Annual Report **2015**

FINANSSIVALVONTA
FINANSINSPEKTIONEN
FINANCIAL SUPERVISORY AUTHORITY

Contents

The Financial Supervisory Authority in brief

The Financial Supervisory Authority (FIN-FSA) is both the authority for supervision of financial and insurance sectors and the macroprudential authority in Finland. It is part of the European system of financial supervision and the common banking supervision for the euro area.

The activities of the FIN-FSA are aimed at ensuring financial stability and maintaining confidence in the financial markets. The entities supervised by it include

- banks
- insurance and pension institutions
- other actors in the insurance sector
- investment firms
- management companies
- the central securities depository
- the stock exchange

Supervised entities and other fee-paying entities totalled

1,084

In addition, the FIN-FSA supervises listed companies' compliance with disclosure obligation and securities trading. Its activities are mainly funded by the supervised entities. The number of personnel of the FIN-FSA's expert organisation amounted to 190 at the end of the reporting year.

Administratively, the FIN-FSA operates in connection with the Bank of Finland, but in its supervisory work it takes its decisions independently.

The FIN-FSA seeks to ensure that

- the operations of its supervised entities are on a sound footing, that they hold sufficient capital resources to cover the risks and losses arising from their operations and that they 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

For more detailed information, please see: **Fin-fsa.fi** > About us

Unless otherwise indicated, all texts refer to the review year 2015.

Director General's review

Finland's slow economic growth and low level of interest rates pose a challenge to the Finnish financial sector. In addition, digitalisation is transforming service concepts within the sector. Until now, it has primarily meant the introduction of existing services into electronic service channels and the digitalisation of internal processes. Going forward, service providers will be developing entirely new operating models and solutions for customer needs. For instance, robo-advisors helping investors to build portfolios have already gained ground. Further, a new blockchain technology is being utilised in payment transmission and securities settlement. Supervisory authorities are currently exploring the risks posed by the new operating models. These changes, in combination with the challenging operating environment, require reassessment of the resilience of the strategies, business models and earnings structures of the banking and insurance sectors.

It remains to be seen who are the losers and the winners of the technological transformation. On the one hand, small and agile fintech companies are able to compete against long-established institutions who are subject to more stringent regulation and are dependent on legacy IT systems. On the other hand, there are many examples of how timely investments have helped even large companies to change their service concepts and thus gain an edge over competitors. However, digitalisation increasingly exposes the financial sector to cyber risks. Warding off these risks must therefore play a key role in development initiatives. This poses a particular challenge to small institutions.

Within the EU, the aim is to simplify regulation and account for the differences between institutions by applying the principle of proportionality. This is a welcome objective. At the same time, the aim is to develop regulation which would also underpin economic growth. However, prudential regulation for the banking and insurance sectors should not be modified intentionally to promote lending to small and medium-sized enterprises or investments in the infrastructure. Capital requirements should always reflect risks, otherwise we will have to rectify regulation-led distortions afterwards. A good example of this is the current discussion on whether the rules on sovereign risk should be altered.

Many large regulatory initiatives concerning the financial sector have been completed, and a more tranquil time is dawning in regulation. The long-prepared Solvency II finally entered into force. The transition of Finnish insurance companies to the new regulation has proceeded relatively smoothly. The FIN-FSA has granted permission to eight companies to apply transitional provisions in the calculation of the technical provisions, in order to meet capital requirements.

There are many rather long-term transitional provisions under Solvency II. The transitional provisions for the banking sector have been criticised harshly, since they do not enable the comparison of banks on a uniform basis. In contrast, the insurance sector must disclose their solvency information as calculated both under the transitional provisions and without them. The FIN-FSA supervision aims at ensuring that the transitional provisions are not used contrary to their purpose, in other words, the aim is to avoid the encouragement of excessive risk-taking or dividend distribution.

At the beginning of the year, a new bank bail-in regulation entered into force. The new regulation protects taxpayers from having to bail out banks if they fail. Instead, banks' shareholders and creditors will have to be bailed-in before resolution authorities can access other forms of funding. During the financial crisis, direct support to EU banks exceeded EUR 600 billion. Further, implicit government guarantee increased moral hazard.

At the end of last year, while national discretion was still prevalent, bank rescue operations carried out in a few countries showed, in concrete terms, what kind of impact bail-ins may have on the markets. Hence, authorities need to ensure that investors are provided with information on bail-in in advance, including the amount of the bail-inable debt and the hierarchy of liabilities. Furthermore, when banks sell their own products, they must pay close attention to investor protection requirements covering the management of conflicts of interest, compliance with disclosure requirements, definition of the target group and the carrying out of suitability assessments.

As part of the new crisis resolution regulation, last year all banks and certain investment firms had to prepare recovery plans. The aim of these plans is to be prepared for a situation where the supervised entity has been faced with financial distress. The recovery plans are part of the crisis resolution solution. Actual crisis resolution is the responsibility

As of the beginning of the year, the new bank bail-in regulation entered into force. In the context of bank crisis resolution, the bill will be footed by the shareholders and creditors of the banks.

of the Financial Stability Authority, established last year, which prepares crisis resolution plans based on the recovery plans. Towards the end of last year, the EU Commission also presented a plan concerning the missing piece of the banking union: the adoption of a European Deposit Insurance Scheme. Although, in principle, the proposal can be supported, the FIN-FSA considers its timing premature from the viewpoint of the euro area banking system.

In recent years, there have been cases of an authorised institution in the financial sector migrating to another country where the regulation or supervision is less stringent. It would be preferable that the supervision regarding the different sectors at the national level was as uniform as possible. This is not yet the case. I have observed this through ECB supervision: even within the euro area there have been considerable variations in the implementation and interpretation of regulations across the area, and supervisory practices have ranged from strict to liberal. Uniform practice can only be achieved through strong common supervision. However, supervision by the ECB only applies to banks within the euro area, not to other sectors nor to banks outside the euro area. Certainly, the EU supervisory authorities, EBA, EIOPA and ESMA, seek the convergence of supervisory practices – the top priority in their operating plans. However, achievement of this objective is almost impossible within the scope of their current operational competence.

For over a year the ECB, together with the FIN-FSA, has been the responsible supervisor and decision-maker for Nordea Bank Finland. If Nordea's plan to turn its Finnish operation into a branch were carried out, responsibility for supervising Nordea's Finnish operations would change. Supervision would become the responsibility of the Swedish Finansinspektionen. Primarily, supervision would be based on various cooperation agreements. Under financial distress these agreements would be tested.

It is lamentable if a significant retail bank within the euro area would fall outside the scope of the Single Supervisory Mechanism. This would also mean that it would not be subject to similar supervision and regulations than other banks operating in Finland. Similarly, any potential crisis resolution concerning the bank would also be the responsibility of the Swedish authorities.

The Act concerning the funding of the FIN-FSA is in the process of being amended. The objective is that the allocation of charges would be proportionate between the different sectors. Attention is also being paid to changes, particularly in banking supervision. I repeat my statement of last year that the funding of the FIN-FSA needs to be able to ensure the continued provision of adequate, credible and high quality supervision into the future, too. Excessive savings in expenditure on supervision can easily prove imprudent.

Budgetary discipline at the FIN-FSA has been, and continues to be, tight. Unlike our peers, we have not increased our personnel or budget. This means that we have been forced to prioritise our work intensely. At the same time, we have developed our working processes to be ever smoother. However, as the FIN-FSA's funding base changes, it is necessary to explore further measures. A key initiative in improving efficiency is electronic services, which transfers manual labour into the electronic service channel and thereby facilitates also supervised entities' communication with us.

We cannot promote financial stability without committed personnel. Thank you all – once again.

Helsinki, 9 March 2016

Anneli Tuominen

Strategy of the Financial Supervisory Authority (FIN-FSA), 2016–2018

The strategy for 2016–2018 particularly emphasises both the promotion of a risk-based approach to the common banking supervision for the euro area and also the importance of cooperation among authorities.

Mission

Our primary objectives are to promote financial stability and confidence and to enhance protection for customers, investors and the insured.

Vision

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

Values

Dynamic | Responsible | Productive | Together

Strategic objectives

- Effective prevention of problems that threaten the stability of and confidence in financial markets.
- An influential expert within the European system of financial supervision.
- The quality of the Financial Supervisory Authority's activities ranks among the top range in Europe, its operational efficiency among the best in the Nordic countries.
- Proportionate and impartial regulation and supervision.
- Responsible provision of financial services and products for the Finnish financial markets.

Strategic choices

Risk-based supervision and regulation as well as operational efficiency

- Making use of timely analysis, we enable proactive and wellfocused supervisory measures.
- We emphasise the role of inspections and on-site visits in our supervisory work.
- We promote consistent application of sound financial market practices. We take firm action whenever abuse and omission is detected.
- We focus on regulatory initiatives that are key to the financial markets or to our supervisory work.
- We develop our working practices to reflect changes in the operating environment. We foster staff competence, reinforce work processes and encourage activities consistent with our values.

High-quality customer and investor protection

- We require that service providers' internal procedures take account of the requirements of customer and investor protection.
- We require high-quality information to investors and reporting procedures that support this.
- We widen the scope of our stock exchange trading supervision via European cooperation.
- We provide the public with up-to-date, independent information on the financial markets.

Supervised entities' strong risk resilience and high-quality governance

- In our supervisory work, we focus on safeguarding the prerequisites for sound business activity.
- We require that supervised entities' boards of directors arrange for high-quality risk management and internal control.
- We require capital adequacy and liquidity buffers to adequately cover material risks.
- We emphasise the effectiveness of recovery and resolution plans.
- We deploy macroprudential tools to forestall potential threats to macrostability.

Productive cooperation between supervisors and other authorities

- We exert influence via EU-level regulatory and supervisory work on issues key to the Finnish financial markets.
- We promote adoption of best supervisory practices within the EU and develop our supervision accordingly.
- We foster risk-based and effective supervision within the Single Supervisory Mechanism (SSM) and uniform supervision in the Nordic countries.
- In decision-making within the SSM, we focus on supervisory issues that represent a significant principle.
- We are active in drawing on cooperation between competent authorities.

The operating environment and financial position of supervised entities

The downswing of the Finnish economy continued in the year under review. Problems in the real economy reflected negatively on the demand for bank loans as well as the demand for life and non-life insurance policies issued by insurance companies.

Household indebtedness increased

The indebtedness of households increased during the year. However, the increasing indebtedness did not severely affect households' debt-servicing capabilities due to the protracted low level of interest rates and the growth in households' real income. The increase in house prices levelled off and prices declined slightly towards the end of the year in the Helsinki metropolitan area.

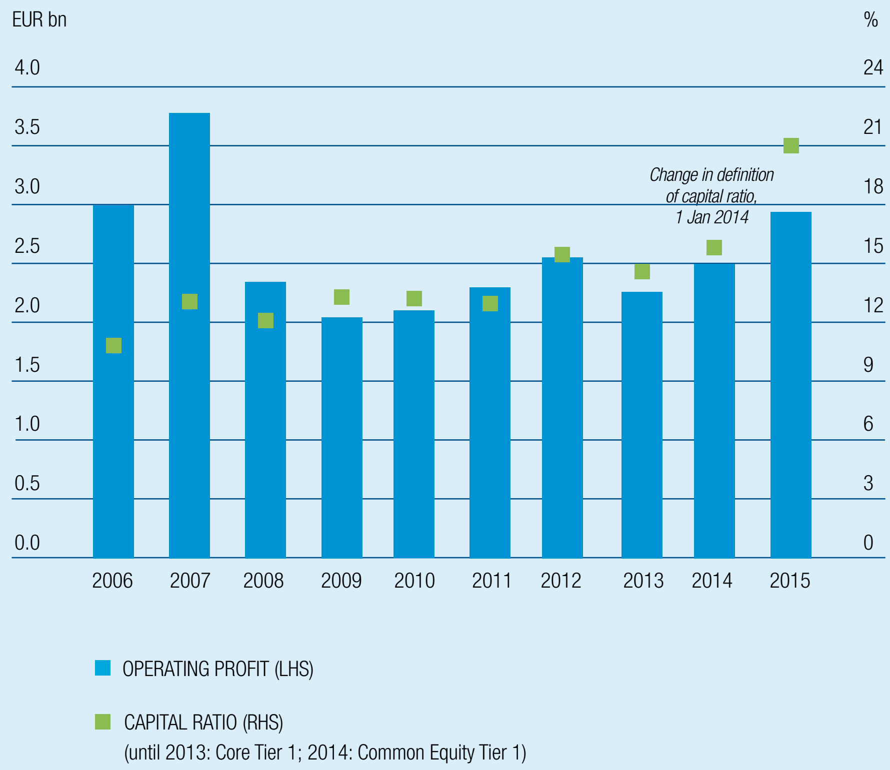
The yields on Finnish government bonds followed the general trend of interest rates in the euro area. The interest-rate spread between Finland and Germany increased slightly during the year. However, the weakening of the relative position of the Finnish government was not reflected in the costs or availability of market funding for Finnish banks, which remained good.

Interest rates even drop below zero

Short and long-term interest rates declined significantly, and equity prices rebounded in the first half year. The three-month Euribor turned negative in April. The decline continued towards the year-end, while the 12-month Euribor also kept edging closer to zero. Yields on long-term government bonds with maturities up to 5–6 years were generally negative. The interest rates on new housing loans decreased in line with short-term reference rates, and the tightening of competition compressed the margins. Equity market performance was mixed. In Europe, equity prices fluctuated over the year but ended at the same level they had started the year. In Finland, equity prices at the end of the year stood at approximately 10 per cent higher than earlier in the year.

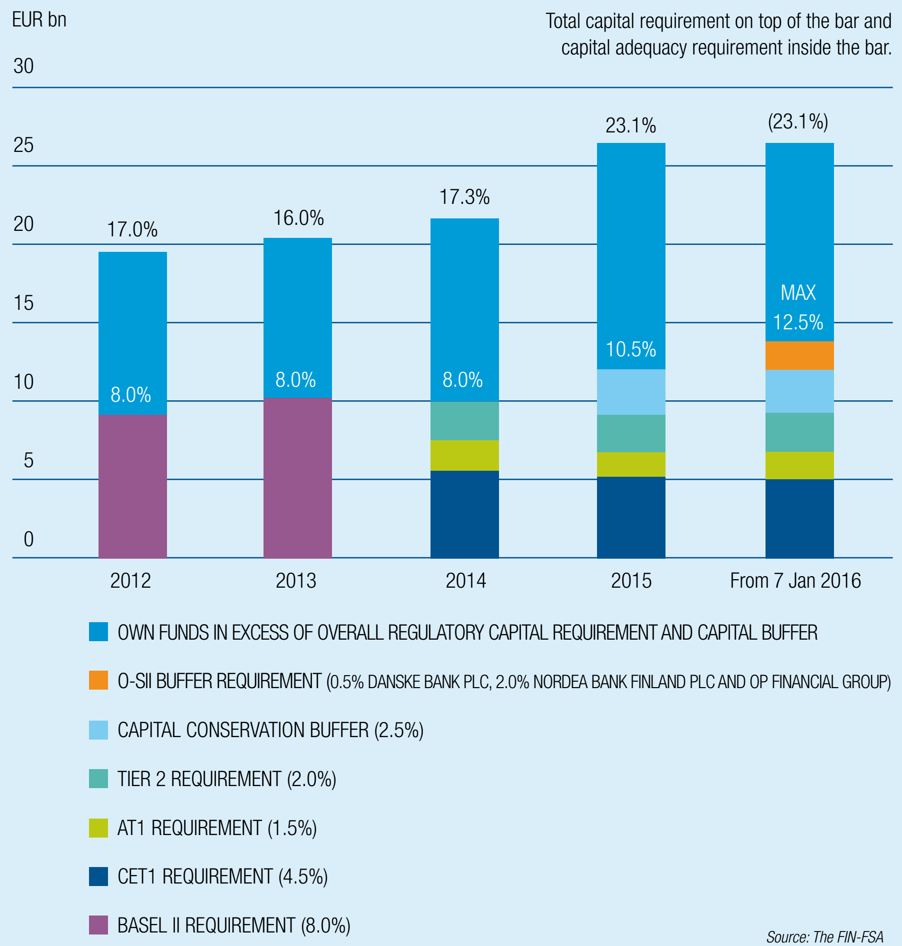
Sluggish growth of credit stock and low level of interest rates weakened banks' net interest income.

Operating profit and Core Tier 1 capital ratio of the domestic banking sector



Source: The FIN-FSA

Own funds of the domestic banking sector



Source: The FIN-FSA

Earnings structure became more risk-sensitive.

At times, the volatility in share prices was high. Therefore, banks' securities-related income as well as life and employee pension companies' income from investment activities varied considerably during the year.

Investment fund assets increased in the early part of the year in line with rising equity prices, but they declined around mid-year. At the end of the year, however, the assets stood 14% higher than a year earlier. After a long period of solid profit performance, the earnings momentum of investment firms and fund providers slowed towards the end of the year.

Banks' earnings performance continues to be solid

Despite the difficult economic situation, banks' earnings performance and profitability improved further compared with the previous year. The sluggish growth of credit stock and the low level of interest rates undermined banks' net interest income. However, the favourable performance of the securities market at the beginning of the year increased banks' securities-related income, and its proportion of banks' income increased. The earnings structure became more risk-sensitive than before. Banks' results were also helped by a decrease in expenses, which was mainly due to significant changes in regulatory charges. The proportion of non-performing credits remained low, as did the amount of impairments booked on credits. Retained earnings and other additions to equity boosted regulatory capital considerably, and risk-weighted items decreased. The decrease was not due to a reduction in lending but was from a wider adoption of internal ratings-based models in the calculation of risk-weighted assets. Capital adequacy ratios improved towards the end of the year.

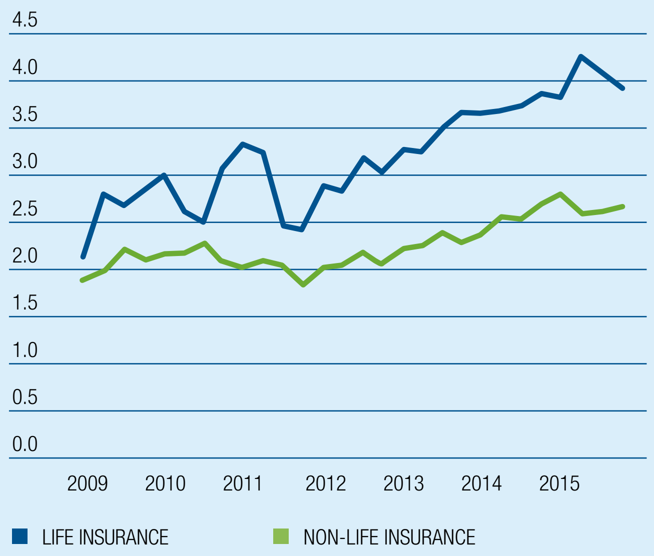
Equity markets also shook capital adequacy ratios

The earnings performance of pension companies as well as life and non-life insurance companies exhibited extreme fluctuations. In the first quarter, all major asset classes generated excellent returns as equities rose and interest rates sank close to zero. Thereafter, the problems that emerged, first in Greece and then in China, pulled the market into negative territory, also weakening investment returns. However, market developments in the last quarter of the year were so good that investment returns in the pension and insurance sectors closed the year clearly positive. The average return of the investment activities of the employee pension sector during the report year was five per cent, which means that the return requirement was just barely achieved. There were company-specific differences between the life and non-life sectors, both in terms of the return requirements and the achieved returns. Some of the companies have continued to prepare for lower returns and reduced the return requirements by supplementing their technical provisions. The oscillation of the equity markets also caused variations in the solvency ratio of the pension and insurance sector.

The weights of the main asset classes remained almost unchanged in insurance companies' investment allocations. The largest changes took place within the fixed-income portfolio, where the weight of money market investments, which on average generated losses, decreased together with government bonds, while the weight of corporate bonds with good credit ratings increased correspondingly. The allocation shifts were even smaller with regard to pension companies. As a whole, however, compared with insurance companies, the investment allocations of employee pension companies were noticeably riskier with double the equity weight, and hedge funds had an even higher weight.

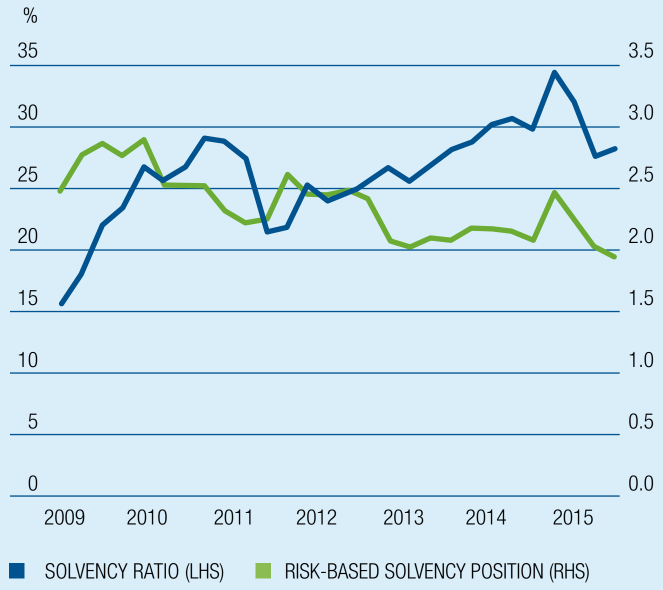
The investment allocations of employee pension companies were clearly riskier than those of insurance companies.

Risk-based solvency position of life and non-life insurance companies



Source: The FIN-FSA

Employee pension companies



Source: The FIN-FSA

Supervised entities’ strong risk resilience and high-quality governance

Fourth Finnish credit institution brought under ECB supervision

The supervision of significant credit institutions was carried out by joint supervisory teams under the ECB’s direction and in accordance with established schedules. Capital assessments of the Finnish banks that are under direct ECB supervision were prepared during the year under review, and the first inspections in accordance with the common banking supervision methodology were successfully carried out. Although the FIN-FSA conducted its tasks under the supervision plan for significant credit institutions in time, in the spring the ECB required the FIN-FSA to increase its input into the joint supervisory teams’ resources and inspection activities.

After Municipality Finance Plc (now Munifin) fulfilled the criteria to be classed as a significant credit institution, it became subject to a so-called comprehensive assessment, and preparations were launched to transfer the responsibility for its supervision to the ECB. Harmonisation of the supervision of less-significant banks which remain under the FIN-FSA’s supervision proceeded, coordinated by the ECB. During the year, notification procedures concerning significant supervisory measures, the methodology used in prioritising supervised entities and preparing supervision plans, were completed. In July, Nordea announced its intention of changing its group structure so that the subsidiaries in Finland, Denmark and Norway would become branches. The impact of the change on supervisory work was assessed both independently by the FIN-FSA as well as in cooperation with the ECB and other Nordic authorities.

Systemically important banks, and their capital requirements, were defined

The first macroprudential decisions were made in the context of macroprudential supervision. Experts from the FIN-FSA and the Bank of Finland jointly prepared a quarterly macroprudential report, which was then used as the foundation for the decision making process. Together with the Bank of Finland and the Ministry of Finance, preparation for the decisions proceeded as planned. In July, decisions were made concerning nationally systemically significant credit institutions and their capital requirements. In December, the decision was made to start preparation for an increase in the risk weights applied to housing loans.

New guidelines for employee pension companies on the funding of occupational wellbeing activities

The extensive inspection of occupational wellbeing activities provided by employee pension companies[1)] achieved significant effectiveness. As a result of the inspection, note was taken of the diversity of current practices, competitive neutrality problems resulting from the diversity, and the need to develop regulation. On the basis of the inspection findings, guidelines were prepared and circulated for consultation in December.

1) Services maintaining working capacity cover, for example, activities maintaining the working capacity of the personnel, preventing disability, and reducing absences due to sickness and premature retirement. Their purpose being to postpone retirement and hence contain increases in the overall cost of the pension system.

18
new authorisations

640
new insurance agents

The FIN-FSA processed a total of 18 applications for granting an authorisation or expansion of a previous authorisation during the year. A total of 640 new insurance agents were registered.

Capital assessments of the Finnish banks under the ECB’s direct supervision were prepared, and the first inspections according to the common banking supervision methodology were carried out successfully.

Although the companies' occupational wellbeing activities had primarily been of solid quality and the projects had achieved good results, targeting of the activities was not based on the management of the invalidity risk in all respects. This was partly due to insufficient regulation and partly to different interpretations by the companies. In order to harmonise the activities, the FIN-FSA laid out an interpretation, in the context of the inspection, that occupational wellbeing activities should be commensurate with the premiums earned with respect to the management of the invalidity risk.

Inspections of the employee pension companies' investment activities' steering systems continued.

Final dash in Solvency II preparations

The focus of the inspection activity in the insurance sector was on preparation for the new Solvency II regulation and compliance with it. Harmonised criteria were defined covering the permission procedure that relates to the application of transitional provisions concerning the entry into force of the solvency regulation for life and non-life companies. Supervised entities were informed of the decisions at events arranged by the FIN-FSA in May.

By the end of the year, the FIN-FSA had received eight applications to apply the Solvency II transitional provisions, and a majority of the applications were approved. They were related to the calculation of the technical provisions during the transitional period.

Inspections of life and non-life companies were focused on the calculation of Solvency II regulatory capital and technical provisions and on their governance systems. Although no significant deficiencies were found in the governance systems, nevertheless, they were found to have room for improvement. The inspections concerning the Solvency II technical provisions showed that preparations by the companies were still incomplete in many respects.

Preparation for disruption events

Supervised entities were guided regarding the preparation of recovery plans, as required by the crisis resolution regulation for banks and investment firms. The plans were requested to be submitted to the FIN-FSA by 31 July. Review of the recovery plans began in the autumn. Regular cooperation commenced with the Financial Stability Authority.

The FIN-FSA participated in the preparation and in the conducting of FATO2015, an operative exercise for the sector. The exercise included tests of the ability of the financial sector to maintain services during extensive communication disruptions. The follow-up measures focused on improvement of backup systems for data communication, payment systems and card

Solvency II into force on 1 Jan 2016, companies have applied for permission to apply transitional provisions

Within the new capital adequacy framework, insurance companies' technical provisions and investments are valued mark-to-market. Companies are required to have sufficient capital relative to the risks they have taken.

The purpose of the transitional provisions included in the new regulation is to ensure as smooth a migration as possible to the new requirements. Some of the transitional provisions can be adopted by companies at their own discretion, while some require the FIN-FSA's permission. In the year under review, a total of eight applications were received by the FIN-FSA. Companies must announce any transitional provisions they apply, on their website.

Companies do not have to report their new capital ratios to the public until 2017, but the first reports are due to be submitted to the supervisory authorities in May 2016, regarding the situation as at 1 January 2016. It is essential to understand the capital ratios under the new requirements, since they will change radically, and their range will be extended.

Occupational wellbeing activities should be commensurate with the premiums earned on the management of the invalidity risk.

payments, and the development of cooperation among authorities.

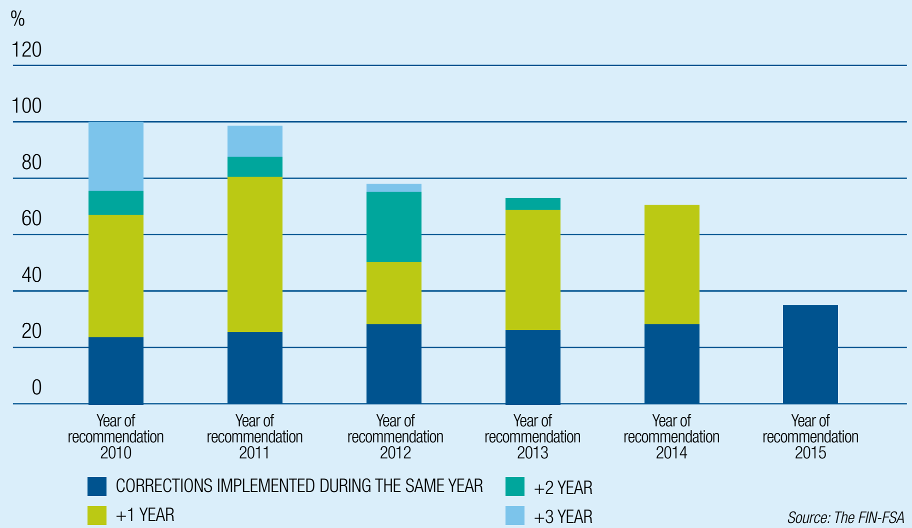
The FIN-FSA was part of the steering group which was in charge of assessing the domestic card payment infrastructure's preparedness levels. The assessment describes the parties and processes involved in card payments, and the current status of preparedness for exceptional circumstances. This assessment was commissioned by the National Emergency Supply Agency. It will be completed at the beginning of 2016.

In addition, the FIN-FSA inspected the security of online banking, IT risk management and IT outsourcing, and in connection with these inspections, its supervised entities' continuity planning and preparedness for disruptions.

The first national report on risks related to money laundering and the financing of terrorism was completed towards the end of the spring, under the auspices of the Ministry of the Interior, as a cooperative effort by authorities and the financial sector. According to the report, the key risks are related to real estate investments, cash transit, shell companies, online banking, pooled accounts as well as to online-based peer-to-peer (P2P) lending and fund raising. This work will continue in 2016 through the preparation of a national anti-money laundering strategy. The FIN-FSA commenced the preparation of its own risk assessment on the basis of the national report, towards the end of the year.

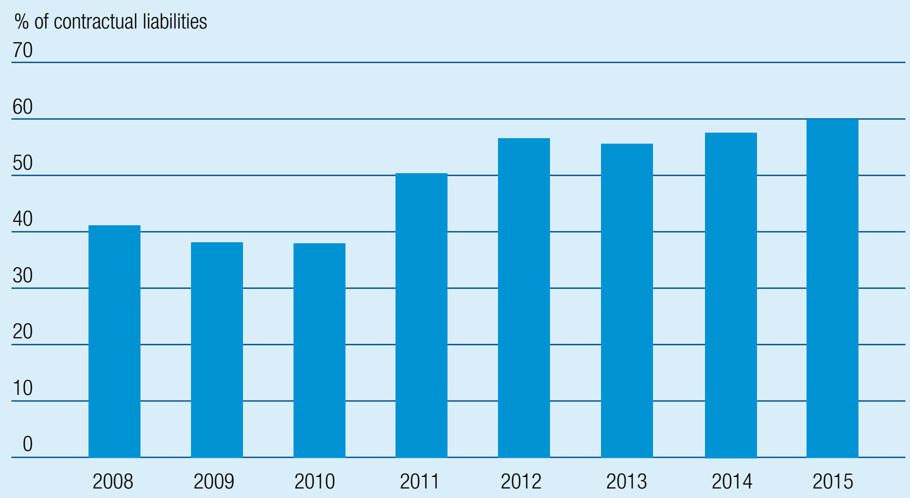
The operative exercise included tests of the financial sector's ability to maintain services during extensive communication disruptions.

Corrections implemented during the same year



Source: The FIN-FSA

Internal models share in defining banks' credit risk



Source: The FIN-FSA

More diverse sources of funding and more efficient cross-border operations through the Capital Markets Union

The EU's capital markets are underdeveloped relative to their peer countries. The creation of a Capital Markets Union is indeed among the key objectives of the Juncker Commission. In Europe, corporate finance has traditionally been more dependent on bank funding than in the United States: about three quarters of the debt financing of non-financial corporations is received from banks. When banks tightened their lending during the financial crisis it caused difficulties, particularly with the financing of SMEs.

Although the regulation of the EU's capital markets has been harmonised to a large extent, the markets remain fragmented: investments are focused on the domestic markets, there are large country-specific differences in the functioning of the markets, and the provision of financial services to consumers across member-state borders is still relatively limited.

The objective is to facilitate capital raising by companies

The objective of the Capital Markets Union is to promote corporate funding, increase and diversify the sources of funding and to foster the efficiency of capital markets. The Capital Markets Union also contributes to the EU's Jobs, Growth and Investment programme and helps to level off cyclical fluctuations.

In its action plan, the Commission proposes 33 different measures that it intends to implement during the 2015–2018 period. The measures address the following topics:

- Financing of innovation, start-up companies and non-listed companies
- Making it easier for companies to enter and raise capital on public markets
- Investing for the long-term, infrastructure and sustainable investment
- Fostering retail and institutional investment
- Leveraging banking capacity to support the wider economy
- Facilitating cross-border investing

The proposed regulation on securitisation supports the recovery of the European securitisation market, diversifies risks and frees banks' capital for lending.

The first regulatory initiatives related to the action plan are concerned with simple, transparent and standardised securitisation and reform of regulation on prospectuses.

The proposed regulation on securitisation supports the recovery of the European securitisation market, diversifies risks and frees banks' capital up for lending. When the structure of an instrument is simple and transparent, its capital adequacy treatment can be facilitated.

Reform of the regulation of prospectuses seeks to facilitate access to finance, particularly for small and medium-sized enterprises, to lower the listing threshold, and to lower the administrative burden on listed companies. In addition, its intention is to clarify the structure of the prospectus and presentation of key investor information in order that the prospectus would better serve the information needs of different investors.

At the end of the year, the Commission also launched consultations on retail financial services, on covered bonds and on the overall impact of financial sector regulation over recent years.

Capital adequacy must always reflect the actual risks of the assets

Although the plan includes more than merely legislative measures, it seems that a number of new regulative initiatives are underway. However, the EU's competence in key legal areas for the implementation of the capital markets union, such as taxation, property and insolvency law, is limited. Therefore, rapid progress or deep harmonisation is unlikely.

There is significant political pressure to promote the financing of SMEs on the one hand and infrastructure projects of the member states on the other hand. The participation of institutional investors, such as insurance companies in these projects is actively encouraged through a variety of approaches. The FIN-FSA has considered it important that the capital requirements for operators in the financial sector continue to reflect the actual risks related to their assets.

The changes proposed to the regulation of prospectuses can be supported for the most part. Development of the structure and presentation of information in a prospectus and particularly its summary is necessary in order that securities prospectuses would also serve the information needs of retail investors better than presently. The content requirements for the prospectuses of listed companies can be eased, since the companies are already familiar to investors, and they are already obliged to disclose comprehensive information on themselves.

After the financial crisis burst out, discussion on financial stability has paid a lot of attention to the risks related to financial intermediation outside the banking sector. This has been commonly referred to as shadow banking. However, the detailed meaning of the term may have varied depending on the context. Attention has been paid, for example, to operators in the derivatives markets, money market funds and leveraged loan origination funds. There have been concerns for example about the fact that the supervisory authorities lack an overall picture of the exposures of the operators in the derivatives markets or that the linkages between the shadow banking sector and the banking sector may also cause risks for banks.

The objective of the Capital Markets Union – the diversification of the capital markets and a reduction in dependency on banks – can indeed be considered a desire to increase financial intermediation outside the banking sector. However, one cannot talk about shadow banking in the actual sense, since the proposed structures would keep the operations within the scope of regulation and supervision. However, in the context of preparing the regulation, attention should be paid to the equal treatment of different operators.

4th FIN-FSA Conference on EU Regulation and Supervision

Financing Growth through Capital Markets

Tuesday 9 June 2015

On 9 June 2015, the FIN-FSA hosted a conference Financing Growth through Capital Markets for its stakeholders. The guest speakers were **Erkki Liikanen**, Governor of the Bank of Finland, **Ari Hyytinen**, Professor of Economics at the University of Jyväskylä, **Olivier Guersent**, Deputy Director General of the European Commission and **Steven Maijoor**, Chair of the European Securities and Markets Authority (ESMA). The participants in a panel discussions were **Eva Liljeblom**, Rector of Hanken School of Economics, **Lauri Rosendahl**, President of Nasdaq Helsinki, **Tuomas Saarenheimo**, Permanent State Under-Secretary of the Ministry of Finance, Olivier Guersent and Steven Maijoor.

See the programme and webcasts of the presentations at: Fin-Fsa.fi > Publications and press releases > FIN-FSA Conferences > FIN-FSA Conference on EU Regulation and Supervision 2015

High-quality customer and investor protection

As in the previous year, supervision was focused on new operators in the markets and new operating models. In particular, fund operators requested interpretations on different products and their development, such as loan originating funds and other new kinds of alternative investment funds. There were multiple applications for authorisation and registration. Assessment was made of different forms of crowdfunding as to whether there was a need for authorisation. New combinations of products and services developed by banks for their customers were also assessed.

Inspections targeted sales processes, reliable governance and finances of unemployment funds, transaction reporting and the management of inside information, in particular. In addition, an annual report on basic banking services was compiled. Not all of the planned inspections were carried out in all respects within the targeted schedule. In addition to a letter sent by the FIN-FSA in autumn 2014 to the operators (on special issues related to the provision of financial services and products, such as the sale of investment products to the elderly), supervision was tightened.

Inspections on the reliable governance and finances of unemployment pension funds revealed deficiencies in the level of the funds' administration fees and the determination of considerations paid for outsourced services. The funds were urged to rectify the situation.

The low and partly negative level of interest rates raised the question of the effect of negative interest rates on housing loan margins. A clarifying statement was prepared for the operators on the subject.

Weak economic situation as a basis for targeting the supervision of listed companies

The supervision of listed companies was targeted particularly at companies with a weak financial position and results. Issues to the public and initial public offerings continued to be active. Supervision was focused on questions concerning the sufficiency of working capital and risks related to business and financing. In addition, the impact of the situation in Russia on the companies' finances was investigated. Due to the weak economic environment and the financial difficulties listed companies, listed companies were guided to develop or clarify their financial information. Concerning operators in banking sector, several observations were made in the context of enforcement of financial instrument standards.

The FIN-FSA mapped cooperation possibilities with other supervisors in the procurement of a trading supervision system. The FIN-FSA participated in ESMA's systems projects relating to data collection surveys resulting from the new regulation on market structure and instruments.

Customer education

The FIN-FSA arranged 12 sessions at the Sijoitus-Invest 2015 conference, two of which were in cooperation with FINE: The topics covered were fraud, crowdfunding, housing loans, new means of payment and the digitalisation of financial markets, while FINE addressed finances in difficult situations, including divorce, the estate of a deceased person and trusteeship. A majority of the sessions were presented to a full room, and the presentations uploaded to SlideShare still continue to attract viewers.

The number of visitors in Financialcustomer.fi, an online service compiled with a view to customer needs, increased 15% year on year. In addition, the Twitter account introduced during the reporting year was also used in marketing the Financial customer site content.

Three lectures were given at the Bank of Finland Museum. The topics were the impact of macroprudential tools on the man on the street, supervision of investment products and marketing thereof, and how the capital market union affects investors.

How does one identify the customer?

The questions posed by banks to their customers spark regular inquiries from both the media and the public. We are often asked what identification documentation banks may request of a customer. In establishing its own risk management principles, a bank or any other financial sector company may determine what documentation it requires for the verification of a customer's identity.

For more detailed information, please see:
Financialcustomer.fi > Financial services > Customer identification and due diligence

Two authorisations for providers of crowdfunding

The FIN-FSA has participated in the preparation of advice by the European banking and securities supervisors to the European Commission, and in the operation of the ESMA supervisor network regarding current supervisory topics on **crowdfunding**. During the year, investment firm status authorisation was granted to two providers of a crowdfunding service, and customer information on special characteristics and risks related to crowdfunding has been increased.

The most popular content in the financialcustomer.fi website:

1. Investments
2. Housing Loans
3. Estate of a deceased person
4. Financial service providers
5. Warning lists

IFRS requirements for financial instruments to be amended

Three key subareas are to be reformed.

Financial assets will be measured based on the banks' business models either to market value or to amortized cost.

Impairments on loans granted will have an earlier impact on the bank's results and also will require the bank's management to assess forward-looking information.

In addition, hedge accounting will be based more closely on the bank's risk management objectives. The number of eligible hedging instruments and hedged items is to be expanded.

The audit committees of the supervised entities will play a key role in the high-quality implementation of the new requirements.

Inspections were targeted at sales processes, reliable governance and the finances of unemployment funds, transaction reporting and the management of inside information.

The regulatory year in brief

Banking sector

With respect to the banking sector, the focus was on the implementation of the significant regulatory initiatives which entered into force in 2014 (capital requirements, liquidity, recovery and crisis resolution) and the provision of related further technical regulation.

Preparation of the structural restrictions for banks continued within the EU, but reaching a mutual understanding has proven difficult.

The fourth money laundering directive, currently being prepared, emphasises a risk-based approach to combating money laundering and financing of terrorism. The directive requires the supervisory authority to prepare a risk assessment of its supervised entities in relation to money laundering and financing of terrorism.

Work continued to transpose into national legislation the Mortgage Credit Directive and Payment Account Directive, both seeking to harmonise customer protection in the banking sector. The working group is preparing a legislative proposal on the amendments required to the terms and conditions of loans, peer-to-peer loans and amendments as otherwise deemed necessary, due to the evolution of the credit markets.

Insurance sector

In the insurance sector, the protracted preparation of significant solvency reforms reached completion. The reform of capital regulation and supervision for the life and non-life insurance sector, Solvency II, was completed during the year, when the Insurance Companies Act was amended to correspond with the new regulation, and the Commission regulation and standards entered into force. The FIN-FSA decided to adopt all EIOPA guidelines on Solvency II as part of its set of regulations and guidelines. The final phase of the solvency reform for the employee pension sector was completed, and the related legislative amendment was passed. The purpose of the reform entering into force at the beginning of 2017 is to ensure the risk-bearing capacity of employee pension companies and to enable the operators to react better to market developments. The set of regulations and guidelines will be updated to correspond with the reform. The update was distributed for consultation at year-end.

Based on the inspection of the occupational wellbeing activities funded by employee pension companies, the FIN-FSA considered it necessary to issue guidelines covering operations related to the management of disability risk. The purpose is to improve how well a companies' activities, competition and use of assets can be supervised and to promote a level playing field. The draft guideline was distributed for consultation at year-end.

Progress was made on a wide front in projects concerning the securities markets and customer protection.

Securities sector

In projects concerning the securities markets and customer protection, progress was made on a wide front. At the EU level, agreement was reached on regulations improving the transparency of activities outside the banking sector, regulating the use of reference rates and benchmarks, harmonising sales practices for insurance products and enabling investment funds focusing on long-term investments. In addition, the Commission put forward its proposal on a deposit guarantee fund covering the whole euro area and thus completing the banking union.

The changes resulting from EU regulations concerning key investor information to be provided on packaged retail insurance investment products (PRIIPs) will be implemented in national legislation. The new regulations are intended to enter into force on 31 December 2016.

Interest in crowdfunding grew. The novelty and diversity of the business has caused uncertainty; most specifically concerning any legislation that should be applied to it. In the spring, the Ministry of Finance circulated a draft Act on crowdfunding for consultation. The FIN-FSA supports the provision of regulation on crowdfunding and considers it important that it clarifies the relationship of crowdfunding with other services subject to authorisation.

The Ministry of Finance prepared legislation to implement the EU's regulation on the central securities depositories. The bulk of the attention focused on the proposal to also allow the nominee registration of securities for Finnish investors. After the consultation round the decision was made to give up this proposal. The FIN-FSA took a positive stance regarding the extension of nominee registration at a general level, although in the draft Act it also identified issues in principle requiring further preparation.

The task of the working group preparing the revision of the Auditing Act was to suggest how the comprehensive reform of the EU's audit regulation should be implemented in Finland. One of the key questions was the tightening of the auditing requirements for public interest entities. The FIN-FSA did not support the proposal of the working group to keep certain special national characteristics (for instance the audit of governance and the management report).

European supervisory authorities

EBA, EIOPA and ESMA as well as their joint committee have prepared advice to the Commission on almost all EU-level regulatory initiatives and produced technical standards, guidelines and recommendations complimenting the regulation. Within the joint committee, the FIN-FSA participated in the preparation of the content requirements for the key investor information document for PRIIPs. At ESMA, the FIN-FSA has participated in working groups, especially working on advice and standards concerning regulation of prospectuses, the Markets in Financial Instruments Directive and Regulation and the Market Abuse Directive. At EIOPA, the FIN-FSA participated in the finalisation of the Solvency II regulation.

> The FIN-FSA participated in the preparation of the content requirements for the key investor information document for PRIIPs.

Work by European supervisory authorities supports the monitoring of financial innovation

In terms of **financial innovation**, we make extensive use of supervisory cooperation at the European level. Topics emerging during the report year included virtual currencies, investment advice provided by robots, lending funds, contracts for differences, conditional convertible bonds and other products convertible to equity instruments or other types of investments in the context of implementing investor liability, alternative indices, Blockchain technology, big data in the collection of customer intelligence and product development (for example black boxes in cars, activity wristbands).

Productive cooperation between supervisors and other authorities

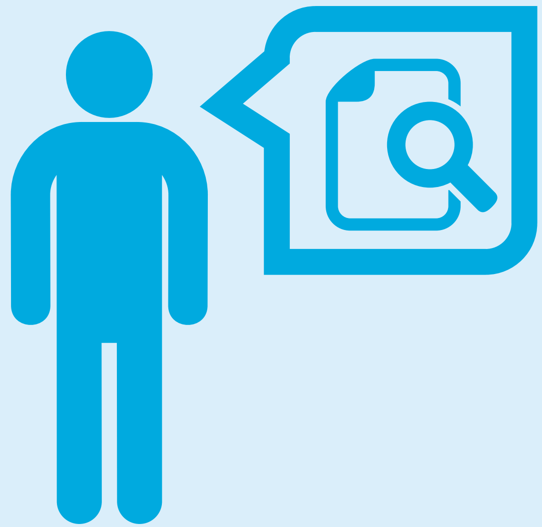
The number of decisions made by the ECB's Supervisory Board proved very large, which was partly due to the lack of the ECB's powers to delegate. The FIN-FSA's preparatory work focused particularly on key supervisory decisions (bank risk assessments, capital requirements) and policy statements in order to align supervisory practices. In preparing decisions on foreign supervised entities, the expertise of other supervisory authorities was utilised when necessary. The large number of issues discussed in the meetings of the Supervisory Board and of the decisions made in the written procedure was found to be challenging.

Joint banking supervision transformed the FIN-FSA's sphere of duties

The introduction of banking supervision by the ECB considerably increased cooperation in supervision and regulation. In addition, the processing periods for different applications made by banks under the ECB's direct supervision grew longer. Participation in the EBA's working groups was prioritised more intensively than previously in order to free resources for working groups preparing the ECB's banking supervision methodology and supervisory practices. Out of these working groups, only the most important ones for the FIN-FSA's supervisory work were selected.

The FIN-FSA's preparatory work focused particularly on key supervisory decisions and policy statements aiming at uniform supervisory practices.

The number of administrative sanctions issued and requests for police investigation



5 investigation requests to the police

2 public reprimands

19 penalty payments

A key ECB project was the harmonisation of alternatives and discretion allowed by capital requirements regulation, on which the ECB organised a public consultation in December. The FIN-FSA's objective was to have as comprehensive harmonisation among the different countries as possible. The FIN-FSA also participated in a working group established to prepare the harmonisation of internal models within the euro area. At the initiative of the FIN-FSA, the ECB set up a working group towards the end of the year to prepare a policy statement on the supervision of significant branches. The FIN-FSA made an active contribution to the formation and direction of the statement.

European cooperation in supervision and regulation

The FIN-FSA decided on the priorities for the ESA work, based on the FIN-FSA's strategy, risk-based approach and the objectives for international cooperation established for the FIN-FSA. Three working groups were considered as having the highest priority (the FIN-FSA having either the chair or playing a significant role in drafting) and 51 working groups out of the 135 ESA working groups (39%) were assigned the lowest priority (monitoring only at the level of the main working group, as necessary). The FIN-FSA participated in the operation of 52 ESA working groups and monitored the work of 29 working groups without participating. The FIN-FSA's operating principles were harmonised by preparing an ESA handbook.

The FIN-FSA participated in the EBA's working group on own funds, preparing the model terms and conditions for supplementary capital instruments and the public list of common equity tier instruments. The FIN-FSA also participated in the preparation of guidance on the auditing regulation and the guidelines and standards under the recovery and resolution directive and the guidelines on remuneration.

In addition, the FIN-FSA participated in the preparation of regulation for PRIIPs within the joint committee of the European supervisory authorities. Director General Anneli Tuominen functioned as the chair of the subcommittee preparing the matter. Furthermore, within ESMA, the FIN-FSA participated in the preparation of the Market Abuse Regulation, the MiFIR and the regulation on prospectuses. The FIN-FSA also contributed to the evaluation by ESMA of capital requirements regulation for investment firms (EBA/ESMA), preparation of the product intervention processes and crowdfunding, as well as EIOPA's consumer protection initiatives. As regards the reform of the Auditing Act, the FIN-FSA participated primarily in the preparations concerning the supervisory duties and powers to be vested with the FIN-FSA.

Nordic and other supervisory cooperation

The schedules for preparing the supervisory reviews in accordance with the ECB's model

> At the initiative of the FIN-FSA, the ECB set up a working group towards the end of the year to prepare a policy statement on the supervision of significant branches.

on Nordea Bank Finland and Danske Bank Finland were successfully coordinated with the schedules of their home country supervisors. However, the process showed that, in the context of joint banking supervision, the ECB's supervisory model does not pay sufficient attention to the role and needs of the host country supervisor, for instance in terms of the coordination of decision-making schedules. At the FIN-FSA's initiative, the ECB began preparing further guidance in the supervision handbook to improve cooperation between the home and host country supervisors. The collegial work on the banks under the ECB's direct supervision proceeded smoothly in a cooperative spirit among the ECB, home country supervisors and the FIN-FSA.

In the insurance sector, cooperation among the life and non-life insurance mathematicians continued with respect to the evaluation of internal ratings-based models through regular communication and annual meetings. Nordic supervisory cooperation also continued in matters regarding UCITS and AIFM funds. Cybersecurity became the focus area for Nordic supervision of stock exchanges.

Nordic cooperation in the development of a transaction reporting system expanded as the Netherlands expressed its interest in participating.

Regular cooperation with the Financial Stability Authority was launched at the end of the spring as the authority began its operation. The cooperation takes place through the advisory council of the Financial Stability Authority and at the level of managers and experts. During the first phase of operation of the new agency, different kinds of information requests were addressed comprehensively. In addition, a project was launched in the spring, which will establish practical processes for the exchange of information.

First year of macroprudential supervision: Do the risks and tools match?

In the aftermath of the financial crisis, a renewal of financial market regulations was also undertaken in Europe. One of the key elements of the reforms was extending the supervision from monitoring the status of individual entities to a more general level of macrostability and systemic risks. The objective was the identification, prevention and mitigation of these risks.

The European Systemic Risk Board (ESRB), whose task is the identification of systemic risks in the European Economic Area, began its operation at the beginning of 2011. The recommendations of the ESRB to the member states and authorities concerned the establishment of national decision-making frameworks for macroprudential supervision and risk monitoring, as well as prevention and mitigation in all segments of the financial markets. Both the Capital Requirements Regulation and Directive establish several macroprudential tools for the use of national macroprudential authorities (in Finland, the FIN-FSA). At the outset of the EU's joint banking supervision, the European Central Bank was also vested with the authority to decide on the macroprudential tools for the banking sector.

There are two kinds of systemic risks, structural and cyclical ones. In Finland, systemic risks are supervised by the FIN-FSA, which analyses macroprudential risks and prepares related decisions in cooperation with the Bank of Finland and the Ministry of Finance. The Board of the FIN-FSA decides on the use of macroprudential tools. During the report year, together with the Bank of Finland, the FIN-FSA initiated its quarterly assessments of the macrostability situation in the Finnish markets and on the potential use of the tools. Legislation requires that a formal decision is made on the use of the countercyclical capital buffer even if the buffer was set at zero, which was the case during the year.[2] Due to legislative requirements stemming from the Capital Requirements Directive, a fixed capital conservation buffer of 2.5% was introduced as part of the capital requirement for all banks, without a transitional period as from 1 January. The purpose was to strengthen the capital ratios of the banking sector.

At the beginning of July, the FIN-FSA specified the supplementary capital requirements (so-called O-SII buffers) for four credit institutions significant to the financial system: Nordea Bank Finland Plc (2.0%), OP Financial Group (2.0%), Danske Bank Plc (0.5%) and Municipality Finance Plc (Munifin) (0.5%)[3]. The supplementary capital requirement entered into force at the beginning of January 2016.

The requirements also seek to prevent systemic risks on the liquidity side by applying a liquidity coverage ratio, which was part of the regulatory change that entered into force in October. As of July 2016, lending in the housing market will be limited relative to collateral value – thereby containing credit growth – with a maximum loan-to-value ratio defined in the Act on Credit Institutions.

For more information on the tools available, see:
www.fin-fsa.fi > Supervision >
Macroprudential supervision >
Macroprudential instruments

However, market developments have shown that the threats to financial stability still exist. The low level of interest rates creates favourable conditions for the growth of asset values and credit stock. In December, the Board of the FIN-FSA announced its intention to introduce risk weight limits in IRBA-based capital requirements calculations. The situation in the international markets indicates that systemic risks are increasingly migrating away from the traditional banking sector to other sectors. The present macroprudential tools do not extend to these sectors.[4]

2) http://www.finanssivalvonta.fi/en/Publications/Press_releases/Pages/03_2015.aspx

3) http://www.finanssivalvonta.fi/en/Publications/Press_releases/Pages/12_2015.aspx

4) The macroprudential tools for the banking sector primarily target the supervised entities' capital. In principle, they could also be related to financial market institutions' other balance sheet items, or the contractual relationships between the institutions and their counterparties (also customers), or market structures.

Improving operational efficiency and development of operations

Electronic services being developed

The purpose of electronic services is to create an easily usable, modern, and reliable electronic service channel, with clear and effective instructions for usage. In the preliminary study phase, the FIN-FSA together with IT providers have explored similar initiatives by several authorities and public sector entities.

Efforts have been made in recent years to improve the efficiency of reporting and analysis activities, through the development of information systems. However, due to insufficient resourcing of the development projects, there were quality issues in the reporting systems, and these had to be patched up by adding personnel resources to reporting tasks.

Return to a more sector-specific set of regulations and guidelines

Based on feedback received from the sector, the FIN-FSA decided to increase the share of sector-specific regulations and guidelines. At the same time, a decision was made to more critically assess when there is need for a supplementary guideline by the FIN-FSA, where an EU supervisory authority has already issued a guideline or recommendation. For life and non-life insurance companies, renewed regulations and guidelines, concerning the commencement of operations and reporting other than that pertaining to Solvency II, were issued at the end of the year. The Solvency II regulation will considerably reduce the need for national regulation particularly with respect to regulations. All EIOPA's Solvency II guidelines were provided as the FIN-FSA guidelines.

Most prominent topics brought to the public's attention by the FIN-FSA

1. The state of the Finnish financial sector
2. Nordea's structural change
3. The introduction of macro-prudential supervision
4. Sanctions imposed by the FIN-FSA
5. The financing of occupational wellbeing activities

Source: Media monitoring by the FIN-FSA.

In an innovation contest, arranged for the first time within the **Bank of Finland** and the **FIN-FSA**, innovative proposals were collected from the organisations' personnel in order to bring about improvements in operational efficiency and further develop operations. The innovations were entered into an open-access Idea Bank, where all the FIN-FSA and BoF personnel had an opportunity to comment on them.

The FIN-FSA personnel generated 36 proposals, 13 of which were implemented during the report year. The winner was an overhaul of the annual report concept. The report was condensed from 79 to 24 pages, and its attractiveness and readability were improved by a less-is-more philosophy. In addition, three honorary distinctions were awarded in the contest.

The FIN-FSA will assess critically the need for a supplementary guideline, whenever an EU supervisory authority has already issued its own guideline or recommendation.

Regulations and guidelines concerning financial statements were circulated for consultation at year-end. The regulations and guidelines governing the capital requirements for financial and insurance conglomerates were reformed. In addition, the renewed regulations and guidelines on accounting, financial statements and the Board of Directors' report for the financial sector were circulated for consultation.

Descriptions pertaining to the sanction process included updates creating new practices to assess the sufficiency of evidence at the outset of the process and determining the schedule at the various stages of work in more detail. In this context, the principles for determining financial sanctions were prepared in order to guide consideration of the monetary value of sanctions and penalty payments. At the same time, the section on administrative sanctions and other supervisory measures was updated on the FIN-FSA's website. Internal training was provided regarding the sanction regulation and the reformed sanction process.

The changes implemented contributed to a shortening in the processing periods and the number of administrative sanctions imposed. During the report year, a total of 21 administrative sanctions were imposed and five requests for police investigation were made.

In connection with the reform of the Act on Credit Institutions, a requirement was introduced in the Act on the FIN-FSA that the supervisory authority should maintain a system which can be used to receive notices of suspected abuse related to provisions concerning financial markets. Through this communication channel, 32 notices were received during the report period.

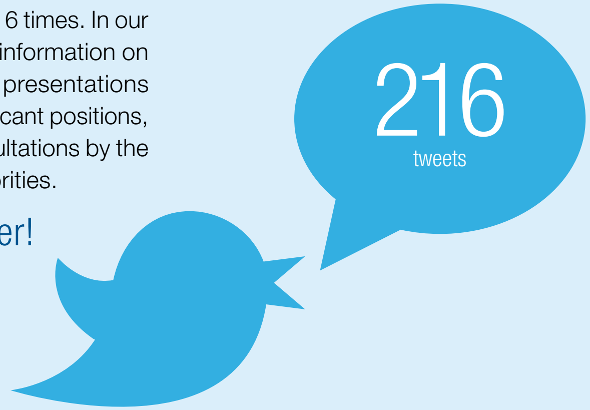
Towards the end of the year, competence mapping was conducted among the personnel, seeking to focus systematically on professional skills development. The development plan emphasises analytical skills, utilisation of IT and influencing skills.

In an innovation contest, arranged for the first time within the Bank of Finland and the FIN-FSA, innovative proposals were collected from the organisations' personnel in order to bring about improvements in operational efficiency and further develop operations. Of the 36 entries submitted by the FIN-FSA staff a third (13) of the proposed innovations were implemented over the course of the year. The main prize in the FIN-FSA's innovation contest was awarded for the overhaul of the annual report concept. In addition, three honorary distinctions were awarded in the contest.

The FIN-FSA launched a clarification and simplification of the structure of their list of fees for its services. The reform will be implemented, in connection with the reform of the FIN-FSA funding, in 2016.

During the report year, the Twitter account **Twitter.com/FIN_FSA** was opened. We tweeted 216 times. In our tweets, we distributed information on our new publications, presentations by the FIN-FSA staff, vacant positions, and opinions and consultations by the EU's supervisory authorities.

Become a follower!



The changes implemented shortened the handling times.

Parliamentary Supervisory Council

The Parliamentary Supervisory Council is responsible for supervising the overall expediency and efficiency of the FIN-FSA's activities. In supervising expediency, it assesses how the authority's statutory objectives have been achieved. As regards to the supervision of efficiency, the focus is particularly on how changes in tasks, legislation or markets affect developments in the FIN-FSA's staff size and budget.

Parliamentary Supervisory Council

During the review year, the following Members of Parliament acted as members of the Parliamentary Supervisory Council:

Chair **Ben Zyskowicz**

Deputy Chair **Pirkko Ruohonen-Lerner**

Jouni Backman
Timo Kalli
Marjo Matikainen-Kallström
Lea Mäkipää
Arto Satonen
Juha Sipilä
Jutta Urpilainen

The Parliament conducted an election of the Members of the Parliamentary Supervisory Council on 9 June and elected the following Members of Parliament as members of the Council:

Chair **Matti Vanhanen**

Deputy Chair **Pentti Oinonen**

Olavi Ala-Nissilä
Seppo Kääriäinen
Antti Rinne (until 26 June)
Arto Satonen
Jutta Urpilainen (as of 29 June)
Pia Viitanen
Ville Vähämäki
Ben Zyskowicz

Board

The FIN-FSA's activities are steered by the Board. The Board sets the specific objectives for the activities of the FIN-FSA, decides the operational principles, and guides and supervises achievement of the objectives and compliance with these principles. In addition, the Board, inter alia, discusses the budget of the FIN-FSA and submits it to the Board of the Bank of Finland for confirmation. In accordance with section 10 of the Act on the Financial Supervisory Authority (878/2008), the Board supplies the Parliamentary Supervisory Council with a report on the operational objectives of the FIN-FSA and their achievement, at least once a year.

The secretary to the Board was Senior Legal Advisor **Pirjo Kyyrönen**. The Board convened 30 times during the year. Fees to the members and deputies in the year under review totalled EUR 53,653.77. No separate attendance allowance was paid.

Vice Chair **Martti Hetemäki,** DSocSc, Permanent State Secretary, Ministry of Finance

(Deputy member as of 11 September: **Jaakko Weuro**, LLM, Advisor, Ministry of Finance

Deputy member until 30 April: **Tuija Taos**, LLM in EC Business Law, Director, Legislative Counsellor, Ministry of Finance)

Vesa Vihriälä, DSocSc Managing Director of ETLA, the Research Institute of the Finnish Economy

Outi Antila, LLM (trained on the bench), Director-General, Ministry of Social Affairs and Health

(Deputy member: **Mikko Kuusela**, PhD, SHV*, Senior Actuary, Ministry of Social Affairs and Health)

* Actuary accredited by the Ministry of Social Affairs and Health.

Pirkko Juntti, LLM (trained on the bench)

Chair **Pentti Hakkarainen,** LLM (trained on the bench), MSc Econ, Deputy Governor, Bank of Finland

(Deputy member as of 15 December: **Katja Taipalus**, DSocSc, Head of Department, Bank of Finland

Deputy member until 15 December **Kimmo Virolainen**, DSc Econ, Head of Department, Bank of Finland)

For more detailed information, please see:
CVs of the Board, organisation chart: Fin-fsa.fi > About us > Organisation

Fin-fsa.fi > About us > Organisation > Ethical rules of conduct > Ethical rules of conduct for members and deputy members of the Board of the FIN-FSA

For more information, see:
The Board's report to the Parliamentary Supervisory Council will be published in March 2016 (in Finnish) at Finanssivalvonta.fi > Julkaisut ja tiedotteet > Johtokunnan kertomus pankkivaltuustolle.

Management Group

Jarmo Parkkonen
LLM, MSc Econ,
Head of Supervision of
Markets and Conduct of Business

Erkki Rajaniemi
DSc Econ, LicLL,
LLM (trained on the
bench), Advisor to the
Management

Jyri Helenius,
MSc Eng,
Head of Prudential
Supervision

Sonja Lohse
LLM (trained on the
bench), Chief Advisor,
Head of the Director
General's Staff

Pirjo Kyyrönen
LLM (trained on the bench)
Senior Legal Advisor,
secretary to the management group

Anneli Tuominen
LLM (trained on the bench),
BSc Econ, Director General,
Chair of the Management Group

Marja Nykänen
LLM (trained on the bench)
Deputy Director General,
Institutional Supervision

The management group convened 55 times during the year. The Director General's salary and fees totalled EUR 209,110.42. Salaries and fees paid to the other management group members totalled EUR 646,775.29.

For more detailed information, please see:
See management group's CVs as well as ethical guidelines and guidelines on securities trading and close ties of the FIN-FSA staff at Fin-fsa.fi > About us > Organisation

For more information, please see:
The personnel audit for the year under review will be published in March 2016 (in Finnish) at Finanssivalvonta.fi > Tietoa Finanssivalvonnasta > Avoimet työpaikat

Number of the FIN-FSA personnel and their duties

	Women		Men		Total	
Management	8	42%	11	58%	19	10%
Experts	93	62%	57	38%	150	79%
Support staff	20	95%	1	5%	21	11%
Total	**121**	**64%**	**69**	**36%**	**190**	**100%**

Appendices

Total number of supervised and other fee-paying entities

Fee-paying entities	31.12.2014	31.12.2015
Credit institutions	296	285
Investment firms	59	64
Fund management companies and AIFMs	35	38
Securities issuers	149	162
Stock exchange, clearing corporation	1	1
Finnish Central Securities Depository	1	1
Other fee-paying entities in the financial sector	96	148
Financial sector, total	**637**	**699**
Life insurance companies	13	12
Non-life insurance companies	37	38
Pension insurance companies	6	6
Unemployment funds	29	29
Pension funds	56	54
Sickness funds and other insurance funds	134	130
Insurance associations	6	6
Insurance brokers	66	70
Public sector pension funds	3	3
Other fee-paying entities in the insurance sector	37	37
Insurance sector, total	**387**	**385**
All supervised and other fee-paying entities, total	**1,024**	**1,084**

In addition, the FIN-FSA supervises for example insurance agents and compliance with the obligation to declare insider holdings.

Expenses and funding

Expenses and funding, EUR thousands	2014	2015*
Staff expenses	16,836	16,551
Staff-related expenses	836	880
Other expenses	4,018	3,250
Services	1,298	895
Real estate expenses	1,347	1,336
Other expenses	1,373	1,019
Depreciation	292	756
Bank of Finland services	4,213	4,533
Total expenses	**26,196**	**25,970**
Funding of operations		
Supervision fees	24,316	20,779
Processing fees	1,821	2,311
Bank of Finland's contribution: 5% of expenses	1,310	1,298
Surplus carried over from the previous year	3,117	4,368
Surplus carried over to the next year	-4,368	-2,786
Total funding	**26,196**	**25,970**

** The figures for 2015 are unaudited and unconfirmed.*

Set supervision fees

Fee-paying entities, EUR thousands	2014	2015
Credit institutions	12,357	10,645
Investment firms	964	987
Fund management companies and AIFMs	1,455	1,319
Securities issuers	1,899	1,548
Stock exchange, clearing corporation	332	256
Finnish Central Securities Depository	205	160
Other fee-paying entities in the financial sector	327	277
Financial sector, total	**17,539**	**15,192**
Life insurance companies	1,107	933
Non-life insurance companies	1,492	1,208
Pension insurance companies	1,966	1,611
Unemployment funds	1,090	897
Pension funds	256	202
Sickness funds and other insurance funds	95	72
Insurance associations	5	4
Insurance brokers	81	65
Public sector pension funds	518	441
Other fee-paying entities in the insurance sector	170	155
Insurance sector, total	**6,780**	**5,588**
Adjustment items carried over from previous years	-5	-1
Fee-paying entities, total	**24,314**	**20,779**

Processing fees

Fee-paying entities, EUR thousands	2014	2015
Credit institutions	107	92
Investment firms	92	99
Fund management companies and AIFMs	903	1,372
Securities issuers	238	232
Other fee-paying entities in the financial sector	84	61
Financial sector, total	**1,424**	**1,856**
Insurance companies[1]	95	91
Unemployment funds	24	22
Pension funds	30	27
Sickness funds and other insurance funds	48	44
Insurance brokers[2]	197	229
Other fee-paying entities in the insurance sector	9	42
Insurance sector, total	**403**	**455**
Fee-paying entities, total	**1,827**	**2,311**

[1] Life, non-life and pension insurance companies

[2] Insurance brokers and agents

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 19 occasions. The FIN-FSA was requested to make 32 submissions on draft Finnish legislation and 97 other submissions in its field of competence.

Journal

Items initiated in the FIN-FSA's journal in 2015 (main functions and their major categories)	Number
Governance	85
Regulation	72
Supervision	2,585
Notifications; branches and cross-border activities	574
Articles of association, by-laws and regulations; confirmation and changes	198
Prospectuses	210
Letters by private citizens	209
Fit & Proper reports	225
Inspections	46
Authorisations; granting and expansion	18
Other	233
Domestic cooperation	98
International cooperation	7
	2,975

In addition, 640 new applications for registration and 1,598 applications for change were processed in the insurance agent register outside the scope of the Journal.

Working group

Terhi Lambert-Karjalainen (chair)
Peik Granlund
Raakel Heikkinen
Ville Kajala
Teija Korpiaho
Jaana Rantama
Juha Savela
Tommi Tulonen

Layout design and page makeup

Recommended Finland Oy

Photographs

Front cover: Pekka Kiirala
Portrait photographs:
Peter Mickelsson, Bank of Finland

Printer

Edita Prima Oy, 2016

Financial Supervisory Authority
Snellmaninkatu 6, P.O. Box 103, FI-00101 Helsinki
Switchboard +358 10 831 51
Fin-fsa.fi Twitter.com/FIN_FSA