess regulation in some other respects.

Above all, amendments will probably be needed for the calculation of technical provisions for insurance products with long-term guarantees and for the calculation of solvency requirements. In order to assess various alternatives, the European Insurance and Occupational Pensions Authority (EIOPA) will conduct an impact analysis, known as the long-term guarantees assessment (LTGA). The assessment is scheduled for launch in the first half of 2013, requesting insurance companies to conduct trial calculations under different regulatory scenarios. There are four areas to be analysed:

- determination of the interest rate term structure for the calculation of technical provisions
- adjustment of the interest rate term structure for the calculation of long-term liabilities with guarantees
- adjustment of the interest rate term structure in the event of a financial market crisis and
- the impact of transitional provisions.

FIN-FSA has considered it important that, in the solution to the LTGA package, the adjustment of technical provisions calculations should be regulated with sufficient accuracy and that the solution should be transparent.

The results of the impact assessment are envisaged to be ready in June 2013. FIN-FSA has proposed to the Ministry of Social Affairs and Health that implementation of Solvency II could already move ahead at national level

<sup>18</sup> Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009.



before EU-wide implementation of the whole regulatory package, particularly in regard to management of risks and solvency as well as the system of governance. EIOPA published a similar opinion on interim measures regarding Solvency II in December. For more information, see page 44.

### **Temporary legislation on pension providers expired**

The temporary Act alleviating the provisions on the solvency regulation of private-sector pension providers expired at the end of the year and was replaced by a permanent amendment to the Act on Pension Insurance Companies (668/2012) as from the beginning of 2013. The aim is to safeguard the profitability of investment operations by private-sector pension providers and thus rein in upward pressure on earnings-related pension contributions. The Act strengthens the risk-bearing capacity of pension providers by enhancing the use of buffers allocated for investment and insurance risks. The current buffers, solvency margin and equalisation provision are combined to form solvency capital, which will be used in provisioning for both investment and insurance risks. In addition, company and industry-wide pension funds may include in their solvency capital a separate item based on the employer obligation to make additional contributions.

Expiry of the temporary Act and entry into force of the new Act slightly reduces the solvency of the pension insurance sector. The solvency ratio is estimated to decline by about 0.6 of a percentage point.

The Act also provides for a new procedure in the event of unusual financial market conditions. In the future, FIN-FSA will be required to monitor financial market developments and inform the Ministry of Social Affairs and Health if the average solvency of pension providers is found to have deteriorated or threatens to deteriorate rapidly. Measures that may be taken will be determined case by case.

A comprehensive reform of the solvency framework is currently in progress. The objective is to have a solvency mechanism in place that takes all material investment and insurance risks of pension providers more comprehensively and more precisely into account. Another aim is to provide the framework with elements to reduce the procyclicality of the financial markets.

In the autumn, FIN-FSA submitted a proposal for a new solvency mechanism in which the capital requirement is based on the stress-testing of various risk factors. FIN-FSA deems it important that the risks of pension providers are measured and managed according to the same principles as generally applied in the financial industry, yet taking the sector's special features into account.

Completion of the comprehensive reform is envisaged for spring 2014, with entry into force on 1 January 2016.

### **Interpretation on sound internal governance in pension insurance companies**

On 5 September, FIN-FSA issued a recommendation on sound internal governance in pension insurance companies.

The purpose of pension insurance companies is to operate statutory pension insurance business as part of the social security system, providing pension provision according to statutory norms and managing the assets accumulating for this purpose in a prudent manner that protects insured benefits. The diversified and broad expertise of the companies' boards must include adequate investment and risk management competencies in relation to the nature and scale of the company's investment business.

FIN-FSA recommended practices to ensure the board's investment and risk management competencies and the skills and resources of a company's investment and risk management functions, and issued, among other things, recommendations regarding authorisations in investment operations with regard to related party transactions.

In addition, effective steering and control require that operations are adequately led, for example by means of a well-designed and appropriate limit system. This ensures that the board will be able to effectively limit risks and steer operations in line with the set objectives. Effective internal control also requires regular reporting to the board on changes in the risk position.

### **Gender-based insurance pricing receding**

The year under review brought a legislative change into force under which gender is no longer allowed to affect the pricing of new or renewable insurance policies issued to consumers. At the same time, FIN-FSA was released from the obligation to publish the lines of insurance to which such premiums and benefits are applied. This change was due to a new interpretation of the Gender Equality Directive by the Court of Justice of the European Union. In the preparatory and consultative stage, FIN-FSA focused on making a clear distinction between policies subject to unisex pricing and policies excluded from such pricing over a transitional period.

## **Insurance Mediation Directive specifies disclosure requirements in connection with selling**

The European Commission published its proposal for revising the Insurance Mediation Directive in July. According to the proposal, the scope of application of the Directive should be expanded to cover direct selling and advising by insurance and reinsurance undertakings. Moreover, the proposal includes requirements, for example, for the professional qualifications of insurance undertakings' sales employees and specifications regarding information provided in connection with the selling of insurance products and the management of conflicts of interest. Although the Directive falls within the sphere of minimum harmonisation, FIN-FSA takes the view that, for supervisory reasons, regulation should be as similar as possible across Member States. Under current Finnish legislation, an insurance broker may not accept a commission from an insurance company; the commission must come from the customer. The reform proposes a less extensive restriction on the acceptance of commissions than provided for in current Finnish legislation.

## **Authorities to have powers in the crisis resolution of systemically important insurance companies**

The Commission's consultation paper on possible alternative recovery and resolution arrangements for financial institutions other than banks was circulated for consultation at the end of the year. The proposal deals with the potential need for specific action and powers for authorities to carry out the recovery and crisis resolution of systemically important financial sector institutions in difficulty.

Systemically important insurance business accounts for a fairly small share of total insurance activities. For this reason, FIN-FSA does not consider the creation of a special framework for the crisis resolution of systemically important insurance undertakings to be necessary, but does deem it important that insurance undertakings and supervisors identify systemically important risks. FIN-FSA has proposed clarification as to whether, from the viewpoint of the objectives set for insurance supervision, there would be a need to complement the authorities' existing powers for the purpose of recovery and crisis management of insurance undertakings. Authorities should have sufficient tools to address, wherever necessary, an undertaking's situation at an early stage when it would still be possible to restore its viability.

## **Comparison of costs for savings products becomes easier**

On 19 September, FIN-FSA issued regulations and guidelines concerning the disclosure of expenses and income in connection with long-term saving agreements and insurance policies. The purpose of the regulations and guidelines is to ensure that customers have access to adequate and material information on expenses and income in support of their decisions on financial products and services. Another aim is to enable mutual comparison of similar products on the basis of assumptions defined on uniform criteria. The scope of application of the regulations and guidelines covers long-term saving agreements and insurance products used for savings purposes, ie pension insurance, life insurance savings policies and capital redemption contracts. The regulations and guidelines concern the provision of pre-contractual information and annual reporting to customers.

## **Directive on occupational retirement provision under review**

In 2011, the Commission launched a project to review the Directive (2003/41/EC) on the activities and supervision of institutions for occupational retirement provision in such a way that, for example, harmonised risk-based solvency requirements would also be created for these institutions. In responding to the Commission's call for advice in February, the European Insurance and Occupational Pensions Authority (EIOPA) proposed enhanced qualitative requirements for the system of governance and risk management, revision of the calculation of solvency requirements and increased information provision for defined contribution schemes. The implications of the reform proposals will be evaluated in EIOPA's quantitative impact study scheduled for completion in spring 2013. Finland is not participating in this study.

In Finland, the Directive on occupational retirement provision, ie the IORP Directive, only affects company and industry-wide funds providing supplementary occupational pensions. The matter is therefore of limited importance to Finland.

## **Regulation concerning interest rate hedging for technical provisions**

On 23 February, FIN-FSA issued regulations and guidelines concerning the treatment of interest rate hedging for technical provisions in accounting and annual accounts, and a related interpretation on 13 April on the treatment of interest rate hedging in insurance companies' and insurance associations' solvency margin and assets covering

technical provisions. The regulation enables more efficient risk management with regard to interest rate risk in technical provisions, while simultaneously fostering a smooth transition towards full Solvency II calculation and risk management.

The forthcoming Solvency II reform (see page 54), concerning the solvency calculation of life and non-life insurance companies, and the already existing proactive supervision of life insurers require market-based valuation of technical provisions, using an interest rate term structure determined on the markets. This calls for considerably more active management of interest rate risk by, for example, derivative contracts. So far, regulation on accounting and annual accounts has not included comprehensive and uniform provisions on the treatment of derivative contracts as instruments hedging for technical provisions.

### **EIOPA Guidelines on complaints handling**

On 27 June, EIOPA published its *'Guidelines on Complaints-Handling by Insurance Undertakings'* and *'Report on Best Practices by Insurance Undertakings in handling complaints'*. The Guidelines were published in the official languages of all Member States at the end of the year. National supervisors must inform EIOPA within two months whether their respective Member States intend to comply with the Guidelines. FIN-FSA will attach the Guidelines to its own set of regulations and guidelines.

## **Securities markets**

### **Revised securities markets legislation entered into force with effect from 1 January 2013**

In April, the Finnish Government presented a bill to Parliament (HE 32/2012) for a comprehensive reform of Finland's securities markets legislation. Parliament passed the various bills in November, and the Acts entered into force on 1 January 2013.

The structure of the securities markets legislation was reformed by dividing the old Securities Markets Act into several new acts. The new legislation includes the following new Acts:

- Securities Markets Act
- Investment Services Act
- Act on Trading in Financial Instruments
- Act on the Book-Entry System and on Clearing and Settlement Operations and
- Act on Securities Accounts.

The Securities Markets Act lays down the three main general provisions concerning the securities markets:

- prohibition of procedures in violation of sound securities market practice
- prohibition of provision of false and misleading information and
- a requirement for equal investor access to adequate information.

Several provisions concerning listed companies' disclosure requirements were specified in order to ease the companies' administrative burden. For example, the obligation to present the future outlook in the interim report and the financial statement release was abolished, discretion in drafting the interim management statement was expanded and the threshold for the obligation to draw up a prospectus was raised.

Important amendments were made to the provisions of the Act on the Financial Supervisory Authority concerning administrative sanctions, particularly by expanding the scope of application of financial sanctions (administrative fines and penalty payments) and by increasing the fees significantly. The highest penalty payments of more than EUR 1 million are imposed by the Market Court upon proposal by FIN-FSA. During the passage through Parliament, FIN-FSA proposed that the scope of application of financial sanctions be extended to other financial sectors as soon as possible. Regulatory amendments in this area are currently under way within the EU concerning various financial sectors.

According to the new Securities Markets Act, the public insider registers of listed companies' insiders and connected persons are to be centralised in a uniform register maintained by FIN-FSA, at the earliest after a three-year transitional period. During the passage through Parliament, FIN-FSA noted that, owing to the costs caused by the new register system, preparations for amending the Act on the Supervision Fees of the Financial Supervisory Authority be commenced without delay in order to ensure correct allocation of the costs to listed companies. FIN-FSA also pointed out that the impact of the final outcome of EU negotiations concerning the Regulation on insider dealing and market manipulation (Market Abuse Regulation, MAR) on the register-keeping model decided in Finland should be assessed, to avoid unnecessary costs, as soon as there is certainty about the content of the Regulation.

The proposals concerning the second phase of the overhaul of securities markets legislation (expansion of nominee registration) are still under preparation in the Ministry of Finance.

## Commission publishes legislative package for consumer protection

In July, the Commission published a legislative package aimed at improving consumer confidence in the financial markets by strengthening and harmonising consumer protection in various financial market sectors. The package is composed of three legislative proposals for:

- a regulation on key information documents for packaged retail investment products
- a revision of the Insurance Mediation Directive and
- an amendment of the Directive on Undertakings for Collective Investment in Transferable Securities (UCITS).

The proposals contained in the legislative package for consumer protection would extend the scope of application of the conduct of business rules under the draft Markets in Financial Instruments Directive (MiFID II) to the sale of unit-linked insurance policies.

The proposals are still under discussion in the Council and the European Parliament.

Efforts to improve customer protection in regard to packaged investment products (eg investment funds, unit-linked insurances and structured products, ie *PRIPs*)<sup>19</sup> sold to retail investors are based on a horizontal legislative approach that covers both key product information and sales practices. Key product information would be provided for in a separate Regulation. Provisions on sales practices, in turn, are proposed for inclusion in the Markets in Financial Instruments Directive (MiFID II) and the revised Insurance Mediation Directive.

Customers should be provided with similar key pre-contractual information on packaged investment products irrespective of the product type (deposits, securities or insurance products). The Joint Committee of the European Supervisory Authorities will provide advice to the Commission regarding the more precise content of level 2 legislation, which is supported by FIN-FSA.

The Commission proposed revisions to the UCITS Directive in respect of depositaries, remuneration and sanctions. Among other issues, the proposal would harmonise the requirements for depositaries, sub-custody arrangements and the liabilities of depositaries, set requirements for the remuneration policies of fund management companies and introduce common standards on sanctions for breach of legal provisions.

19 Packaged Retail Investment Products.

## Prospectus requirements relaxed

The Directive amending the Prospectus Directive (2010/73/EU), adopted on the basis of a review of the operation of the latter, was transposed into national law by amendments to the Ministry of Finance's prospectus decrees on 1 July. The amendments to the Commission's Regulation on Prospectuses related to the amended Prospectus Directive, in turn, entered into force on 1 July and 22 September. These amendments relaxed the requirements for the information content of prospectuses of small and medium-sized enterprises and companies with reduced market capitalisation as well as for rights issues. In addition, the structure of the prospectus summary and the structure of the base prospectus and the information content of its summary were harmonised.

The European Securities and Markets Authority (ESMA) provided its third advice on the level 2 provisions of the Prospectus Directive. The advice deals with prospectus disclosure requirements for convertible and exchangeable debt securities.

## Market Abuse Regulation and Directive to include manipulation of benchmarks

The contents of the Market Abuse Regulation and Directive were negotiated in the Council and the European Parliament. In July, the Commission amended its proposal originally submitted in October 2011 so that the regulatory framework would include the manipulation of benchmarks and indices. The Regulation and the Directive are likely to be adopted no later than summer 2013.

The Regulation would replace the current Market Abuse Directive and would be directly applicable throughout the EU. The new Directive, in turn, would harmonise criminal regulation concerning market abuse.

The proposed Regulation would

- extend the scope of application of market abuse regulation to new market venues and financial instruments
- harmonise regulation on insider registers and on the obligation on issuers' managers to disclose information on transactions
- increase authorities' supervisory and investigation powers and
- set minimum requirements for administrative sanctions.

The Commission's proposal suggests that whistleblowers reporting suspected market abuse should be protected, and Member States could also issue related legislation on financial incentives.

## Amendments to the Transparency Directive aimed at harmonising the obligation to disclose holdings

Negotiations on the content of a Directive amending the Transparency Directive were also continued in the Council and the European Parliament on the basis of a proposal submitted by the Commission in October 2011. The amended Directive is likely to be adopted no later than summer 2013.

The Commission's proposal would harmonise regulation concerning the obligation to disclose holdings across the EU, but permitting national legislation to impose stricter disclosure thresholds. The proposal would also abolish the obligation to present quarterly financial reports, and listed companies would only need to publish half-yearly reports. However, stock exchange rules could still require the publication of quarterly financial reports.

## Markets in Financial Instruments Directive and Regulation improve the transparency of trading activities

The Council and the European Parliament also negotiated on the contents of the revised Markets in Financial Instruments Directive and the new Markets in Financial Instruments Regulation on the basis of the Commission's proposal submitted in October 2011. The new Directive and Regulation are likely to be adopted no later than summer 2013.

Among the aims of the proposed changes are to

- extend regulation to a wider selection of trading systems and facilities
- improve the transparency of trading activities
- improve small and medium-sized enterprises' access to capital markets and
- enhance investor protection by imposing stricter requirements for the offer of complex investment products.

## Alternative Investment Fund Managers Directive extends supervision to new businesses

The provisions of the Alternative Investment Fund Managers Directive (AIFMD) are due for transposition into national law by 22 July 2013. The Commission's delegated Regulations were published in December. ESMA's consultation papers on technical standards complementing the Directive and on related guidelines were published in December.

The Ministry of Finance and FIN-FSA prepared national implementation of the Directive during the year under review. A consultative request concerning the general

criteria of the Government proposal was published in December.

The AIFM Directive pertains to alternative investment fund managers. The scope of application is broad and covers investment in private equity, real estate, commodity and hedge funds and other corresponding forms of collective investment. The Directive regulates marketing of alternative investment funds to professional investors. Even so, it may be decided at national level how and on what grounds these funds can be offered to retail investors.

Companies managing alternative investment funds are required to obtain authorisation. 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 and requirements regarding the disclosure of investor information.


The AIFMD extends supervision by FIN-FSA to new businesses. Companies managing special common funds, which have authorisation granted under the UCITS Directive, need to apply for separate authorisation to manage alternative investment funds falling within the scope of the AIFM Directive.

## Disclosure of short securities positions commenced

An EU Regulation concerning short selling of securities, sovereign debt and credit default swaps (CDS) entered into force on 1 November. The Regulation is complemented by three Commission Regulations that became effective at the same time. The Regulations were based on advice and draft technical standards submitted by ESMA to the Commission in March–April.

An amendment, effective as from the beginning of 2013, to the Act on the Financial Supervisory Authority enlarged FIN-FSA's powers to include monitoring of compliance with the Short Selling Regulation.

The Regulation harmonises disclosure requirements and restrictions relating to short positions throughout the EU. Depending on the size of the position, it obligates investors to notify their short positions to the authorities or disclose this information to the public. The Regulation also prohibits uncovered short sales, ie short selling in situations where the investor has not ensured that the shares can be delivered for settlement at the due date. Authorities are given powers to ban short selling in exceptional circumstances. ESMA coordinates short selling prohibitions at EU level.

 See current short positions: [Fin-fsa.fi > Supervision > Market supervision > Notification of short positions > Current short positions](#)

## European Market Infrastructure Regulation brings OTC derivatives within central counterparty clearing

The Regulation of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories, known as the European Market Infrastructure Regulation (EMIR), was finally adopted in July and entered into force on 16 August. The Regulation increases the standardisation of OTC derivatives, improves the CCP clearing of derivative contracts, harmonises regulation on central counterparties, enhances transparency and ensures supervisors' access to information by obliging trading parties to report information on derivative contracts to trade repositories. ESMA and the Joint Committee of the European Supervisory Authorities submitted the draft technical standards regarding the Regulation to the Commission at the end of September. The Commission published the technical standards in December, with an estimated entry into force in March 2013.

 [Finanssivalvonta.fi > Säätely > Säätelyhankkeet > EMIR-asetus](#) (in Finnish)

## Uniform terms of authorisation proposed for central securities depositories

In March, the Commission submitted a proposal for a Regulation concerning central securities depositories (CSDs). The Regulation seeks to improve the safety and efficiency of cross-border clearing and settlement transactions and to harmonise the operations of CSDs in the internal market. The proposal foresees uniform terms of authorisation for CSDs and a right to provide their authorised services in other Member States either on a cross-border basis or by establishing a branch (EU passport).

According to the proposed Regulation, all securities traded on regulated markets, multilateral trading facilities or other organised trading facilities should be represented in book-entry form no later than 2020. A securities issuer would have the right to choose the CSD where it issues its securities. The aim is to get rid of settlements exceeding the settlement period for securities by imposing stronger penalties for settlement fails. As provided for in the Regulation, the settlement date for obligations related to securities transactions would be no later than T + 2, ie the second business day after the trading takes place, compared with the current T + 3. The draft Regulation may also have indirect implications for the Finnish models of securities administration and safe-keeping and for the public disclosure of shareholdings.

## More transparent credit ratings business

Amendment of the Regulation on credit rating agencies was negotiated in the Council and the European Parliament on the basis of a proposal submitted by the Commission in November 2011. The proposal aims to, for example, reduce overreliance on credit ratings, increase transparency on credit rating agencies' assessment methodologies, enhance competition in the credit ratings business and mitigate possible conflicts of interest within the industry. The amended Regulation is likely to be adopted in spring 2013.

## ESMA issued new supplementary guidance

ESMA complemented binding EU regulation by issuing its own guidelines and recommendations. The guidelines and recommendations issued by ESMA during the year under review dealt with:

- systems and controls in an automated trading environment
- risk measurement and the calculation of global exposure for certain types of structured UCITS
- suitability assessment according to the Markets in Financial Instruments Directive
- compliance function requirements of the Markets in Financial Instruments Directive and
- ETFs and other UCITS issues.

Each national supervisor is required to confirm, within two months of the issuance of the guidelines, whether it complies with the guidelines and to state its reasons for possible deviation therefrom. FIN-FSA notified ESMA of its compliance with the guidelines.

In addition to the guidelines and recommendations already issued, ESMA is preparing guidelines and recommendations for, for example, the Prospectus Directive, the Alternative Investment Fund Managers Directive, EMIR and the Short Selling Regulation, and the remuneration policies and practices of firms providing investment services.

## Auditing regulation

### Work continues on the European Commission's legislative proposals for auditing

In November 2011, the European Commission published a proposal for a Directive amending the Statutory Audit Directive and a proposal for a Regulation incorporating both the current and proposed stricter specific requirements on the statutory audit of public-interest entities. The proposals have been subject to extensive debate among both the

Council's expert working group and the European Parliament's three committees, resulting in deferred timetables. The Parliament will confirm its position on the Commission's proposals in March 2013, at the earliest.

FIN-FSA took a position on the Commission's proposals in its opinion on the Finnish Government's Union communication to Parliament regarding this matter. Major changes in the financial markets have also had an impact on the operating environment of, and conditions for, auditing. Audit of public-interest entities is currently understood to constitute an integrated element of a fragile financial system, where the maintenance of stability and confidence plays a key role. Achievement of these objectives requires an adequate level of convergence in regulation and supervision. Regulation should be as consistent as possible throughout the EU, while simultaneously ensuring comparability and neutrality in competition.

So far, national audit regulation, application practices and auditor supervision have been very heterogeneous within the EU, which is what the Commission's proposal seeks to remedy.

## Parliamentary Supervisory Council

The Parliamentary Supervisory Council is responsible for supervising the overall expediency and efficiency of FIN-FSA's activities. In supervising expediency, it assesses how FIN-FSA's statutory objective has been achieved. As regards the supervision of efficiency, the focus is particularly on how changes in tasks, legislation or markets affect developments in FIN-FSA's staff size and budget. Each spring, the Parliamentary Supervisory Council issues an annual report to assess the activities of FIN-FSA in addition to those of the Bank of Finland.

Composition of the Parliamentary Supervisory Council

**Ben Zyskowicz**, Chairman

**Pirkko Ruohonen-Lerner**, Vice Chairman

**Jouni Backman**

**Timo Kalli**

**Mari Kiviniemi**

**Marjo Matikainen-Kallström**

**Lea Mäkipää**

**Jan Vapaavuori** (until 21 November), **Petteri Orpo** (from 22 November)

**Pia Viitanen**

The secretary to the Parliamentary Supervisory Council was **Anton Mäkelä**, LL.M (trained on the bench), of the Bank of Finland.

## Board

The responsibilities of FIN-FSA and its Board are governed by law. The Board oversees supervisory activities by deciding overall strategy, setting operational objectives and directing and supervising achievement of the objectives and compliance with the strategy. The Board discusses the budget of FIN-FSA and submits it to the Board of the Bank of Finland for confirmation. Among other things, the Board also approves the regulations issued by FIN-FSA and decides on penalty payments and other administrative sanctions. Once a year, the Board supplies the Parliamentary Supervisory Council with a report on the operational objectives of FIN-FSA and their achievement.

The Board consults representatives of financial market participants annually. These consultations provide an opportunity to hear the latter's' views on FIN-FSA's budget and on supervisory objectives and their achievement. In addition, expected changes in supervisory work and their impact on supervision fees are also discussed.

The 2012 consultation was held in April. The representatives noted that interaction between FIN-FSA and the supervised entities was open and active and took account

of the positions of the different parties with regard to regulatory work. The representatives drew attention to the following points, among others:

- the development and deepening of cooperation between FIN-FSA and supervised entities in respect of reporting
- practical application of the principle of proportionality and
- bearing in mind competitive neutrality when implementing FIN-FSA regulations.

The Board has five members appointed for a term of three years, and three deputy members at any one time. The 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.

During the year the Board convened 17 times. All members or their deputy were present at 14 of the 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 in 2012 totalled EUR 54,233.33.

## Director General and management group

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 the review year was **Anneli Tuominen**, appointed by the Parliamentary Supervisory Council for a five-year term in 2009. Also in 2009, the Parliamentary Supervisory Council appointed **Jukka Vesala**, Head of Department, as Deputy Director General to stand in for the Director General when necessary.

The Director General was assisted by a consultative management group consisting of the heads of department **Marja Nykänen**, **Jarmo Parkkonen**, **Erja Rautanen** and **Jukka Vesala** and other FIN-FSA staff appointed by the Director General, namely **Erkki Kontkanen**, Chief Advisor and Head of the General Secretariat, and **Hely Salomaa**, Chief Advisor, and from 1 October **Erkki Rajaniemi**, Advisor to the Management. The Secretary to the management group was Senior Legal Advisor **Pirjo Kyyrönen**.

The Board appointed the heads of department for five-year terms (Jarmo Parkkonen, Erja Rautanen and Jukka Vesala in 2009, Marja Nykänen in 2010) and Erkki



Kontkanen as Chief Advisor and Chief of the General Secretariat (2010) also for a five-year term. Erkki Rajaniemi was appointed Advisor to the Management in the review year.

The management group convened 61 times during the year.

The Director General's salary and fees totalled EUR 208,153.80. Salaries and fees paid to the other management group members totalled EUR 801,152.20.



The FIN-FSA Board, from left to right: Jaakko Tuomikoski, Outi Antila, Pentti Hakkarainen, Pirkko Juntti and Martti Hetemäki.

## Members and deputy members of the Board

**Pentti Hakkarainen**, Chairman  
LLM (trained on the bench), MBA  
Deputy Governor, Bank of Finland

Deputy to Pentti Hakkarainen:

**Kimmo Virolainen**

DBA

Head of Department, Bank of Finland

**Martti Hetemäki**, Vice Chairman

DSocSc

Permanent State Secretary, Ministry of Finance

Deputy to Martti Hetemäki:

**Tuija Taos**

LLM in EC Business Law

Director, Legislative Counsellor, Ministry of Finance

**Outi Antila**

LLM (trained on the bench)

Director-General, Ministry of Social Affairs and Health

Deputy to Outi Antila:

**Erkki Rajaniemi**

LicLL, LLM (trained on the bench)

Director, Ministry of Social Affairs and Health (until 30 September)

Deputy to Outi Antila from 15 November:

**Mikko Kuusela**

PhD, SHV<sup>20</sup>

Senior Actuary, Ministry of Social Affairs and Health

**Pirkko Juntti**

LLM (trained on the bench)

**Jaakko Tuomikoski**

MA, SHV

See CVs of the Board members at [Fin-fsa.fi](http://Fin-fsa.fi) > **About Us > Organisation > Board CVs**

The secretary to the Board was Senior Legal Advisor **Pirjo Kyyrönen**.

<sup>20</sup> Actuary accredited by the Ministry of Social Affairs and Health.

# Management group



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

**Anneli Tuominen**

LLM (trained on the bench), MSc (econ.)  
Director General, Chairman

**Jukka Vesala**

DSc (Econ.)  
Deputy Director General, Head of Prudential Supervision

**Erkki Kontkanen**

LLD  
Chief Advisor, Chief of the General Secretariat

**Marja Nykänen**

LLM (trained on the bench)  
Head of Institutional Supervision

**Jarmo Parkkonen**

LLM, MSc (econ.)  
Head of Market Supervision

**Erja Rautanen**

LLM  
Head of Conduct of Business Supervision

**Erkki Rajaniemi**

LicLL, LLM (trained on the bench)  
Advisor to the Management (from 1 October)

**Hely Salomaa**

DSocSc  
Chief Advisor

**Pirjo Kyyrönen**

LLM (trained on the bench)  
Senior Legal Advisor, Secretary to the management group

[See management group CVs at \*\*Fin-fsa.fi\*\* >  
\*\*About Us > Organisation > Management group CVs\*\*](#)

## Departments and units

FIN-FSA has four departments:

- Institutional Supervision
- Prudential Supervision
- Market Supervision
- Conduct of Business Supervision

The departments were subdivided into divisions. For more details, see the organisation chart on page 69. Besides the departments, there were three units directly accountable to the Director General. These were

- Administration
- General Secretariat
- Communications.

**Institutional Supervision** aims through ongoing supervision to form an overall picture of supervised entities' business activities and risks and to ensure their regulatory capital is sufficient to cover their operational risks.

Institutional Supervision has responsibility for insurance and financial sector participants, excepting investment firms and fund management companies not belonging to conglomerates. Their authorisations and registration applications are dealt with by Conduct of Business Supervision.

Institutional Supervision is also responsible for

- processing applications for authorisation
- assessing the internal governance and financial statements of supervised entities and the legal compliance of their operations
- coordinating actions regarding supervised entities
- exercising cooperation within collegial bodies of Nordic supervisors.

**Prudential Supervision** aims to identify and prevent risks to supervised entities' capital adequacy and liquidity. Supervision is designed to ensure that

- supervised entities' risk exposures do not exceed their risk-bearing capacity
- their risk management and internal control procedures are appropriate
- they have in place sound processes for capital and liquidity management.

Supervision takes the form of inspections and analysis of regular reporting. Furthermore, the department is responsible for

- analysis and research on the financial situation and risks of supervised entities
- FIN-FSA's IT systems development and coordination of inspection activities as well as supervision of the securities market infrastructure
- the development of best practices for EU supervisory cooperation and coordination of work within the EBA, EIOPA and ESRB.

Institutional Supervision and Prudential Supervision are also jointly responsible for efficient crisis management, with a view to minimising the consequences of crises and disruptions for customers and system operability and for the national economy.

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, up-to-date and high-quality information for investors
- sound market conduct.

Market Supervision supervises investor information relating to

- the appropriate provision of information by listed companies
- securities offerings
- IFRS financial statements
- different investment products.

It also supervises securities trading. As a member of the Auditing Board of the Central Chamber of Commerce, FIN-FSA takes part in the supervision of auditors and its further development. The department is also responsible for coordinating work relating to the European Securities and Markets Authority.

**Conduct of Business Supervision's** aim is to ensure service providers conduct themselves appropriately towards their customers. The department supervises related internal processes and organisation of activities. The areas of supervision and inspection include

- the marketing of services and products
- the information provided to customers

- the code of conduct towards customers and
- service providers' sound internal governance processes.

The department's responsibilities also include review of the applications for authorisation and registration filed by fund management companies, investment firms and insurance brokers. It supervises the financial position of fund management companies and investment firms not belonging to conglomerates and the management and code of conduct of unemployment benefit funds. Moreover, the department deals with notifications for cross-border service provision.

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 Finnish Competition and Consumer Authority and the Finnish Financial Ombudsman Bureau (FINE).

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

## Cooperation between FIN-FSA and the Bank of Finland

FIN-FSA is administratively connected to the Bank of Finland but is autonomous in its decision-making. Both FIN-FSA and the Bank of Finland play a pivotal role in safeguarding the stability of the financial markets and they carry out their work in close cooperation. In directing its supervisory work, FIN-FSA can make use of the Bank of Finland's comprehensive data collection and analysis of the macro economy and the financial markets, while the Bank of Finland can draw on FIN-FSA's analysis based on supervisory information. Overlap in analytical work and data collection can be avoided, and different staff competence profiles complement each other. Key areas of cooperation include

- data collection and monitoring of financial markets
- identification of risks to the operating environment of financial sector enterprises
- systemic risk assessments
- stress tests
- development of methods of analysis needed in supervising the stability of the financial system
- supervision of financial market infrastructure.

Owing to the administrative connection with the Bank of Finland, FIN-FSA can make use of many administrative

services offered by the central bank (financial administration, security and IT services), for which it pays in accordance with transfer pricing.

## Staff

FIN-FSA is an expert organisation, with 76% of staff holding expert positions, 13% serving as support staff and 11% holding management positions. The approved headcount in 2012 was 211 persons, with the headcount at the end of the year standing at 207. The staff turnover rate was 7% (11% in 2011).


The administrative connection between FIN-FSA and the Bank of Finland means that, among other things, the FIN-FSA staff is part of the staff of the Bank of Finland, staff members come under the same collective civil service agreement and FIN-FSA observes the same personnel policy as the Bank of Finland.

The breakdown of staff at the end of the year was:

Prudential Supervision .....	72
Institutional Supervision .....	39
Market Supervision.....	37
Conduct of Business Supervision .....	31
Administration unit.....	11
Director General and General Secretariat.....	11
Communications .....	6

### Gender division by function (%)

	Men	Women
All FIN-FSA staff	39	61
Management	55	45
Experts	43	57
Support staff	4	96

 FIN-FSA publishes a Personnel Audit every year. The latest Personnel Audit is available (in Finnish only) at [Finanssivalvonta.fi](http://Finanssivalvonta.fi) > [Tietoa Finanssivalvonnasta](#) > [Avoimet työpaikat](#).

The terms and conditions of any loans, insurance, services or products provided to FIN-FSA staff must correspond to the terms and conditions on offer to ordinary members of the public. Staff members must make an annual declaration on the outstanding capital on any loans they may have, and on the interest payable thereon.

FIN-FSA staff may not have any commitments that could give rise to doubts over their ability to discharge their responsibilities appropriately and impartially. A FIN-FSA staff member who is planning to take on secondary work outside FIN-FSA must either request permission, or at the least declare the fact. A register is kept of all secondary work. Permission is always required for secondary work that impinges on a staff member's working hours.

## Funds and operating costs

FIN-FSA finances its operations mainly (95%) by levying supervision and processing fees on supervised entities and other entities liable to pay supervision fees. 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 for the following year.

In the year under review, operating expenses amounted to EUR 24.8 million (EUR 26.1 million in 2010), of which most were staff costs (EUR 17.4 million). Other major expense items were services from the Bank of Finland (EUR 2.3 million) and real estate expenses (EUR 1.9 million).

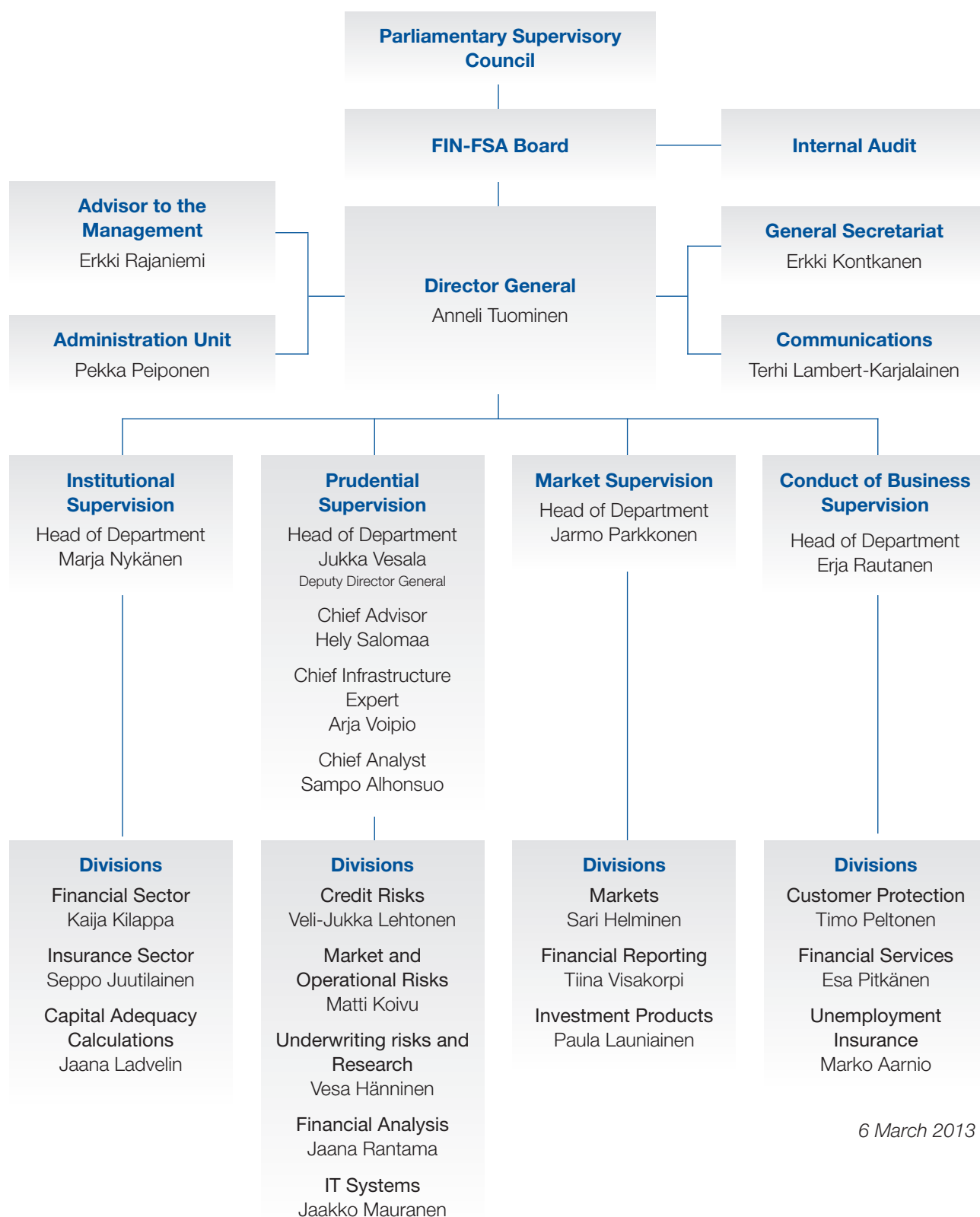
### Safeguarding independence

FIN-FSA's position as the authority responsible for financial market supervision places special conditions on the independence of its staff. Their relations or financial connections with supervised entities must not become too close or otherwise be of such a nature as to place a question mark over 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). FIN-FSA also seeks to guarantee the independence of staff through general ethical guidelines that, among other things, define procedures relating to prevention of partiality and other conflicts of interest.

In addition, FIN-FSA staff must abide by detailed rules regarding any securities and insurance investments they may have. Under guidelines approved by the FIN-FSA Board concerning securities transactions and insurance investment by FIN-FSA staff, 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 in cases where the foreign supervised entity has a branch or subsidiary in Finland supervised by FIN-FSA.

- Prohibition on short trading: FIN-FSA staff may not make short-term – of 3 months' duration or less – investments on a regulated market or in a multilateral trading system in tradable shares or securities carrying entitlement to such shares. Such an investment is possible only in exceptional circumstances, with the permission of the Director General.
- Request for transaction permission: Prior to the purchase of publicly traded shares or securities carrying entitlement there to, FIN-FSA staff must apply to the Compliance Officer for permission. If, at the proposed moment of purchase, FIN-FSA holds unpublished information that could materially affect the value of the securities concerned, permission will not be granted.
- Insurance investment: The guidelines also apply to insurance investments where the value of the insurance is linked to developments in the value of a security covered by the guidelines, and where the insured themselves chooses where their premium is to be invested.



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 Rajaniemi, Advisor to the Management; Erkki Kontkanen, Chief Advisor; and Hely Salomaa, Chief Advisor.

## Total number of supervised and other fee-paying entities

<b>Fee-paying entities</b>	<b>31 Dec 2011</b>	<b>31 Dec 2012</b>
Credit institutions	332	318
Investment firms	56	59
Fund management companies	35	34
Securities issuers	142	138
Stock exchange, clearing corporation	1	1
Finnish Central Securities Depository	1	1
Other fee-paying entities in the financial sector	37	49
<b>Financial sector, total</b>	<b>604</b>	<b>600</b>
Life insurance companies	11	13
Non-life insurance companies	21	23
Pension insurance companies	7	7
Unemployment funds	32	32
Pension funds	63	63
Sickness funds and other insurance funds	145	141
Insurance associations	63	57
Insurance brokers	68	72
Public sector pension funds	3	3
Other fee-paying entities in the insurance sector	44	39
<b>Insurance sector, total</b>	<b>457</b>	<b>450</b>
<b>All supervised and other fee-paying entities, total</b>	<b>1,061</b>	<b>1,050<sup>21</sup></b>

The Financial Supervisory Authority also supervises insurance agents and persons subject to the obligation to declare insider holdings, among others.

<sup>21</sup> The figure presented in the inside of the cover includes all supervised entities that were liable to pay supervision fees in the review year.



## Expenses and funding

### Expenses and funding, EUR thousands

<b>Expenses</b>	<b>2011</b>	<b>2012<sup>22</sup></b>
Staff expenses	18,528	17,376
Staff-related expenses	872	842
Other expenses	3,871	3,900
Services	768	847
Real estate expenses	2,367	1,872
Other expenses	736	1,181
Depreciation	144	343
Bank of Finland services	2,685	2,326
<b>Total expenses</b>	<b>26,100</b>	<b>24,787</b>
<b>Funding of operations</b>		
Supervision fees	23,513	23,963
Processing fees	997	1,334
Other income	0	0
Bank of Finland's contribution: 5% of expenses	1,305	1,239
Surplus carried over from the previous year	2,904	2,623 <sup>23</sup>
Surplus carried over to the next year	-2,619	-4,372
<b>Total funding</b>	<b>26,100</b>	<b>24,787</b>

<sup>22</sup> The figures for 2012 are unaudited and unconfirmed.

<sup>23</sup> Includes adjustments, in the amount of EUR 4,000, relating to prior periods.

## Set supervision fees, EUR thousands

Fee-paying entities	2011	2012
Credit institutions	11,919	13,647
Investment firms	1,019	898
Fund management companies	1,321	1,062
Securities issuers	2,020	1,763
Stock exchange, clearing corporation	368	340
Finnish Central Securities Depository	219	195
Other fee-paying entities in the financial sector	156	176
<b>Financial sector, total</b>	<b>17,022</b>	<b>18,081</b>
Life insurance companies	1,004	872
Non-life insurance companies	1,292	1,183
Pension insurance companies	1,933	1,716
Unemployment funds	1,089	1,016
Pension funds	269	237
Sickness funds and other insurance funds	107	93
Insurance associations	92	76
Insurance brokers	86	79
Public sector pension funds	453	411
Other fee-paying entities in the insurance sector	154	145
<b>Insurance sector, total</b>	<b>6,479</b>	<b>5,828</b>
Adjustment items carried over from previous years	12	54
<b>Fee-paying entities, total</b>	<b>23,513</b>	<b>23,963</b>

## Processing fees, EUR thousands

Fee-paying entities	2011	2012
Credit institutions	133	149
Investment firms	61	42
Fund management companies	225	296
Securities issuers	162	181
Other fee-paying entities in the financial sector	69	94
<b>Financial sector, total</b>	<b>650</b>	<b>762</b>
Insurance companies <sup>24</sup>	30	46
Unemployment funds	15	19
Pension funds	24	28
Sickness funds and other insurance funds	33	33
Insurance associations	32	246
Insurance brokers <sup>25</sup>	202	178
Other fee-paying entities in the insurance sector	11	22
<b>Insurance sector, total</b>	<b>347</b>	<b>572</b>
<b>Fee-paying entities, total</b>	<b>997</b>	<b>1,334</b>

<sup>24</sup> Life, non-life and pension insurance companies.

<sup>25</sup> 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;
10. monitor developments in the remuneration schemes of credit institutions and investment firms and provide information thereon to the Committee of European Banking Supervisors.

## Parliamentary hearings and submissions on draft legislation

The Financial Supervisory Authority's experts were invited to hearings by various committees of the Finnish Parliament on 31 occasions. FIN-FSA was requested to make 36 submissions on draft Finnish legislation and 49 other submissions in its field of competence.

## Journal

Items initiated in the Journal in 2012 (main functions and their major categories)	Number
<b>Governance</b>	90
<b>Regulation</b>	72
<b>Supervision</b>	2,349
Notifications; branches and cross-border activities	499
Articles of association, by-laws and regulations; confirmation and changes	206
Prospectuses	256
Letters by private citizens	188
Fit & Proper reports	211
Inspections	73
Authorisations; granting and expansion	31
<b>Other</b>	157
Domestic cooperation	55
International cooperation	25

In 2012, 2,668 entries were made in the Financial Supervisory Authority's Journal.

## Representatives of the Financial Supervisory Authority on EU financial supervisory bodies

### EBA

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#### Board of Supervisors

Jukka Vesala, Deputy Director General, voting member  
Anneli Tuominen, Director General, deputy member

#### Management Board

Jukka Vesala, Deputy Director General, voting member

#### Standing Committee on Accounting, Reporting and Auditing

Jaana Ladvelin, Head of Division, member

#### Standing Committee on Consumer protection & Financial innovation

Timo Peltonen, Head of Division, member

#### Standing Committee on Regulation and Policy

Veli-Jukka Lehtonen, Head of Division, member

#### Standing Committee on Oversight and Practices

Marja Nykänen, Head of Department, member

#### Impact Study Group

Olli Mattinen, Analyst, member

#### IT Sounding Board

Jaakko Mauranen, Head of Division, member

#### Review Panel

Juha Savela, Senior Risk Expert, member

#### Stress Testing Task Force

Anton Tuomisalo, Analyst, member until 25 Feb 2013,  
Tülin Bedretdin, Risk Expert, from 26 Feb 2013

### EIOPA

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#### Board of Supervisors

Anneli Tuominen, Director General, voting member  
Hely Salomaa, Chief Advisor, deputy member

#### Committee on Consumer Protection and Financial Innovation

Erja Rautanen, Head of Department, member

#### Financial Requirements Expert Group

Pirkko Welin-Siikaluoma, Chief Actuary, member

#### Financial Stability Committee

Kirsti Svinhufvud, Risk Expert, member

#### Information Technology and Data Committee

Jaakko Mauranen, Head of Division, member

#### Insurance Groups Supervision Committee

Kaija Kilappa, Head of Division, member until 31 Dec,  
Katri Jokinen, Legal Advisor, from 1 Jan 2013

#### Internal Governance, Review and Reporting Expert Group

Anne Hakkila, Legal Advisor, member

#### Internal Models Committee

Laura Koskela, Researcher, member 31 Jan 2013,  
Vesa Ronkainen, Senior Risk Expert, from 1 Feb 2013

#### Occupational Pensions Committee

Tarja Taipalus, Chief Actuary, member

#### Review Panel

Eeva-Maija Österman, Legal Advisor, member

### ESMA

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#### Board of Supervisors

Anneli Tuominen, Director General, voting member  
Jarmo Parkkonen, Head of Department, deputy member

#### Corporate Finance Standing Committee

Ville Kajala, Senior Policy Advisor, member

#### Corporate Reporting Standing Committee

Tiina Visakorpi, Head of Division, member

#### Financial Innovation Standing Committee

Anneli Tuominen, Director General, Chairman  
Tero Oikarinen, Market Supervisor, member

#### Investment Management Standing Committee

Paula Kirppu, Market Supervisor, member

#### Investor Protection and Intermediaries Standing Committee

Anu Ranta, Market Supervisor, member

#### Market Integrity Standing Committee

Laila Hietalahti, Market Supervisor, member

**Post Trading Standing Committee**

Arja Voipio, Chief Infrastructure Expert, member

**Secondary Markets Standing Committee**

Leena Savolainen, Market Supervisor, member

**Committee on Economic and Markets Analysis**

Sampo Alhonsuo, Chief Analyst, member

**IT Management and Governance Group**

Arja Voipio, Chief Infrastructure Expert, Chairman until 31 Dec

Jaakko Mauranen, Head of Division, member

**Review Panel**

Olli Laurila, Senior Legal Advisor, member

**Takeover Bids Network**

Ville Kajala, Senior Policy Advisor, member

**Joint Committee of the European Supervisory Authorities (EBA, ESMA and EIOPA)**

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**Joint Committee**

Anneli Tuominen, Director General, member

**Consumer Protection and Financial Innovation Sub-Committee**

Anneli Tuominen, Director General, Chairman

Ville Kajala, Senior Policy Advisor, member

**Risk Sub-Committee (RSC)**

Jukka Vesala, Deputy Director General, Chairman until 24 Sept

Sampo Alhonsuo, Chief Analyst, member

**Anti-Money Laundering Committee**

Maarit Pihkala, Legal Advisor, member

**Joint Committee on Financial Conglomerates (JCFC)**

Marja Nykänen, Head of Department, member

**Work Stream on the Methods of Consolidation for Financial Conglomerates**

Marja Nykänen, Head of Department, Working Group Chairman

**ESRB**

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**General Board**

Anneli Tuominen, Director General, member

**Advisory Technical Committee**

Jukka Vesala, Deputy Director General, member

## Publications, annual statistics and research<sup>26</sup>

Date	Name of publication	Cut-off date	Publication/ annual statistics/ research
<b>19 March</b>	Annual Report 2012		Publication
<b>19 March</b>	Markkinat-tiedote 1/2012 (Markets)		Publication
<b>2 April</b>	Financial position and risks of supervised entities 1/2012	31 Dec 2011	Publication
<b>21 May</b>	Doctoral thesis: Stochastic modeling of financing longevity risk in pension insurance (in English)		Research
<b>31 May</b>	Capital adequacy of banking and insurance sector	31 Mar 2012	Publication
<b>15 June</b>	Markkinat-tiedote 2/2012 (Markets)		Publication
<b>31 August</b>	Insurance brokers 2011		Annual statistics
<b>12 September</b>	Financial position and risks of supervised entities 2/2012	30 Jun 2012	Publication
<b>1 October</b>	Markkinat-tiedote 3/2012 (Markets)		Publication
<b>4 October</b>	Unemployment funds 2011	31 Dec 2011	Annual statistics
<b>8 November</b>	Profitability analysis for statutory workers' compensation insurance in 2002–2011	31 Dec 2011	Publication
<b>21 November</b>	Sample survey of housing loans 2012	21 May 2012	Research
<b>28 November</b>	Capital adequacy of banking and insurance sector	30 Sep 2012	Publication
<b>14 December</b>	Markkinat-tiedote 4/2012 (Markets)		Publication
<b>17 December</b>	Mortality study for life insurance companies K2012		Research

 More publications and statistical data is available at:

**Fin-fsa-fi > Publications and press releases**

**Fin-fsa.fi > Statistics**

<sup>26</sup> Available in Finnish and Swedish only.



## 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](http://fin-fsa.fi) > **Publications and press releases**. Below follows a list of the press release headings.

### **28 February 2012 | 1/2012**

FIM Asset Management Ltd issued an administrative fine for violation of limitations on investment of assets laid down in the Mutual Funds Act

### **19 March 2012 | 2/2012**

Financial Supervisory Authority's Annual Report 2011: Confidence in the well-functioning of the Finnish financial system has been maintained

### **2 April 2012 | 3/2012**

Financial position and risks of supervised entities 1/2012: High level of preparation for risks still required from the Finnish financial sector

### **20 April 2012 | 4/2012**

Pyhäselän Paikallisosuuspankki warned for breach of risk management requirements

### **10 May 2012 | 5/2012**

Financial Supervisory Authority issues public warning to Tapiola Bank Ltd

### **31 May 2012 | 6/2012**

Capital position of banking and insurance sector, 31 March 2012: Finnish financial sector on stable footing

### **8 June 2012 | 7/2012**

Financial sector stress test 2012: Significant weakening of the operating environment would cause adjustment pressure also in Finland

### **20 June 2012 | 8/2012**

Financial Supervisory Authority issues public reprimand and imposes administrative fine on UB Securities Ltd

### **27 June 2012 | 9/2012**

The Financial Supervisory Authority has imposed seven (7) administrative fines for failure to comply with the obligation to provide information

### **3 July 2012 | 10/2012**

Erkki Rajaniemi, Master of Laws (trained on the bench), Licentiate in Laws, appointed Adviser to the Board of FIN-FSA

### **1 August 2012 | 11/2012**

Financial Supervisory Authority issues public reprimand to Eufex Fund Administration Ltd

### **31 August 2012 | 12/2012**

Financial Supervisory Authority issues public reprimand to savings bank Mietoisten Säästöpankki

### **12 September | 13/2012**

Financial position and risks of supervised entities 2/2012: Risks in EU financial sector have continued to grow, weakening operating environment also apparent in Finland

### **1 November 2012 | 14/2012**

Financial Supervisory Authority issues public warning to L-Fashion Group Oy's pension fund for breach of risk management requirements

### **21 November 2012 | 15/2012**

Financial Supervisory Authority's sample survey of housing loans 2012: Loan-to-value ratios remain high

### **28 November 2012 | 16/2012**

Capital position of banking and insurance sector, 30 September 2012: Finnish financial sector stable, but withering economy poses growing risk to banks in particular

## Abbreviations

**AIFMD**, Alternative Investments Fund Managers Directive

**CCP**, Central Counterparty

**CDS**, Credit Default Swap

**CESR**, Committee of European Securities Regulators

**Core Tier 1**, core measure of capital adequacy (common equity)

**COREP**, Common Reporting Framework, (capital adequacy reporting framework)

**CRD**, Capital Requirements Directive

**CRR**, Capital Requirements Regulation

**EBA**, European Banking Authority

**ECB**, European Central Bank

**ECOFIN**, Economic and Financial Affairs Council

**EEA**, European Economic Area (EU Member States plus Iceland, Liechtenstein and Norway)

**EFC-FST**, Economic and Financial Committee – Financial Stability Table

**EFSF**, European Financial Stability Facility (temporary financial stability arrangement for the euro area)

**EIOPA**, European Insurance and Occupational Pensions Authority

**EMIR**, European Market Infrastructure Regulation (Regulation on OTC derivatives, central counterparties and trade repositories)

**ESM**, European Stability Mechanism (permanent financial stability arrangement for the euro area)

**EPA**, Employees' Pensions Act

**ESMA**, European Securities and Markets Authority

**ESRB**, European Systemic Risk Board

**ETF**, Exchange-Traded Fund

**Euribor**, Euro Interbank Offered Rate (euro area reference rate published daily)

**FATF**, Financial Action Task Force (on Money Laundering; intergovernmental task force working under the auspices of the OECD)

**FINREP**, Financial Reporting Framework

**FSB**, Financial Stability Board

**FISC**, Financial Innovation Standing Committee (an ESMA committee)

**G20**, Group of Twenty (19 major economic countries plus the European Union)

**GIIPS**, Greece, Ireland, Italy, Portugal and Spain

**G-SIFI**, Global Systemically Important Financial Institution

**HFT**, High-frequency trading

**IFRS**, International Financial Reporting Standards

**IORP Directive**, Institutions for Occupational Retirement Provision Directive

**IRBA**, Internal Ratings Based Approach

**KIID**, Key Investor Information Document

**LTGA**, Long-Term Guarantees Assessment

**MAR**, Market Abuse Regulation

**MiFID**, Markets in Financial Instruments Directive

**MiFIR**, Proposal for a Regulation on Markets in Financial Instruments

**OTC**, Over the Counter (instruments traded outside regular exchanges)

**PRIPs**, Packaged Retail Investment Products

**SEPA**, Single Euro Payments Area (all EU and EEA countries and Switzerland)

**SIFI**, Systemically Important Financial Institution

**SHV**, Actuary accredited by the Ministry of Social Affairs and Health

**UCITS**, Undertakings for Collective Investment in Transferable Securities

## EU Directives and Regulations and Directive and Regulation proposals referred to in the Annual Report

Proposal for a Directive of the European Parliament and of the Council on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and amending Directive 2002/87/EC of the European Parliament and of the Council on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate; COM(2011) 453 (CRD4)

Proposal for a Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms; COM(2011) 452 (CRR)

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)

Proposal for a Directive of the European Parliament and of the Council amending Directives 2003/71/EC and 2009/138/EC in respect of the powers of the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority; COM(2011) 0008 (Omnibus II Directive)

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

Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision

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 (Prospectus Directive)

Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (Commission's Prospectus Regulation)

Proposal for a Regulation of the European Parliament and of the Council on insider dealing and market manipulation (market abuse); COM(2011) 651

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

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 (Transparency Directive)

Directive 2004/39/EC of the European Parliament and of the Council 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)

Proposal for a Directive of the European Parliament and of the Council on markets in financial instruments repealing Directive 2004/39/EC of the European Parliament and of the Council; COM(2011) 656 (MiFID II)

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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 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (AIFM Directive)

Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps

Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories

Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies

Proposal for a Council Directive on a common system of financial transaction tax and amending Directive 2008/7/EC; COM(2011) 594

Proposal for a Directive of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts; COM(2011) 778

Proposal for a Regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities; COM(2011) 779

Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC

Proposal for a Regulation of the European Parliament and of the Council on improving securities settlement in the European Union and on central securities depositories (CSDs) and amending Directive 98/26/EC; COM(2012) 73

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Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009 (the SEPA End-date Regulation)

Proposal for a Council Regulation conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions; COM(2012) 511

Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority) as regards its interaction with Council Regulation (EU) No.../... conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions; COM(2012) 512

Proposal for a Directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directives 77/91/EEC and 82/891/EC, Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC and 2011/35/EC and Regulation (EU) No 1093/2010; COM(2012) 280

Proposal for a Regulation of the European Parliament and of the Council on key information documents for investment products; COM(2012) 352

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