

## EXECUTIVE SUMMARY

**The Finnish financial safety net and crisis management arrangements rest on sound statutory foundations.** As Finland is part of the Euro Area framework, the resolvability of Significant (SIs) and Less Significant (LSIs) Finnish institutions have improved their compliance with the European Union's variant of the Financial Stability Board's loss-absorbing capacity requirements, known as Minimum Requirement for Own Funds and Eligible Liabilities ("MREL"). At a national level, the Finnish authorities have also improved internal and inter-authority crisis preparedness. Reflecting the interconnectedness in the Nordic-Baltic region, in 2018, the Finnish authorities also signed an updated MoU with Nordic-Baltic authorities focused on improving coordination with respect to managing crises in the regional financial system. However, there is still room for improvement in key areas, including LSI resolvability, operational readiness to implement resolution actions, central bank crisis liquidity support arrangements and interagency crisis preparedness.

**Since the last FSAP, there have also been major structural changes in the Finnish financial sector.** Nordea's re-domiciliation in 2018 to Finland has increased the size of banking sector assets as a percentage of GDP from 250 to 350 percent (see Appendix 1). Nordea's move also further deepens Finland's direct exposure to the stability of the other Nordic-Baltic countries, particularly Sweden. Cross-border exposures to Denmark, Norway, and Sweden are now 80 percent of total cross-border exposures. Among Finnish banks, Nordea holds 74 percent of its assets in these three countries.

**The authorities have also had to manage the impact of both the COVID crisis and the war in Ukraine in quick succession.** The authorities continue to closely monitor the impact of geopolitical risks on the Finnish financial system. In particular, the Finnish Government passed an Act on certain arrangements for the security of supply in the financial sector in July 2022, further expanding the crisis management responsibilities of the FFSA and Bank of Finland (BoF) to establish a backup system capable of maintaining continuity in customers' daily banking payments.

**These recent developments reinforce the need for full operational readiness in the Finnish authorities' crisis management arrangements.** The authorities have made progress in developing crisis management capabilities and procedures, as well as gathering practical experience from recent events. However, work remains to fully operationalize the crisis management framework and ensure that the resolution tools can be used at speed and with confidence to protect national and regional financial stability. This is particularly the case for the FFSA, given its responsibilities for implementing resolution actions under the preferred resolution strategy for Finnish SIs and LSIs and for the BoF as a lender of last resort.

**Enhancing crisis management capacity within and between authorities is essential to ensure effective implementation in a coordinated manner of agreed crisis management plans, including for bank resolution.** The authorities should increase the centralization of the coordination of the authorities' respective preparation for, as well as management of, future crises in the Crisis Management Cooperation Group. There is a high level of interdependence related to the sequencing of the respective independent actions each authority needs to take as firms begin to

experience stress or fail. As a result, this group should play a role in coordinating the authorities' work to formalize respective internal crisis management practices so that they best support the independent but well-coordinated authority action under agreed crisis management plans. This group should monitor on an ongoing basis that authority resources dedicated to crisis management are commensurate with their statutory functions.

**In preparing for future bank failure, SIs and LSIs are expected to have removed the remaining barriers to resolvability, including valuation and funding in resolution reporting capabilities, by 1 January 2024.** The FFSA has defined a clear set of expectations for firms to comply based on the Single Resolution Board (SRB) and European Banking Authority (EBA) resolvability policy and a requirement to self-assess their level of compliance. Based on the experience gathered with SIs, FFSA applies the SRB's heatmap methodology assessing LSI resolvability. Drawing on this experience, to support consistent evaluation of firm-specific actions to improve resolvability, the FFSA should develop a resolvability scoring framework for Finnish LSIs (or implement an SRB framework for such purposes) ahead of the 2024 compliance deadline. Such a scoring or evaluation framework should capture examples of good and bad practices in firms' implementation of resolvability expectations. It will also support the prioritization of FFSA verification of firm-specific capabilities and their ongoing maintenance. The FFSA should ensure that the resolution plans for SIs and LSI with an amalgamation structure can be implemented at speed and with certainty over the resolution weekend while ensuring SRM resolvability expectations are tailored to take account of their legal entity structure, which is particular to the Finnish financial system.

**When managing failed banks, statutory resolution tools need to be usable, at speed, and with confidence to impose losses on failed bank creditors.** The FFSA should develop and publish its resolution mechanics to use the resolution tools prioritizing the bail-in tool initially. This published bail-in mechanic should define the FFSA's approach to key policy choices related to valuation timelines, treatment of resolved bank shares, issuance of new shares or interim instruments, and approach to ensuring compliance with change in control and other regulatory requirements under the European prospectus directive.

**For backstop liquidity in a crisis, the BoF should ensure that its Emergency Liquidity Assistance (ELA) and funding in resolution lending capabilities are fully operational.** Building on existing internal ELA policies and procedures, the BoF should further develop its internal preparedness to support lending to failed banks whose solvency and viability have been restored through the application of resolution tools and the development of a credible restructuring plan. This should include defining internal collateral haircuts and pricing assumptions for crisis lending as well as regularly testing its ELA lending arrangements with its counterparties. With the FFSA, the BoF should formalize a non-firm-specific approach to assessing and addressing liquidity needs for Finnish banks in resolution should the need arise so that reporting and operational issues to the rapid deployment of liquidity can be identified as part of pre-crisis planning. While the conditions of access for individual Finnish banks to BoF ELA are at the discretion of the BoF, it is important that the BoF and the FFSA have a common understanding of what might happen in different scenarios. It should include liquidity forecasting and collateral reporting requirements, jointly assessing the

liquidity capacity of banks by monitoring unencumbered collateral and regularly testing the operational procedures for pledging collateral and deploying liquidity. While noting that resolution plans cannot assume the use of ELA, it is important to ensure that during the resolution planning process that banks are able to identify and mobilize assets (especially lower quality, and less liquid assets) that could be used as collateral to obtain liquidity in resolution anticipating any legal, regulatory, and operational obstacles to their mobilization under stressed conditions. The BoF should publish a policy framework that clarifies its role as lender of last resort for funding in resolution, including by specifying the general conditions for accessing if private sources are unavailable.

**On deposit guarantee arrangements, the FFSA Deposit Guarantee Fund (DGF) should ensure that it has sufficient funds under its direct control to ensure its financial autonomy, including through strengthened backstop funding arrangements.** A well-funded DGF is important both to support rapid payout of covered deposits if required and given its role in contributing to the cost of resolution actions. Ensuring that the FFSA can deploy its DGF funds to support resolution costs is particularly important for situations where banks are not able to issue MREL due to prolonged loss of access to wholesale markets or for firms that do not have sufficient MREL resources. The FFSA should outline how the counterfactual insolvency valuation analysis would be undertaken as a basis for assessing the amount of DGF funds it could contribute. The FFSA should take a prudent approach and ensure that its prefunded DGF, and its policy advice on the appropriate target level, are sufficient for a range of crisis scenarios (e.g., the payout of several LSIs simultaneously); while ensuring that arrangements for mobilizing backstop funding are not solely reliant on market borrowing.

**Table 1. Finland: Recommendations on Financial Safety Crisis Management<sup>1</sup>**

Recommendations	Timing
<b>Framework for Bank Failure</b>	
1. Define criteria to inform the judgement on when to use the new backup system to secure daily payments instead of a resolution action (MoF, BoF, FFSA ¶13).	I
2. Develop procedures to ensure orderly entry, operation and exit from the new backup system to ensure daily payments as well as the liquidity implications for the FFSA (MoF, BoF, FFSA ¶14).	NT
3. Provide backstop Government stabilization tools, including temporary public ownership as last resort options, if legally possible, to only be used where all other resolution actions have failed (MoF ¶17).	NT
<b>Preparing for Future Bank Failure</b>	
4. The Government should review the FIN-FSA request for the review of its levy arrangements in 2024 once the next Parliament is in session and ensure that the FIN-FSA and FFSA has the resources it deems necessary to discharge their functions (MoF, ¶25, 78, 79).	I
5. Publish a policy framework on the factors informing the assessment of public interest in setting resolution strategies for LSI, including depositor reliance on a single bank for deposit services. (FFSA, ¶30).	NT
6. Develop and publish a framework for scoring or assessing LSI resolvability self-assessment reports (or implement an SRB framework for such purposes) ahead of the 2024 compliance deadline to ensure consistency, testing and compliance monitoring. (FFSA, ¶38).	I
<b>Managing Failed Banks</b>	
7. Publish a policy on bail-in and transfer mechanics that addresses policy choices on valuation, issuance of new instruments, treatment of resolved bank shares and change in control requirements. (FFSA, ¶44).	NT
8. Ensure that emergency liquidity assistance processes, procedures and operational capabilities are sufficient to support a rapid provision of temporary collateralized liquidity for FIs in resolution, tested internally and with external counterparties annually. (BoF, FFSA ¶52, 53 54).	NT
9. Clarify publicly that DGS funds can be used to contribute to the cost of resolution once MREL resources are exhausted, subject to the 'least cost' principle (FFSA, ¶61).	NT
10. Ensure that the DGS has sufficient funds on an ongoing basis under its direct control and investment to ensure its financial autonomy and minimize its dependency on borrowing from banks to payout. (FFSA, MoF, ¶59).	NT
<b>Financial Crisis Preparedness &amp; Coordination (Domestic &amp; Cross Border)</b>	
11. Continue the centralization of cross-authority crisis cooperation and coordination in the Crisis Management Cooperation Management Group and ensure its responsibilities include the coordination of the authorities' respective preparation for, as well as management of, future crisis (MoF, FIN-FSA, FFSA, BoF, ¶70).	NT
12. Formalize existing crisis management practices and prioritize by agreeing a cross-authority crisis simulation exercise strategy supported by an operational manual to help increase the authorities' operational readiness and adequately resourced for crisis (FFSA, FIN-FSA, BoF, MoF ¶83).	NT
13. Expand procurement frameworks to support the rapid appointment of the full range of external advisory support that may be required to prepare for and implement crisis management and resolution actions. (FFSA, ¶79).	NT
14. Develop shared analytical methodologies for assessing FI viability, systemic impact on failure to ensure consistent assessment across authorities and speed in a crisis (BoF, FIN-FSA, FFSA, ¶76).	NT
15. Strengthen the legal and operational framework for the legal protection of officials, staff, and agents of all financial oversight agencies (MoF/FFSA/FSA/BoF; ¶87).	MT

<sup>1</sup> Timing: C = Continuous; I = Immediate (within one year); NT = Near Term (within 1-3 years); MT = Medium Term (within 3-5 years).

# BACKGROUND<sup>1</sup>

## A. Introduction

**1. Financial safety net and crisis management arrangements are essential in handling financial crises.** The International Monetary Fund (IMF) defines the financial safety net as comprising: (1) prudential supervision, including recovery planning; (2) resolution actions, including bank resolution planning; (3) central bank lender of last resort liquidity assistance (LOLR); and (4) deposit protection. Crisis management requires the development of tools and procedures that allow authorities to respond quickly, decisively, and in close collaboration with other authorities. This requires significant advance preparation both within individual authorities and a framework that ensures a necessary level of coordinated analysis, decision making and action between several authorities both at a domestic and cross-border level.

**2. This note examines the Finnish financial safety net and crisis management arrangements, including bank resolution and contingency planning.** It is based on a review of the relevant legal, policy, and operational documents, as well as the authorities' comprehensive responses to the questionnaire before the assessment. Extensive discussions with authorities have also informed this note. Since the 2008 financial crisis, the Finnish financial safety net has been expanded to integrate both the process of recovery and resolution of distressed financial institutions into the financial safety net. While much progress has been made since the 2016 FSAP to establish the necessary statutory basis for crisis management and resolution, many aspects of these arrangements are still in the process of being operationalized within and among authorities as well as by banks.

**3. As Finland is part of the European Union and the Euro Area, the management of distressed financial institutions takes place within a European framework.** For all parts of the financial safety net, many aspects of the legal regime are set by European law or regulatory guidelines. The ECB, as part of the SSM, has the direct responsibility for the supervision of Finland's largest institutions (Significant Institutions (SIs)) while the FIN-FSA is responsible, under the oversight of the ECB, for the supervision of other smaller banks (LSIs). Similarly, the Single Resolution Board (SRB) has primary responsibility for decisions relating to the resolution of larger and cross-border institutions. FFSA is responsible, under the SRB's oversight, for the resolution of other smaller banks. Any provision of Emergency Liquidity Assistance (ELA) is the Bank of Finland's (BoF) responsibility, but it must act within a framework set by the ECB. IMF recommendations relating to the European framework are set out in the 2018 Financial System Stability Assessment for the Euro Area (IMF Country Report No. 18/226 and Pillar 3 Technical Note No. 18/232) and summarized in Box 1 below. This note reviews national aspects of the regime and the effectiveness of national authorities' coordination with ECB, SRB, and cross-border authorities.

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<sup>1</sup> This Technical Note was prepared by Eamonn White (External FSAP Advisor, IMF). The author would like to thank the Finnish authorities for their excellent engagement, open dialogue, and warm hospitality throughout the FSAP process.

### Box 1. Finland: Main Findings of the 2018 Euro Area FSAP on Crisis Management

In July 2018, the IMF concluded its first Euro Area FSAP, praising the Euro Area authorities for establishing a considerably strengthened bank resolution framework at the EU level while highlighting room for further improvement:

- **The banking union needs a more effective deposit insurance system (DIS).** Many national DISs are underfunded and lack effective backup funding. A common deposit insurance system for the Euro Area is needed.
- **A financial stability exemption is needed to help mitigate critical constraints in the framework.** The Single Resolution Mechanism Regulation (SRMR) requires bailing in a minimum of 8 percent of total liabilities and own funds prior to access to the Single Resolution Fund or national public funds for loss absorption. Building loss-absorbing capacity and recapitalization capacity beyond capital requirements will take time and is generally not required for smaller banks expected to be liquidated. Many smaller banks may therefore have no access to funds, even in a system-wide crisis. A financial-stability exception—to be used only in times of Euro Area-wide or country-wide crisis—subject to strict conditions and appropriate governance arrangements—would bring much-needed flexibility.
- **Despite the establishment of the SSM and the SRM, fragmentation along national lines persists.** In the EU, resolution requires an assessment against potential outcomes under significantly heterogeneous national insolvency regimes. This is exacerbated by SRB decisions being executed by national resolution authorities under diverging national laws (e.g., administrative and labor laws). Heterogeneous national (bank) insolvency regimes, with more generous public-funding options and less stringent loss-sharing requirements under EU state aid rules than in the SRM, deliver substantially different outcomes for bank creditors and strongly incentivize national solutions.

**4. This Note does not reflect a formal or granular assessment of compliance with any specific standard assessment framework but rather is based on a comparison against established international policies and best practices.** Examples of these standards include: i) the Key Attributes for Effective Resolution Regimes; ii) the Basel Core Principles for Effective Banking Supervision (BCP); and iii) the Core Principles for Effective Deposit Insurance.

**5. The Note aims to help strengthen the Finnish financial safety net and crisis management framework by identifying gaps and recommending steps to improve it, considering the specific Finnish context.** Given that much of the Finnish regime is governed by European-wide legislation and the work of European institutions, the discussion in this FSAP focuses on 1) matters that are specific to Finland's framework for bank failure, 2) progress to date in preparing for bank failure, 3) Finnish preparedness to manage crisis involving failing banks given their statutory responsibilities for resolution implementation, and 4) cross-authority crisis preparedness. Where available, these recommendations are accompanied by examples and references to best practices. Where the Note's assessment and recommendations go beyond national responsibilities and legislation, it may be necessary for the Finnish authorities to advocate changes within the European Union for those issues upon which they cannot take unilateral action.

## B. Financial Oversight Architecture

**6. The domestic agencies are the Financial Supervisory Authority (FIN-FSA, Finanssivalvonta); the Bank of Finland (BoF, Suomen Pankki), the Financial Stability Authority (FFSA, Rahoitusvakausturvasto), and the Ministry of Finance (MoF).** While the MoF has no direct role in the statutory prudential or resolution framework for financial institutions in Finland, it is politically responsible for Finland's financial legislative framework, leads negotiations of European legislation and is involved in cross-authority coordination at a national level.

- a. The FIN-FSA is the prudential authority for the Finnish financial sector. The FIN-FSA's objective is to safeguard the interests of the insured and to maintain confidence in the Finnish financial markets. It aims to ensure financial stability and the smooth operation of credit, insurance and pension institutions, and other supervised entities. Its tasks include the supervision, regulation, and monitoring of financial markets and their participants. It is also tasked with preparing, jointly with the MoF, BoF and FFSA, macroprudential measures to ensure financial system stability. The FIN-FSA's tasks and related powers are elaborated upon in several financial sector laws, including the Credit Institutions Act.
- b. The FFSA is the Finnish resolution and deposit insurance authority. As the resolution authority, the FFSA is tasked with ensuring the stability of financial markets in Finland and with resolving distressed credit institutions and investment firms. As the deposit insurance authority, the FFSA is tasked to prepare for the payout of covered deposits. The FFSA also manages the Financial Stability Fund (FSF), comprising the national resolution fund and the Deposit Guarantee Fund (DGF). The tasks and related powers of the FFSA are elaborated in the FFSA Act and the Resolution Act.
- c. The BoF is the monetary authority of Finland. The BoF's primary objective is to maintain price stability; for this purpose, it is tasked with executing in Finland the Eurosystem monetary policy. Subordinated to its monetary objective, the BoF is also expected, among other things, to maintain the reliability and efficiency of the payment system and overall financial system and to contribute to its development. The BoF has financial stability responsibilities, as do the FIN-FSA and FFSA; and it is the main provider of systemic risk analysis and monitoring. More generally, together with the FIN-FSA, MoF and FFSA, the BoF is expected to prepare macroprudential measures to ensure financial stability.

**7. As a member of the banking union and euro area, the Finnish authorities are part of the Single Supervisory Mechanism (SSM), Single Resolution Mechanism (SRM), European System of Central Banks (ESCB) and Eurosystem.** As a result, the European authorities that have jurisdiction in the Finnish financial system are the European System of Central Banks (ESCB), the European Central Bank (ECB), the European Commission (EC), the Single Resolution Board (SRB), the European Systemic Risk Board (ESRB), and the European Stability Mechanism (ESM).

**8. Despite EU arrangements, national authorities play a critical role in maintaining financial stability in EU member states.** The FIN-FSA provides the majority of staff to support the



ECB's joint supervisory teams' (JSTs) work with respect to Finnish banks classified as significant institutions (SIs). It also leads on the prudential supervision of Finnish less-significant institutions (LSIs). The FIN-FSA contributes to the ECB's oversight over the recovery planning for Finnish SIs and oversees the recovery planning for LSIs. In addition, the FIN-FSA supports the ECB in taking early intervention measures against the SIs when and if the supervised entity has not or will not execute these measures. The FFSA leads on resolution planning for Finnish LSIs and contributes to resolution planning for Finnish SIs as part of the SRM Internal Resolution Teams (IRTs). More importantly, the FFSA has sole responsibility for executing resolution measures for all Finnish banks if they fail, regardless of whether they are classified as SIs or LSIs. With respect to the SIs, the SRB is making the resolution decision but must order the FFSA to implement the measures outlined in the decision via national statutory powers. The BoF has sole responsibility for executing in Finland the Eurosystem's monetary policy. The BoF also has statutory responsibility for the provision of ELA. Any such liquidity provision by the BoF would be subject to the Eurosystem Agreement on ELA.<sup>2</sup>

**9. Domestic cross-authority crisis coordination on BRRD related crisis management options is facilitated through the FFSA Advisory Board.** Its members are appointed by the MoF for three years and include representatives from FFSA, MoF, BoF, and the FIN-FSA. The advisory board supports coordination among the authorities on matters related to the functions of the FFSA as resolution authority. These formal arrangements are complemented by regular bilateral working groups between MoF, FFSA, BoF and FIN-FSA experts. FFSA and FIN-FSA working groups enhanced their discussion using a virtual platform designed to facilitate the secure sharing of firm-specific supervisory data and resolution reporting information.

## C. Progress Since 2016 FSAP

**10. While the Finnish recovery and resolution framework remains untested, the authorities have made progress in developing their crisis management and resolution regime, including:**

- On bank resolvability, a preferred resolution strategy has been set for all Finnish SIs, and LSIs judged by the FFSA to enter resolution on failure. These banks are subject to the FFSA's MREL requirements higher than the capital requirements. Finnish LSIs will have a compliance transition period until 1 January 2024, with the first binding intermediate target level in place since the beginning of 2022. While the FFSA has not published any domestic-level guidance on non-MREL resolvability expectations on Finnish banks with a resolution strategy, it has communicated to firms that it expects them to comply with the European Banking Authority's guidelines for institutions on improving resolvability. FFSA engages with Finnish banks to ensure that they understand how certain parts of those guidelines should be interpreted and applied in a Finnish context.
- On international cooperation, the Finnish authorities participate in the Nordic-Baltic Stability Group (NBSG), which is designed to support the development of a shared understanding of their respective regimes and discuss risks. They also participated in the NBSG crisis simulation

<sup>2</sup> See [Agreement on Emergency Liquidity Assistance](#).



exercise in 2019, which involved other Nordic-Baltic supervisory and resolution authorities, central banks and relevant ministries. The exercise followed a hypothetical crisis scenario involving fictitious financial institutions in the Nordic and Baltic countries.

- On cross-authority coordination, the Finnish authorities (MoF, the Ministry of Social Affairs, FIN-FSA, BoF, FFSA) signed a crisis management Memorandum of Understanding (MoU) in December 2021. The MoU establishes two new cross-authority coordination groupings: 1) a Management Team for crisis management cooperation; and 2) a Cooperation Team for crisis management. The first group meets at least once a year, and the second is adopted in actual crises. A bilateral MoU was also signed by the BoF and FFSA in 2021 for information sharing in the crisis preparatory phase.
- On authority financial crisis preparedness and capabilities, resourcing has increased since the last FSAP, and the authorities have developed their respective internal crisis preparedness (e.g., developing internal crisis manuals). There are now more structured arrangements for regular information sharing, and the authorities have conducted a series of crisis simulation exercises. The FFSA has also led a virtual tabletop exercise on selected resolution processes with FIN-FSA, BoF and MoF to develop an improved understanding of crisis procedures and decision-making. FFSA has also developed a virtual platform to identify operational steps related to resolution action, link these steps to template documents, tools for the assessments to be made and governance requirements to support rapid action in a crisis.

## FRAMEWORK FOR BANK FAILURE

### A. Banks (Both Resolution and Liquidation)

**11. The Finnish statutory bank resolution regime aligns with global and European good practices for institutions that could be systemic in failure.** The legal framework for the resolution regime is set out clearly in a combination of Finnish and European law. The BRRD has been implemented in Finland and sets out FFSA's powers, tools, and objectives as the Finnish national resolution authority (NRA). The SRM Regulation sets out the powers of the SRB and the framework for coordination between the SRB and NRAs in resolving banks in the Banking Union. The MoF's role in the Finnish crisis management regime is primarily related to negotiating and implementing EU rules. It has no role in providing backstop solvency or liquidity support in an extreme system-wide financial crisis where the use of resolution tools has been unsuccessful in stabilizing the situation. The Government is also the sole gateway to the European Commission regarding all state aid cases.

### Box 2. Finland: FFSA Resolution Tools

The four resolution tools available to the FFSA are defined in the Act on the Resolution of Credit Institutions and Investment Firms as follows:

1. Bail-in: write-down and conversion of liabilities: the nominal value of liabilities is written down entirely or in part and converted into regulatory capital instruments. Bail-in can be affected, for example, through the write-down, conversion, or cancellation of shares.
2. Sale of business: the institution's shares or assets and liabilities are transferred entirely or in part to another institution or third party.
3. Bridge institution: the institution's assets and liabilities are transferred to a bridge institution that is established by the resolution authority and under the authority's control.
4. Asset management vehicle: part of the institution's assets and liabilities are transferred to a separate asset management vehicle in connection with the use of one of the previously mentioned tools.

Multiple tools can be used simultaneously for the restructuring of operations. The FFSA can only apply resolution tools after a valuation of the assets and liabilities of the institution under resolution has been carried out.

**12. In July 2022, the Finnish Government passed the Act on certain arrangements for security of supply in the financial sector, which resulted in an expansion of the crisis management responsibilities of the FFSA and BoF.** The FFSA is now responsible for the setup and operation of a security of supply account system, consisting of backup account services and backup services designed to secure debit-card payments. The BoF has been given the responsibility for securing interbank payments via the establishment of a Backup Interbank Clearing System. The Finnish Government is responsible for deciding to activate the backup account system when a serious disruption of society or emergency conditions prevents the normal use of payment systems. The operation of these new systems will be supported by new reporting requirements for banks on accounts, debit cards and data on payment service processing.

**13. The recent expansion of the FFSA and BoF statutory responsibilities under the Act will improve the authorities' ability to respond to extreme crises situations in the face of ongoing geopolitical tensions.** In designing and implementing such new tools, the FFSA should be able to explain to its external stakeholders how the existing crisis management and resolution framework interacts with the new tools so that it is clear to home and host authorities when different tools will be used and in what sequence. This is particularly important given the backup system is designed to secure continuity in Finnish payments only. There is a risk that failure to clearly communicate the sequence or interactions with the agreed resolution plan for cross-border banks may trigger a fragmented crisis response by home and host authorities or incentivize pre-emptive actions in a crisis. The Finnish Government should work with FFSA and BoF to design a set of criteria to inform the judgement when to use the new backup system to secure daily payments instead of a resolution

action. Such criteria can then form the basis of engagement with the FFSA's crisis management external stakeholders.

**14. In establishing the security of the supply account system, the FFSA should develop the procedural and operational steps necessary to ensure orderly entry, operation, and exit from the backup system.** The FFSA should develop procedures to ensure orderly entry, operation, and exit from the backup system. An important consideration in all three of these phases will be to understand the liquidity implications for the FFSA at each phase of the tool's operation. The FFSA should establish clear arrangements with the BoF to ensure roles and responsibilities related to addressing any temporary liquidity needs related to the operation of the backup system are clearly understood and documented.

**15. On backstop public support, the MoF has decided to exercise its national discretion when implementing the BRRD into Finnish law by not including the government stabilization tool in the Finnish statutory regime.** This tool would have allowed the Government to provide public equity support and take a systemic bank into temporary public ownership as a last resort; a backstop option should the FFSA's resolution action be unsuccessful. Pre-existing statutory powers for the MoF (i.e., government liquidity, guarantees and capital support) were abolished in 2015 upon the enactment of the national legislation implementing the BRRD. The decision not to include the government stabilization tool in the regime is consistent with the approach of many banking union countries.

**16. Under the Finnish framework, no national-level public backstop arrangements are available to the authorities should a bank fail, and existing resolution tools fail to stabilize the firm.** Finnish banks within the scope of the resolution regime would have sufficient resources to comply with full MREL requirements by 2024 and, as a result, should be able to comply with the BRRD 8 percent rule in failure to access the SRF if additional resources beyond MREL were required to stabilize the failing bank. However, banks not expected to be resolved (but rather liquidated pursuant to the domestic bank liquidation regime) are not required to build additional loss-absorbing capacity. If in a future crisis, it was judged that banks with a liquidation strategy, in fact, needed to enter the resolution regime to preserve financial stability, the use of resolution tools may be ineffective, and the 8 percent rule requirement may mean there is no access to backstop public funds via the SRM. In this scenario, the absence of national-level public backstop arrangements could undermine Finnish financial stability.

**17. The Government should exercise its flexibility under the BRRD to provide the MoF with government stabilization tools, including temporary public ownership as a last resort option if legally possible.**<sup>3</sup> Implementation in Finnish legislation would provide a more structured framework for the use of these tools as a last resort. These additional tools should be available in

<sup>3</sup> As noted in the Euro Area FSAP Technical Note on Crisis Management, almost half of EA countries have established powers for public equity support and temporary public ownership, which may be used after exploiting the other resolution tools to the maximum extent. However, the position expressed by the European Council Legal Service was that the government's financial stabilization tools provided for in the BRRD are currently available only for use outside of the SRM (for example, by non-EA member states).

exceptional circumstances only. Their use should be subject a determination that other resolution tools would not maintain financial stability and protect the public interest, e.g., bail-in of a failing bank's MREL is insufficient to restore it to solvency and viability.<sup>4</sup> In line with the Key Attributes, any losses incurred by the Government as a result of using such tools should be recovered from the industry, e.g., through ex post levies.

**18. In expanding the powers of the MoF in extreme fallback situations, the mandatory 8 percent requirement related to the government stabilization tools may also limit its flexibility in responding to certain banking crises.** The IMF 2018 Euro Area FSAP recommended a financial stability exemption from the 8 percent bail-in requirements is needed to help mitigate this constraint in the framework in the event that the bail-in of all MREL liabilities failed to stabilize the failing firm or there was a system-wide crisis. An exception to the 8 percent rule should be designed to be used only in times of a system-wide crisis. Such an exception would need to be subject to strict conditions and appropriate governance arrangements. For example, the FFSA's resolution strategy for managing the failing firm would need to show public funds being directly at risk. Making such a change would bring additional flexibility to managing a wide range of crises.

## PREPARING FOR FUTURE BANK FAILURE

### A. Plans for Restoring Banks at Risk of Failure

**19. The SSM classifies financial institutions either as an SI or LSI.**<sup>5</sup> The ECB directly supervises four Finnish SIs, including Nordea Bank, OP Group, Danske Bank A/S, Finland Branch and Kuntarahoitus. The remaining nine banks in Finland are LSIs that are directly supervised by the FIN-FSA, subject to ECB oversight.<sup>6</sup> The intensity of this ECB oversight of FIN-FSA LSI supervision depends on the LSI's impact and risk on the domestic financial system as determined by the ECB. The ECB has developed an early warning system (EWS) for SIs, and the SSM's so-called "Single Rulebook" provides for a comprehensive early intervention framework (EIF).<sup>7</sup> The FIN-FSA also uses the EWS and EIF for LSIs.

**20. The SSM regulation creates a legal obligation for the FIN-FSA to provide resources to the ECB JSTs for Finnish SIs.** In practice, the FIN-FSA provides a significant proportion of supervisory resources to support the ECB's supervisory work with respect to Finnish SIs. This is done under the general oversight of the ECB to promote a more consistent supervisory approach across the SSM. This leveraging of FIN-FSA resources helps to ensure that ECB is benefiting from the

<sup>4</sup> See also recommendation 19 in the IMF Euro Area FSAP Technical Note on Crisis Management.

<sup>5</sup> See list of SI/LSIs: <https://www.bankingsupervision.europa.eu/banking/list/who/html/index.en.html>

<sup>6</sup> Savings Bank Group (retail bank), POP Bank Group (retail bank), Aktia (retail bank), Bank of Åland (retail bank), S-Bank (retail bank owned by retail chain), Oma Savings Bank (retail bank), Hypo (mortgage bank), Fellow Bank (digital banking for household and SME customers), and Danske Kiinnitysluottopankki Oyj—a subsidiary of Danske Bank A/S.

<sup>7</sup> The Single Rulebook provides a single set of harmonized prudential rules throughout the EU.

expertise of the local market while also ensuring that FIN-FSA views are fully reflected in the supervisory activities of the ECB, where it is the Competent Authority (CA) for SIs in Finland.

**21. The FIN-FSA has developed a bank crisis management plan for LSIs.** It is designed to support its use of early intervention measures, including recovery plans. The plan will also be used to facilitate coordination with other national authorities. The plan relies on the EBA's guidelines on early intervention triggers. The FIN-FSA crisis management plan also specifies how it should conduct a failing or like to fail (FOLTF) assessment and what information it needs to provide to the FFSA as a bank's proximity to failure increases.

**22. While the Finnish authorities engaged in a series of crisis simulation exercises after the establishment of the FFSA in 2015, there has been limited focus on training or testing the internal FIN-FSA crisis management plan through internal or cross-authority simulation exercises.** This is partly as a result of resource pressures related to managing the COVID and Ukrainian crises. However, it will be important to update any internal crisis management plans or manuals to capture the good practices adopted from these events, as well as to ensure that all relevant FIN-FSA staff and senior management understand the FIN-FSA's approach to crisis management of SIs and LSIs.

**23. The FIN-FSA's SI and LSI supervisory activities are financed by supervision fees on its supervised entities, as well as various processing fees.** From 2024 there is a risk that supervision fees may not cover the FIN-FSA supervisory operating expenses if key financial figures of supervised entities do not increase in coming years. This may cause downward pressure on supervisory resources, which could be addressed in different ways. The ECB could reimburse National Competent Authorities (NCA) for costs associated with resourcing JST. Alternatively, the Finnish MoF could revise the FIN-FSA fee cap to allow the FIN-FSA to raise the funding necessary to carry out its function as a NCA supporting the ECB's JST. The FIN-FSA is in discussions with the MoF on how its statutory levy arrangements could be changed.

**24. The FFSA also needs to ensure it conducts the necessary advance preparation for contingency planning to enable it to respond appropriately to future crisis events occurring within its mandate.** This requires it to develop well in advance of any crisis the internal processes and procedures, capabilities, and resources to respond effectively to a crisis. Such FFSA crisis capabilities can take the form of internal frameworks to identify emerging risks, operational contingency plans for managing crises, and crisis governance arrangements.

**25. The Finnish Government should continue to ensure that all the financial authorities' resources are commensurate with their responsibilities, including both for preparatory work today and implementation in the event of future crises.** To this end, the MoF should review the FIN-FSA levy proposals in 2024 once the next Parliament is in session. The MoF should ensure that the FIN-FSA and FFSA has the resources they deem necessary to discharge their functions. This will help to ensure that the budget envelope for the FIN-FSA and the FFSA is increased to recruit and retain experienced staff or external advisors across a full range of necessary skills in both supervisory and resolution topics, including emerging risks like operational and cyber risk. The FFSA should also

consider whether it is possible to achieve any synergies between its resolution and deposit insurance authority responsibilities. In a highly concentrated banking sector dominated by a few deposit-taking institutions—the six largest banks account for 90 percent of the banking sectors—it may be possible to deploy resources to achieve high-priority objectives.

## B. Resolution Planning and Resolvability Requirement

### Resolution Planning

**26. Resolution planning has progressed for SIs and LSIs in Finland since the last FSAP.** A resolution plan has been set for all SIs and LSI. For some banks, the resolution plan is updated only twice a year. While impediments to resolvability may differ slightly across firms, Finnish banks are all now working to develop a consistent set of resolvability capabilities. This includes banks' development of resolution valuation capabilities, liquidity and unencumbered collateral reporting capabilities, and wider management information capabilities necessary to support rapid authority decision-making in a resolution scenario.

**27. The FFSA has applied the SRB MREL policy to Finnish LSIs.** In 2021, the FFSA published an updated version of its memorandum describing the basis in national legislation for the MREL requirement, the procedure for setting MREL and the factors determining its level.<sup>8</sup> The memorandum also provides guidelines employed by EU authorities (the SRB, the EBA and the European Commission) for interpreting the issues related to MREL policy in a national context.

**28. The FFSA has determined that a significant proportion of its LSI population will enter resolution rather than liquidation in the event of failure.** This determination is conducted in line with guidance from the SRB. The FFSA has determined that a significant proportion of its LSIs are likely to meet the threshold for entry into resolution in the event of failure. As a result, a larger proportion of Finnish LSIs are subject to FFSA MREL and other resolvability expectations when compared to the average across Banking Union member states.

**29. The FFSA's determination to take LSIs into resolution rather than liquidation reflects its analysis of the wider impact on depositors and the Finnish financial system if LSIs are placed into liquidation.** FFSA has developed analytical methodologies informed by bank information requests to arrive at a more comprehensive understanding of the extent to which LSI customers rely on a single bank for deposit services, the possible challenges related to changing from one bank in normal and crisis situations, as well as the wider impact on the Finnish financial system of placing LSIs into liquidation. The approaches are in line with SRB guidance on assessment of critical functions and public interest.

**30. The FFSA should publish its approach to assessing the impact on depositors and the financial system of LSI liquidation, given its importance for assessing the public interest test**

<sup>8</sup> [RVV Memorandum on the application of the minimum requirement for own funds and acceptable liabilities \(MREL requirement\), July 6, 2022 \(in Finnish\).](#)

**and its approach to setting resolution strategies for LSIs.** The FFSA has shared its approach with the SRM and other banking union NRAs so that the wider European approach to public interest assessments and resolution planning for LSIs benefits from the methods developed in Finland. While the high-level approach to public interest assessment is harmonized at the level of the SRM, the FFSA should consider publishing information on its assessment methodology.

## Loss Absorbing Capacity Requirements

**31. The FFSA MREL policy aims to ensure adequate levels of loss absorption and recapitalization capacity when a bank fails.** It is based on updated rules in the EU Bank Recovery and Resolution Directive 2014/59/EU (BRRD2), which have been transposed into Finnish law. Consistent with the EU framework, FFSA MREL requirements are determined based on a bank's capital requirements (risk-weighted and non-risk-weighted).

Table 2. Finland: FFSA Approach to MREL for Finnish Banks				
Calculation	Timing	Subordination	Disclosure	Treatment of MCIs
The banks under FFSA are subject to a Loss Absorbing Amount (LAA) <sup>1</sup> equal to Pillar 1, Pillar 2 and the combined capital buffer. The Recapitalization amount (RCA) <sup>2</sup> is defined as P1 and P2 plus an optional market-confidence charge. This charge is calculated as the combined buffer minus the CCyB. <sup>3</sup>	MREL will need to be met at the latest by January 1, 2024, with the FFSA setting an interim MREL target other than the final MREL in case the bank does not meet the latter requirement as the MREL decision is made.	The most systemic banks (G-SII, top tier and "fished" banks) <sup>4,5</sup> are required to hold a minimum amount of subordinated liabilities ranging between 13.5 percent plus total additional capital buffers and 12 percent plus a min. amount of additional capital buffers, which may also be met with own funds depending on the size of the firm.	FFSA does not publish institution specific MREL requirements and does not require institutions to disclose their level of MREL resources relative to known benchmarks.	MREL is not applied to most Member Credit Institutions (MCIs), but their assets and liabilities are factors when calculating consolidated MREL for the amalgamation.
<p><sup>1</sup> The LAA is the amount of MREL-eligible instruments needed by an institution to absorb losses; it is typically set in line with the regulatory capital requirements applied to the bank.</p> <p><sup>2</sup> The RCA reflects the capital needed to meet ongoing prudential requirements after resolution.</p> <p><sup>3</sup> The maximum of the CCyB and 31.25 is deducted from the combined buffer requirement during the final year of the transitional period 2022.</p> <p><sup>4</sup> The FFSA has not opted to fish any of the banks in its remit.</p> <p><sup>5</sup> The mortgage companies are excluded from the waiver.</p>				

**32. The FFSA has a comprehensive MREL policy and has made good progress in ensuring implementation by SI and LSIs.** The first MREL requirements were set by the FFSA already in 2017.



Both SIs and LSIs comply with the interim targets set, and most already comply with the final MREL targets. FFSA has some flexibility to set subordination requirements for LSIs but currently does not do so. The FFSA can impose a prohibition of distributions by banks if MREL requirements are breached. Unlike its close neighbor Sweden, the FFSA has chosen not to automatically exercise its flexibility within the European framework to set a market confidence buffer for entities subject to internal MREL. Equally, the FFSA does not set any national-level MREL disclosure requirements on Finnish banks.

**33. MREL requirements are set for SIs and LSIs on an annual cycle.** The FFSA coordinates formally with FIN-FSA on its draft MREL decisions for individual firms within FFSA remit, i.e., LSIs. It engages quarterly with the FIN-FSA on its MREL forecasts and in setting processes. The FIN-FSA provides the FFSA with information on firm-specific prudential capital setting, including Pillar II requirements to inform its work. This supports the development of a holistic picture among the authorities of total minimum prudential and MREL requirements with regulatory capital buffers on top. The FFSA informs the BoF about LSI MREL decisions.

**34. There is a potential interaction between the FIN-FSA, FFSA, and BoF regarding absorbency requirements.** For example, if the FFSA were to exercise any of the discretion elements in the MREL policy framework (e.g., subordination requirements or market confidence buffers) in firm-specific MREL requirements in the future, it would impact the firm's residual capital resources available for macroprudential policy-making purposes. Equally, macroprudential policymaking that does not include in its assessment the impact on resources available to comply with MREL may inadvertently constrain FFSA MREL policy discretion. In 2021, the Finnish Parliament altered the Act on Credit institutions (610/2014) Chapter 10, Section 4 to include the FFSA in preparing macroprudential policy decisions. The purpose was to have them in the process because of the interconnectedness between MREL and capital buffers. The FFSA provides advice on the suggested macroprudential policy decisions in the quarterly preparatory meetings in light of implications on the MREL requirements (including MDA restrictions) and resources. The FFSA should continue to play an active role in macroprudential policymaking in Finland, given the different incentives across the relevant authorities on the role of capital buffers as a shock absorber, buffer usability and for resolvability purposes.

## Other Resolvability Requirements

**35. In addition to adequate financial resources, a bank under resolution must demonstrate that it can be stabilized, maintain continuity of its operations, and coordinate and communicate effectively during the process.** The Financial Stability Board has identified eight barriers to resolvability: 1) insufficient loss-absorbing capacity, 2) resolution valuations, 3) funding in resolution, 4) continuity in financial contracts in resolution, 5) operational continuity in resolution, 6) continuity of access to financial market infrastructure, 7) restructuring in resolution, and 8) management, governance, and communications.<sup>9</sup> These international standards have been

<sup>9</sup> [Report to the G20 on Progress in Resolution](#).

implemented by national authorities in many jurisdictions, including by the EBA and SRB in their respective [Guidelines on Improving Resolvability for Institutions](#) and [Expectations for Banks](#). While MREL resources go some way to address adequate financial resources in resolution, they do not address the ability of the bank to conduct an assessment or valuation necessary to inform its capital position and recapitalization need, nor does it solve the bank's ability to meet its liquidity in resolution.

**36. The EBA sets expectations that SIs and LSIs remove remaining non-MREL related barriers to resolvability, including valuation and funding in resolution reporting capabilities, by 1 January 2024.** In defining resolvability expectations for Finnish LSIs, the FFSA relies on the Single Resolution Board (SRB) and European Banking Authority (EBA) resolvability expectations for banks. Based on the experience gathered with SIs, the FFSA applies the SRB's heatmap methodology assessing LSI resolvability. The FFSA's current assessment is that Finnish LSIs require no further national legal policy guidance to meet these resolvability expectations and has no plans to publish additional domestic resolvability policies or guidance to support Finnish firms' implementation work. Consistent with European-level guidance, the FFSA has communicated an expectation to Finnish firms that they will need to provide a self-assessment report on their level of compliance with these resolvability expectations.

**37. Firms will need to undertake significant work to comply with these resolvability expectations by end 2023.** Given SRB and EBA resolvability expectations were finalized relatively recently (2020 and 2022, respectively), firms may find it difficult to develop the required capabilities in advance of the compliance deadline. In addition, many of the resolvability requirements will be novel to banks. Firms may also need additional input or guidance from the FFSA on how to design their respective firm-specific resolvability capabilities and ensure that they are compliant, particularly where the European-level policy lacks sufficient detail to support firm implementation. This will necessitate the FFSA to have the resources and expertise to be able to respond to firm implementation questions and be ready to provide additional clarity on good or bad practices with respect to national implementation actions by firms. As firms submit their self-assessment reports, the FFSA is likely to face an additional challenge of assessing whether a diverse range of often very detailed firm-specific approaches or system capabilities are sufficient to comply with often-high-level policy expectations.

**38. To support consistent evaluation of firm-specific resolvability capabilities, the FFSA should develop and publish a resolvability scoring framework that it will use when reviewing Finnish LSIs' self-assessment reports.** Such a scoring framework will support the FFSA in providing consistent feedback to LSIs on their self-assessment reports and help ensure that LSIs deliver a comparable level of resolvability ahead of the 2024 compliance deadline. Such a scoring or evaluation framework will also support the prioritization of FFSA verification of firm-specific capabilities and their ongoing maintenance. The SRB and other NRAs will face similar evaluation challenges. As a result, the requirement to publish a resolvability scoring framework may also be addressed by the publication of a Banking Union framework. The FFSA would follow the approach

chosen by the SRB for the LSIs under its remit. The FFSA should work to ensure that banks comply with its resolvability expectations by 2024.

## MANAGING FAILED BANKS

### A. Implementing Resolution Tools

**39. For bank resolution plans to be credible, statutory resolution tools need to be usable, at speed and with confidence to impose losses on the banks' creditors through applying either the bail-in or transfer tools.** The bail-in tool relies on imposing losses on creditors holding loss-absorbing instruments (e.g., equity, debt capital and senior unsecured debt) by cancelling or reducing the value of their claims, thereby recapitalizing the bank, ensuring that it can again meet its conditions of authorization. Transfer tools rely on stranding the bank's creditors by holding loss-absorbing instruments in an administration while transferring good assets and other liabilities (e.g., deposits) to a bridge bank or a private sector purchaser.

**40. The FSB has noted that public disclosure of an authority's bail-in mechanic is essential to ensure credibility and predictability of resolution actions.** Such clarity on authority bail-in mechanics allows other stakeholders (e.g., Financial Market Infrastructure (FMI), Central Securities Depositor (CSDs)) to take the coordinated action required to implement the bail-in. Since then, good progress has been made by authorities in the United Kingdom, Germany, and the Netherlands, and by some banks to define a bail-in mechanic. In June 2022, the EBA also launched a public consultation with a requirement on national resolution authorities to publish their approach to implementing the bail-in tool with a view to ensuring a minimum level of harmonized information is made public regarding the mechanics underpinning the execution of the bail-in tool.

**41. The FFSA has sole responsibility for executing resolution measures for all Finnish banks if they fail, regardless of whether they are classified as SIs or LSIs.** To support its implementation of resolution actions, the FFSA has developed in an internal crisis preparedness program the actions, processes, decisions and supporting templates that it would use to take swift action in a resolution scenario. The FFSA has also developed an internal virtual platform for managing in a structured manner the resolution execution process, which helps project manage such a complex transaction, identify decision points and where coordination or inputs from other authorities are required.

**42. However, the FFSA has yet to establish its preferred mechanic for implementing the bail-in or transfer tools.** As noted by the FSB and the EBA, defining detailed resolution mechanics is necessary to ensure that the resolution authority can take orderly resolution action in a crisis. This is also important to ensure that other market actors and other relevant stakeholders understand any steps they need to take as part of the resolution transaction. For example, defining a resolution mechanism includes specifying operational processes and procedures, including specifying actions for relevant external stakeholders, including CSDs. Developing credible bail-in mechanics capable of ensuring an orderly resolution action by the FFSA is important not just to financial stability in Finland

but throughout the Nordic-Baltic region—Finnish banks have significant cross-border operations, including Nordea, which has 74 percent of its assets in Denmark, Norway, and Sweden.

**43. There are important variations between jurisdictions' bail-in mechanics that would need to be carefully managed in a cross-border resolution context.** An authority designing its open bank bail-in mechanic will need to be clear on its approach concerning these differences. The difference in approach in responding to these considerations is, in large part, a result of the differences in national legislative frameworks. However, ensuring a common approach to bail-in mechanics will be important to ensuring coordinated home and host cooperation in the resolution of a cross-border bank.

**44. By 2024, the FFSA should publish its approach to deploying the bail-in resolution tool.** These resolution mechanics should: i) clearly define operational procedures in place for imposing losses on MREL holders and ii) specify the detailed procedures in FFSA operational playbooks. The procedure for imposing losses needs to be transparent to the market. In designing bail-in mechanics, the FFSA should set out how it will navigate the key sequential steps in a bail-in mechanic, including 1) identification of the eligible securities within the scope of the bail-in, 2) suspension of trading of relevant securities, 3) suspension of, or change in, shareholder rights, 4) write down and/or cancellation of equity and/or debt, 5) issuance and trading of interim instruments if part of mechanic,<sup>10</sup> 6) redemption of interim instruments if used, 7) issuance of new equity if planned, and 8) lifting the suspension of trading and shareholder rights.<sup>11</sup> In developing its bail-in mechanics, the FFSA should, in the first instance, consider the feasibility in a Finnish context of an “open bank” bail-in mechanic that relies on the suspension of liabilities and the use of interim instruments.

## B. Liquidity in Resolution

**45. In addition to ensuring that systemically important banks in resolution can be recapitalized by imposing losses on MREL holders, it is essential to ensure that banks in resolution have sufficient liquidity to meet their obligations as they fall due.** In the first instance, banks in resolution will be expected to meet any liquidity needs from their own private resources. However, where the bank's liquid resources are insufficient, or they are unable to access normal private funding markets in the initial phase of the resolution, the bank in resolution needs to be able to access central bank temporary crisis liquidity support to ensure the overall resolution strategy is orderly. Such liquidity in resolution support should be secured against a wide range of eligible collateral.

<sup>10</sup> Interim instruments, such as warrants or certificates of entitlement, may be issued pending the completion of a valuation after the resolution weekend. These can then be exchanged for equity (or other securities and potentially even cash) once a valuation exercise has been completed.

<sup>11</sup> Appendix 3 provides more detail on each of these key design considerations.

**46. Central banks have become more transparent to the market about their functions as liquidity providers of last resort by publishing details on their crisis lending facilities.**

- a. Under the Dodd-Frank Act passed in 2010, the Federal Deposit Insurance Corporation can draw on the Orderly Liquidity Authority with the agreement of the US Treasury to provide temporary liquidity support to banks in a Title II resolution.
- b. In 2016, the Bank of Canada published a standing liquidity facility framework to support its function as lender of last resort for banks experiencing stress or in resolution.<sup>12</sup>
- c. In 2017, the Bank of England's sterling monetary framework and resolution liquidity framework set out the conditions for access to central banks' liquidity against a wide range of collateral with transparent access criteria in the public domain.<sup>13,14</sup>
- d. In 2019, the Hong Kong Monetary Authority (HKMA) published a comprehensive revamp of its liquidity facility framework and to reflect better the HKMA's role as a lender of last resort in crisis management and resolution.<sup>15</sup>
- e. In 2022, the Swiss Government announced plans to introduce legislation that would enable the Swiss National Bank to bolster the liquidity of a systemically important bank that is in the process of resolution.<sup>16</sup>

**47. As a member of the euro area, the BoF is part of the common Eurosystem monetary policy operations.** It implements the monetary policy of the ECB and is responsible for settlement operations, collateral management and payment traffic related to these operations, and it also supplies TARGET payment system services. The BoF manages the engagement with all Finnish counterparties by keeping up to date with the framework of rules for counterparties and collateral associated with the implementation of normal monetary policy. The BoF is also in charge of the related analysis and risk management. As a result, the BoF has the capabilities to manage credit risk related to collateral eligible under the Eurosystem monetary policy collateral framework.

**48. Under domestic legislation, the BoF is also responsible for safeguarding financial stability in its functions as the lender of last resort and the statutory responsibility for the provision of ELA.** The published ECB ELA agreement forms the basis for any BoF provisions of ELA in Finland. Considering its role in ELA, the BoF has defined internal policies and procedures to

<sup>12</sup> <https://www.bankofcanada.ca/markets/market-operations-liquidity-provision/framework-market-operations-liquidity-provision/emergency-lending-assistance/>

<sup>13</sup> <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/our-tools>

<sup>14</sup> <https://www.bankofengland.co.uk/-/media/boe/files/news/2017/october/the-bank-of-england-approach-to-resolution>

<sup>15</sup> <https://www.hkma.gov.hk/eng/key-functions/money/liquidity-framework/hong-kong-dollar-liquidity-facility-framework/>

<sup>16</sup> [https://www.efd.admin.ch/efd/en/home/the-fdf/nsb-news\\_list.msg-id-87574.html](https://www.efd.admin.ch/efd/en/home/the-fdf/nsb-news_list.msg-id-87574.html)

support its crisis preparedness and decision-making related to operational issues. Under the Eurosystem Agreement on ELA, temporary ELA can only be provided in exceptional circumstances to a solvent institution, and it always needs to be collateralized, but other collateral eligibility criteria can be used from the normal terms of central bank funding.

**49. The BoF has no published policy or framework for funding in resolution.** This is consistent with the absence of any similar frameworks for liquidity provision to banks recapitalized through the application of resolution tools under the Eurosystem and Banking Union. There is an ongoing policy discussion at the level of the European institutions on a common Banking Union solution to the question of liquidity support in resolution.

**50. Lending against a wider range of collateral in a crisis, including loans, requires central banks to invest in capabilities to assess such new forms of collateral against credit risk.** Developing frameworks for pricing and defining haircuts for such collateral takes time. These frameworks should be developed well in advance of a crisis. Given the BoF's role in Eurosystem monetary operations, the BoF has the capabilities to accept, and credit assess, a wide range of collateral, including covered bond securities and credit claims (i.e., loans). As a result, the BoF has some capability to manage the valuation challenges associated with analyzing the credit risk related to loan collateral for ELA or funding in resolution purposes.

**51. The BoF has well-developed and documented internal policies, procedures and governance arrangements in place related to its role as ELA provider.**<sup>17</sup> It monitors its counterparties' collateral positions internally by drawing on monetary policy data, securities holding statistics and Anacredit data.<sup>18</sup> While the BoF does not conduct regular analysis of its counterparties with respect to its role in ELA, it has in the past sent questionnaires and conducted interviews with banks related to overall contingencies and continuity management.

**52. The BoF should ensure that its ELA and funding in resolution lending capabilities are fully operational.** This work should include defining internal collateral outside the normal monetary operations that could be accepted for ELA purposes, the haircuts that would be applied, and the assumed pricing for such temporary crisis liquidity support. There should be a more formal and regular review of BoF counterparty ELA liquidity capacity based on normal and non-conventional collateral. This regular review could form part of the BoF internal ELA governance arrangements and would support a more rapid response in a crisis. The BoF should establish testing arrangements for its ELA and funding in resolution lending capabilities with its counterparties (e.g., on an annual basis). This should be focused on ensuring both that BoF operational procedures are robust, and firms are able to provide the information necessary to inform BoF lending decisions. Such testing

<sup>17</sup> This is derived and consistent with the Eurosystem agreement on emergency liquidity assistance, November 2020-link.

<sup>18</sup> AnaCredit stands for analytical credit datasets and was established by the ECB in 2018. It is a dataset containing detailed information on individual bank loans to corporations and other legal entities in the euro area, harmonised across all Member States. It makes it possible to identify, aggregate and compare credit exposures and to detect associated risks on a loan-by-loan basis.

will also facilitate firms develop any internal operational procedures relating to meeting the BoF's collateral pledge requirements for non-standard collateral.

**53. The BoF should also formalize an approach with the FFSA to assess the liquidity needs, and available unencumbered collateral, for Finnish banks in resolution.** A distinction should be made between the BoF committing to provide liquidity as part of a resolution plan (which it cannot do) and having fully operational readiness for a range of scenarios involving bank failure. The BoF and FFSA should formalize a non-firm-specific approach to assessing and addressing liquidity needs for Finnish banks in resolution should the need arise so that reporting and operational issues to the rapid deployment of liquidity can be identified as part of pre-crisis planning. While the conditions of access for individual Finnish banks to BoF ELA are at the discretion of the BoF, it is important that the BoF and the FFSA have a common understanding of what might happen in different scenarios. This shared approach should include liquidity forecasting and collateral reporting requirements on firms, jointly assess the liquidity capacity of banks by monitoring unencumbered collateral and regularly test the operational procedures for pledging collateral and deploying liquidity. While noting that resolution plans cannot assume the use of ELA, it is important to ensure that during the resolution planning process that banks are able to identify and mobilize assets (especially lower quality and less liquid assets) that could be used as collateral to obtain liquidity in resolution anticipating any legal, regulatory, and operational obstacles to their mobilization under stressed conditions.

**54. The BoF should publish a policy framework that clarifies its role as a lender of last resort for funding in resolution purposes.** Notwithstanding the ongoing policy debate, both internationally and at the Eurosystem level, there is a clear statutory role for the BoF under Finnish legislation to protect financial stability by creating flexibility, subject to certain conditions, to ensure that firms in resolution can access temporary crisis liquidity assistance if required. A BoF policy framework should describe the BoF's general conditions that firms need to meet to access temporary collateralized liquidity support if private sources are unavailable. If there are any national legislative barriers to such a liquidity in resolution publication, they should be identified and addressed with the MoF.

**55. BoF crisis liquidity assistance brings with it risks to public funds.** This is because it involves lending to illiquid institutions generally against lower quality collateral than required by normal central bank facilities. As a result, when providing crisis liquidity assistance (e.g. to banks in resolution), the BoF should consider seeking a government indemnity when it has concerns about 1) the quality of the counterparty (e.g., the judgement on the firm's solvency is unclear or its post-stabilization restructuring plan in resolution creates questions about its long-term viability), 2) the collateral quality presented by the institution, 3) the size or length of support, or 4) its ability to refinance. In establishing these arrangements with the Government, the BoF will need to consider the interaction with the Eurosystem ELA Agreement, which specifies that ELA is to be provided to *solvent* banks only (a bank is also deemed to be solvent when there is a credible prospect of recapitalization; par. 4.1.b of the ELA Agreement).



## C. Deposit Guarantee Arrangements

**56. All Finnish deposit banks are within the scope of the Finnish deposit guarantee scheme, and deposits are protected up to a level of EUR 100,000.** Deposits are protected by a statutory deposit guarantee scheme, which is maintained in Finland by the FFSA. The FFSA has automated its payout processes. The payout process involves the FFSA requesting depositors' account numbers, to which the deposit guarantee compensation should be paid. The account number can be sent electronically by the depositor by verifying their identity on the suomi.fi service or by submitting a paper notification form.<sup>19</sup> Electronically submitted account numbers reach the FFSA quickly and securely, enabling the FFSA to pay the compensation without delay. The pay-out process is to be completed within seven working days.

**57. The target level of the DGF is 0.8 percent of covered deposits of Finnish banks, which is around 1.2 billion euros and is to be reached by July 2024.** As of June 2022, the fund contains around 0.8 million euros. When combined with the pre-existing privately managed fund, the available financial means of the Finnish DGS amount to around 1.3 billion euros. The funds are held in an account at the State Treasury. The 0.8 percent of covered deposits is the *minimum* target level of pre-funding under the European DGSD. If the assets previously raised by the DGF are insufficient for the payment of compensation, the FFSA may obligate deposit banks to pay ex-post contributions or lend assets to the DGF. However, the ex-post contributions may not exceed 0.5 percent of a deposit bank's covered deposits. Additional annual contributions are collected from the banks to refund the DGF.

**58. It is critical that DGFs are well-funded and backstopped.** In 2020, the ability of the Finnish DGS to support a payout of protected depositors was strengthened. With the agreement of the Finnish Parliament, the DGS was given the power, subject to receipt of Government permission, to borrow a maximum of EUR 2 billion from commercial banks to fund the payout of protected depositors. The terms of loans have been stipulated in a decree issued by the MoF in February 2020.<sup>20</sup> The interest rate is determined by the Finnish Government at the time of any DGS borrowing. While this new DGS credit facility may enable the DGS to mobilize additional funding, the IADI Core Principles do not consider a backstop solely comprised of market borrowing as sufficient.<sup>21</sup> If the DGS needs to payout several LSIs, it may be indicative of wider stress in the

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<sup>19</sup> This is a Finnish Government service portal managed by Digital and Population Data Services Agency (Digi- ja väestötietovirasto), which allows you to identify yourself to different services of public administrations using personal Finnish certificate card, mobile certificate, or personal bank credentials. The use of the suomi.fi platform allows the DGS to authorize payouts of protected deposits without the requirement of using a personal ID or Finnish Authenticator service as an identification method.

<sup>20</sup> The Government decides on all the loans and their terms (based on the Parliament's consent that is now given in advance for 2 billion euros) regardless of the creditor (Act of Resolution Authority 1195/2014, Chapter 3, paragraph 8). Ministerial Decree (75/2020) includes the basic terms of loans concerning possible loans between the DGS and banks.

<sup>21</sup> Core Principle 9.4 calls for emergency funding arrangements for DGS to be explicitly set out (or permitted) in law or regulation, and operationalized in advance to ensure effective and timely access when required. A funding agreement with the government would provide a suitable alternative to market borrowing.

financial system. Drawing down on the commercial facility or increasing levies on banks to fund DGS payouts at the same time may risk exacerbating financial system risks. Such dynamics arising from seeking contributions from lending banks or DGS member contributions may constrain the ability of the DGS to rely on these sources of funding in a crisis and hence, point to the need to further strengthen available backstops. Meanwhile, it is important that the FFSA accounts for possible financial stability implications of a pay-out in the public interest assessment determining whether normal insolvency or resolution is the most appropriate approach.

**59. The FFSA DGS should ensure that it has sufficient funds on an ongoing basis under its direct control and investment to ensure its financial autonomy and minimize its dependency on borrowing from banks to support a payout.** To achieve this, the FFSA should take a prudent approach and ensure that its prefunded DGF, and its policy advice on the appropriate target levels, are sufficient for a range of crisis scenarios. There is a broader discussion at a European level on appropriate DGS target levels. For example, recent European Banking Authority (EBA) advice to the European Commission and Parliament suggested they assess the sufficiency of the 0.8 percent target level for DGS funds. Given this wider recognition of the policy issues related to existing DGS target levels, the FFSA DGS should review whether its independent capacity is sufficient to enable the payout for the concurrent bank failures, and this should inform its policy advice to Government and at an EU level. The FFSA DGS levy arrangements should enable the DGS to reach the appropriate target level within a reasonable time. Such a level of DGS funds should be maintained on an ongoing basis.

**60. The FFSA, as the resolution authority, can also rely on DGS funds to contribute to the cost of a bank resolution subject to two restrictions.** As per the BRRD,<sup>22</sup> the FFSA DGS funds shall not be liable for an amount greater than 50 percent of the target level under DGSD. In addition, the FFSA DGS contributions to the cost of a bank resolution cannot leave the DGS worse off than it would have been under normal insolvency procedures (i.e., ‘least cost’ principle, discussed below). Ensuring that the DGS can deploy its funds to support resolution costs is particularly important for situations where banks are not able to issue MREL due to prolonged loss of access to wholesale markets or for firms that do not have sufficient MREL resources. In addition, in circumstances where all available bail-inable liabilities have been written down for a bank in resolution, the DGS fund should be available to support orderly resolution if needed. The DGS fund also has the power to levy industry for any losses incurred related to such contributions to the cost of a bank resolution. There is a risk that a narrow interpretation of the least-cost criteria would leave the DGS unable to fund resolutions. The ability of the DGS to support resolution powers (for example, by injecting cash to back a deposit transfer) may be highly constrained due to covered deposits’ preference over other creditors in the BRRD and a strict interpretation of Article 109 of the BRRD.

**61. It is recommended that if the estimated cost to the DGS, net of recoveries, is consistent with the “least cost” principle and less than liquidation costs, the DGS should be able to contribute resources to support resolution actions.** This should include being able to

<sup>22</sup> Article 109.5 allows member states to set a maximum DGS contribution higher than the 50% of the target level specified.

inject cash to back a deposit transfer as part of a partial property transfer or to provide additional solvency support in combination with the bail-in of liabilities. Ensuring the FFSA can deploy its DGF funds to support resolution costs is particularly important for situations where banks are not able to issue MREL due to prolonged loss of access to wholesale markets or for firms that do not have sufficient MREL resources. The FFSA should outline publicly that the counterfactual insolvency valuation analysis would be the basis for assessing the amount of DGF funds it could contribute to resolution costs and how it would be done. The FFSA should set out how it would use DGS funds to support resolution action publicly to reduce any market uncertainty in a crisis and to support rapid authority action by minimizing any need for interpreting statutory or policy flexibility in a crisis.

## FINANCIAL CRISIS PREPAREDNESS AND COORDINATION

### A. International Cooperation and Significant Branches

#### **62. There is substantial integration of the financial systems amongst Nordic countries.**

Finnish banks have significant cross-border operations. This was increased in 2018 when Nordea's re-domiciliation to Finland, as it has 74 percent of its assets in Denmark, Norway, and Sweden, often in the form of branches. Finland's cross-border exposures to Denmark, Norway, and Sweden make up 80 percent of total cross-border exposures. This implies a considerable risk for Finnish headquartered banks like Nordea through valuations of banks' foreign assets and derivatives, as well as potential withdrawals of foreign funding, including from foreign parent institutions. The latter would be heightened for banks operating under a foreign branch model in Finland. For example, a sharp economic slowdown or drop in house prices in Sweden could have large effects on Finland.

**63. The Nordic-Baltic Stability Group (NBSG) provides an important forum for facilitating cross-border cooperation with key foreign authorities.** It helps to deepen understanding of their respective regimes and coordinate in a crisis, including for resolution authorities. The group also helps to facilitate the sharing of information and conducts regular simulation exercises. In 2018, an updated MoU on Cooperation and Coordination on cross-border financial stability between relevant Ministries, Central Banks, Financial Supervisory Authorities and Resolution Authorities of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden (i.e., the Nordic-Baltic MoU) was signed. The MoU is focused on coordinating with respect to managing crises in the regional financial system.

**64. The regional NBSG MoU is complemented by FFSA, FIN-FSA, and BoF cooperation in coordination with other foreign authorities in the context of supervisory and resolution colleges, as well as other bilateral resolution planning discussions on a firm-specific basis.** FFSA staff participate in the SRB internal resolution teams (IRT) of Nordea, OP and Municipality Finland. The FFSA also participates in the resolution college for Nordea Group (SRB-led college since 2018), Danske Bank Group (led by Denmark), SEB Group (led by Sweden), and DNB Group (led by Norway). The FIN-FSA and BoF also participate in many resolution colleges as observers. While

Svenska Handelsbanken Group no longer has a resolution college, FFSA continues to coordinate with the Swedish National Debt Office on a bilateral basis. The FIN-FSA has signed an MoU focused on recovery and resolution with the UK financial regulatory authorities, the Bank of England, and the Financial Conduct Authority.<sup>23</sup>

**65. Establishing cross-border cooperation requires significant and sustained investment on the part of the Finnish authorities.** It is resource intensive to develop the necessary shared understanding of respective home-host regimes, establish and operate coordination mechanisms, and design and agree on the analytical methodologies necessary to support coordinated monitoring and action both in peacetime and crisis. While there has been positive progress since the last FSAP, discussions are at an early stage, and sustained effort over a multi-year engagement strategy is necessary before home, and host authorities have the capability to take coordinated action in a crisis, including bank resolution, with acceptable levels of execution risk.

**66. The Finnish authorities should focus on developing crisis management capacity with relevant home and host authorities (particularly with Sweden, Denmark, and Norway) by building links with other regional resolution authorities participating in NBSG and resolution college arrangements.** These groupings have the appropriate membership for coordinating early intervention, resolution, and liquidity support actions on a cross-border basis. Colleges are also supported with statutory information-sharing arrangements under the BRRD to facilitate close home and host cross-border crisis cooperation. The resolution planning work of the college members has also prepared them for the decision-making roles in the crisis, and the responsibilities of its members are aligned with their respective statutory purposes and tools.

## B. Inter-Authority Crisis Coordination

**67. The resolution decision-making process requires very close coordination between the FIN-FSA, FSA, and BoF so that they take a consistent approach to the assessment of the systemic impact, solvency, and viability position of a bank in crisis.** Experience from crises in other jurisdictions suggests that the absence of such shared assessment frameworks can result in unproductive discussions due to each authority relying on different data and differences in analytical methodology in a crisis. This can undermine the ability of the authorities to take decisions in a timely manner. The Financial Stability Board (FSB) Principles for cross-border cooperation on crisis management make clear that crisis coordination arrangements should include the development of common support tools, including a shared systemic impact assessment framework.<sup>24</sup>

**68. Effective authority crisis management requires clearly defined coordination arrangements.** Enhancing crisis management capacity within and between authorities is essential to ensure effective implementation in a coordinated manner of crisis management plans agreed upon

<sup>23</sup> <https://www.bankofengland.co.uk/-/media/boe/files/memoranda-of-understanding/bank-fca-finland.pdf>

<sup>24</sup> See FSB Principles for cross-border co-operation on crisis management, paragraph 5 in Appendix I – Annex 3: Resolvability Assessments of the Key Attributes. These criteria are suggested as a way of measuring the residual systemic impact after a failing firm is put into resolution, but they are also relevant for assessment of the systemic impact of the failure of a non-viable firm absent resolution.

by the authorities, including for bank resolution. These arrangements should define the operational details of each authority's role in supporting a coordinated implementation of these plans. This ensures that each authorities' independent action is coordinated closely with others. This could include identifying points at which authorities would notify others in advance of decisions on the use of the authorities' powers, agreed-upon procedures, and decision-making frameworks to support coordination both with domestic and relevant foreign authorities.

**69. The FFSA advisory board and the updated crisis management memorandum of understanding (MoU) have improved crisis collaboration and cooperation among the authorities.** Under the MoU, Crisis Management Cooperation Group responds to live crisis situations in a coordinated manner across the authorities. These existing arrangements have helped improve the authorities understanding of their respective roles and responsibilities in a crisis involving a bank failure. It has focused on identifying information needs and policy positions.

**70. The authorities should increase the centralization of cooperation and coordination of the authorities' respective preparation for, as well as management of, future crises in the Crisis Management Cooperation Management Group.** There is a high level of interdependence related to the sequencing of the respective independent actions that each authority needs to take as firms begin to experience stress or fail. As a result, this group should play a role in coordinating the authorities' respective independent work (e.g., FIN-FSA recovery planning and early intervention actions, BoF preparation for and deployment of ELA or funding in resolution, and FFSA resolution planning and implementation actions) to formalize their internal crisis management practices so that they best support the independent but well-coordinated authority action on which the agreed crisis management plans rely.

### C. Authority Crisis Management Capabilities

**71. On financial crisis capabilities, the Finnish authorities should continue the development of their institutional tools and processes to support contingency planning for bank failure today that they will use in responding to a future crisis.** Preparation for contingency planning helps authorities respond well to future crisis events occurring within their mandate. It requires an authority to develop well in advance of any crisis the internal processes and procedures, capabilities, and resources to respond effectively to a crisis. Authority crisis capabilities can be made up of internal frameworks to identify emerging risks, operational contingency plans for managing crises, crisis governance arrangements and testing or crisis simulation arrangements. This crisis capacity development requires significant internal planning and management of time and is resource intensive. The Finnish authorities need to continue to formalize their existing internal crisis management practices and ensure that resources dedicated to crisis management are commensurate with their statutory functions.

**72. Since the last FSAP, the authorities have taken steps to develop their respective internal crisis management arrangements and capabilities.** The FIN-FSA has developed its internal crisis response organizational arrangements by developing a crisis management manual (for the LSIs). This plan includes internal policies and procedures for action and coordination with other

authorities. The BoF has also developed its internal policies, processes, and procedures to support the deployment of ELA.

**73. The FFSA's resources have increased since 2016, together with the Authority becoming more established since its foundation in 2015.** During 2021 the FFSA's human resources were 19.6 FTEs (compared to 12.5 in 2016). The resources have been divided between the two units (Resolution Unit and Administration and Deposit Guarantee Unit). The FFSA resources are to be expanded to 26 FTE by end 2022, with an additional 6 FTEs enabling the onboarding of the new mandate related to the backup payment systems required under the Emergency Powers Act. FFSA resources will be split between three units (Resolution Unit, Deposit Guarantee and Emergency Supply Unit, and Administrative Services and Financial Stability Fund Unit.) The FFSA will also start to work along four key processes: EU influencing, Crisis management, Crisis resolution planning, and Data collection and management.

**74. In 2020 the FFSA launched an internal three-year development program aimed at enhancing FFSA's operational capability in an FFSA-led resolution process.** This project includes the establishment of organizational structures for crisis situations, development of a virtual platform for managing the decisions and processes related to resolution implementation. This tool is designed to support the tracking of tasks, standardizing information of every function, as well as the provision of templates or examples of the outputs required at each stage in the process to deliver the resolution transaction and tools to be used to facilitate the analysis to be made to support the decision-making.

**75. The crisis management framework needs more operational detail.** The authorities need to develop their respective internal crisis management arrangements to ensure that they are fully operational for crisis purposes, including operational details on the actions they are required to take in a crisis. For example, in the case of the FFSA, it needs to define its resolution mechanics and identify the key information required from the other authorities, banks and FMIs to be able to execute a bail-in or transfer resolution. To be able to coordinate effectively, each authority needs to further improve the readiness of its internal crisis management arrangements and procedures with respect to their individual functions so that cross-authority coordination arrangements are based on the specific operational needs of each authority in crisis.

**76. The Finnish authorities should prioritize the development of shared methodologies for conducting consistent systemic impact, solvency, and viability assessments.** Such agreed methodologies should specify the underlying sources of information and valuation methodologies that inform such important decisions in crisis management. The authorities' use of such methodologies does not preclude them from arriving at different conclusions when applying the methodology, nor does it change the independent nature of their respective assessments as set out in legislation. As a result, the use of such frameworks can be undertaken while respecting the independent decision-making responsibilities of each authority.

**77. Agreeing on shared methodologies, frameworks, or data sources ex-ante minimizes the risk of time-consuming differences between authorities on how each conducts similar**



**assessments of key judgements during a crisis on questions of inputs or approaches to decisions in a crisis.** It would enable cross-authority discussions to focus on the most important questions of substance. Such frameworks should define the authorities' collective expectations on the underlying sources of information, valuation methodologies and, as far as possible within existing legal frameworks, establish common definitions of systemic impact, viability, and solvency.

**78. The FFSA's resources need to be commensurate with its functions in a crisis, which should be seen as standing, rather than temporary, functions.** International best practices in the United States and the United Kingdom show that this perennial work is needed to ensure that bank resolvability is achieved and maintained in the face of financial system change as part of the ongoing supervision of bank resolvability. Without sufficient resources, the authorities may not be able to achieve bank resolvability over a reasonable timeframe and implement crisis management actions with sufficient confidence. As a result, authorities may be forced to draw on crisis management solutions that create a risk to public funds or fail to maintain national or regional financial stability when an SI or LSI fails. With the recent expansion of FFSA statutory responsibilities under the Act on certain arrangements for security of supply in the financial sector, and the need to ensure Finnish banks comply with a wider range of statutory reporting, the MoF should keep under review the FFSA's resourcing model. Resources should be sufficient to support the active schedule of regular engagements with banks needed to monitor implementation progress, ensure resolvability capabilities are maintained over time, and provide clarification of policy interpretation. The FFSA should continue to seek resource synergies between its resolution and deposit insurance authority functions. In a highly concentrated banking sector dominated by a few deposit-taking institutions—the six largest banks account for 90 percent of the banking sector—it may be possible to temporarily deploy DGS resources to achieve high-priority resolution objectives.

**79. The FFSA should also expand its existing procurement frameworks to support rapid appointments across the full range of external advisory support required to carry out its statutory functions.** External advisors can provide market expertise that may not be possible to develop or retain over time in-house. Instead, it may be more cost-effective to acquire external expertise necessary to prepare for, and implement, crisis management and resolution actions. The FFSA should ensure that it has the capacity in its resource planning for both purposes. This planning should be realistic about the availability of advisory support in a crisis and the cost of retaining the right external expertise. These risks can be managed by establishing a procurement framework with as many external advisors in each lot as possible and leveraging their advice both as part of peacetime resolution planning and FFSA crisis management action.

## **D. Crisis Simulation Exercises**

**80. Financial sector crisis simulation exercises (CSEs) are essential tools for authorities to practice decision-making in the face of a financial crisis.** CSEs are not a test, nor exams to pass or fail. Instead, CSEs can be used to ensure that participants learn about or exercise the use of an organization's approaches to crisis response or practice crisis management plans or procedures. CSEs are an important part of how authorities develop and maintain crisis management capabilities both within their organization as well as across authority capabilities.



**81. The FFSA, FIN-FSA and BoF see CSEs as an important tool for developing their capability and have developed or participated in a range of CSEs since the last FSAP.** In 2018 two CSEs were arranged involving domestic authorities. The first focused on developing national authority cooperation, communication and testing the decision-making process in a crisis event. The second focused on the determination of failing or likely to fail. However, there has been limited focus on training or testing the internal FIN-FSA crisis management plan through internal or cross-authority simulation exercises.

**82. In January 2019, a large Nordic-Baltic crisis management exercise was organized in which the FFSA, FIN-FSA, and BoF were active participants.** This CSE was designed for practicing the exchange of information and decision-making in a cross-border CSE involving a bank failure. Following up on lessons learned in that exercise, the FFSA chairs the Communication and Collaboration Tools working group. Looking forward, the FFSA is preparing for an internal bail-in simulation to be organized in autumn 2022. FFSA will also support the design and organization of the next NBSG simulation planned for 2024.

**83. The Finnish authorities should formalize existing crisis management practices and priorities by developing a cross-authority CSE strategy supported by an operational manual on CSE design and implementation.** A clearly defined CSE strategy and supporting CSE best practice manual will help increase the authorities' operational readiness and ensure that they are adequately resourced for a crisis. Such a manual should be regularly updated to capture lessons learned from CSE. This will also help ensure that CSEs are designed to reflect the increasing complexity of cross-border crisis management. This strategy should define how a CSE can best support the development of national crisis preparedness capacity, including by prioritizing aspects of the regime most in need of cross-authority simulations. The Crisis Management Cooperation Management Group could also support the development of a cross-authority strategy for the use of CSE as well as capture the lessons learned from CSE, ensure they are addressed by the respective independent action of the relevant authority, and codify best practices in a CSE manual.

**84. A CSE manual should make clear the different purposes of CSEs for different levels of completeness in the Finnish crisis management regime.** Such a CSE manual would help capture best practices established by Finnish authorities' experience to date and recognize the important role that CSEs play for the Finnish authorities in developing crisis management capacity. The manual should make clear the different purposes of crisis simulations: teaching versus testing.<sup>25</sup> The manual would help minimize the risk of unintended outcomes from CSEs undermining cross-authority or cross-border cooperation. If CSE design is not tailored to reflect the state of development of crisis management regimes, players may derive meaning from the CSE that influences their action in a real crisis, but which could be inconsistent with the authorities' preferred crisis management strategy. For example, foreign authority CSE players might conclude that internal home authority resolution processes/procedures are inadequate if they are tested while being incomplete or poorly

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<sup>25</sup> See Appendix 2 for more detail on the design of teaching versus testing CSE.

understood by the home authority. This could undermine host confidence in the credibility of the home authority in a crisis and risk hosts taking preemptive and uncoordinated action instead.

## E. Legal Protections

**85. The authorities and their staff need to take crisis management actions without the threat of lawsuits.** In the context of financial crisis management, legal liability may occur when (i) the supervisory authority fails to take any action notwithstanding the knowledge of serious problems in the bank, (ii) measures were inadequate in response to the problems, or (iii) a shareholder of a bank challenges the appointment of a provisional administrator, or (iv) a resolution action which interferes with private property in the public interest. Given the distributional implications of authority crisis management actions and the incentive of various private actors, it is likely that they will make every effort to challenge actions in court to avoid incurring any losses. Precedent suggests that private stakeholders negatively impacted by authority decisions are more litigious.

**86. In Finland, there are no specific legal protections for the FFSA and FIN-FSA staff in carrying out their work in good faith.** Instead, the State will be liable for damages for injury or damage caused by an employee through an error or negligence at work. A public official will also be liable for damages for injury or damage caused by an error or omission in carrying out their official duties. They may also be subject to legal action if they violate official duties by an unlawful act, regardless of whether that is done in good faith. These requirements concerning violation of official duty apply to all Finnish officials, and there is no distinction made in the treatment of officials of financial oversight agencies. There are no arrangements for protecting staff against the costs of defending their actions as part of their work.

**87. The legal protection of the financial agencies' officials, staff, and agents should be strengthened to be consistent with pertinent international standards.** It is recognized that the Finish Constitution provides clarity on the implications of unlawful acts or omissions by a civil servant; also, the Criminal Code contains a limitative list of crimes that may be committed by civil servants, including breaches of official secrecy, misuse of an official position and violation of official duties. Still, statutory clarity should be provided to potential plaintiffs that a case against crisis management staff decisions would have no chance of success unless it is based on criminal activity (as per the Criminal Code) or actions taken and omissions made in the discharge of official duties in bad faith. This should cover the agencies, their current and former officials, staff, and agents. If employees face personal action and must defend the proceedings, they should have access to resources for defending the proceedings, including a full indemnity for legal costs.

## Appendix I. Financial System Assets

**Table 1. Finland: Financial System Assets 2016 and 2021**

Sector	2016			2021		
	Assets	Number of Institutions	Assets (Percent of GDP)	Assets	Number of Institutions	Assets (Percent of GDP)
<b>Banking sector (consolidated)</b>	537,397	46	247.1	870,440	42	346.2
Domestic banking groups	185,366	10	85.2	759,029	11	301.9
of which: Three largest banking groups	157,360	3	72.3	707,190	3	281.3
Subsidiaries and branches of foreign banking groups operating in Finland	352,031	36	161.8	111,411	31	44.3
<b>Insurance and Pension sector</b>	194,252	68	89.3	250,847	59	99.8
Life	58,884	11	27.1	72,953	9	29.0
Non-life	16,778	36	7.7	16,643	34	6.6
Employee pension insurance	118,590	21	54.5	161,251	16	64.1
<b>Investment funds</b>	119,963	783	55.2	179,883	982	71.5
<b>Stock market capitalization</b>	203,265	145	93.4	345,689	184	137.5
<b>Corporate debt</b>						
Outstanding loans and debt securities	229,054		105.3	263,744		104.9
of which: issued in Finland	155,344		71.4	176,777		70.3

Source: FIN-FSA.

Notes: Investment funds includes mutual funds, private equity, money market funds and hedge funds.

## Appendix II. Status of Key Recommendations of the 2016 FSAP

Recommendations	Time <sup>1</sup>	Status
<b>General</b>		
Increase the FIN FSA and FFSA's financial and human resources in accordance with the increase in regulatory complexity and supervision intensity in (i) prudential supervision of banks (including systemic branches), (ii) prudential supervision of insurers, (iii) contingency planning/crisis management & resolution (iv) macroprudential policy analysis, and (v) investment funds and their managers.	I, C	<b>Partially implemented.</b> The FIN-FSA has increased resources since the previous FSAP in different supervisory functions (especially in (i) banking supervision). On the other hand, SSM LSI methodology is derived from the SI methodology which is significantly more comprehensive compared to FIN-FSA's pre-SSM approach. The FFSA's resources have been increased since 2016, in conjunction with it becoming more established since its foundation in 2015, and with increased resources following Nordea's re-domiciliation. During 2021 the FFSA's human resources were 19.6 FTEs (compared to 12.5 in 2016). However, new risks and challenges are emerging which reform the supervisory and resolution planning practice and processes and require the acquisition of new skills such as: the challenges of cyber resilience, the potential opportunities of fintech, the growing sophistication of threats from criminal activity (money laundering and terrorist financing), or the impact of environmental and climate (E&C)-related risks on banking.
Expand cooperation arrangements with other Nordic supervisors to include (i) formal region-wide sharing of supervisory data and coordinated inspections, including foreign branches and cross-border management of investment funds, (ii) conduct Nordic stress tests, (iii) strengthen collaboration with macroprudential authorities, and (iv) enhanced CPCM cooperation on systemically important branches and regular crisis simulation exercises.	NT	<b>Partially implemented.</b> In 2018, an updated MoU on Cooperation and Coordination on cross-border financial stability between relevant Ministries, Central Banks, Financial Supervisory Authorities and Resolution Authorities of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden (i.e., the Nordic-Baltic MoU). The MoU is focused on coordinating with respect to managing crisis in the regional financial system. The regional NBSG MoU is complemented by FFSA, Fin-FSA, BoF coordination with other foreign authorities in the context of supervisory and resolution colleges as well as other bilateral resolution planning discussions on a firm specific basis. For example, with respect to Finnish SIs with cross-border operations, FFSA staff participate in the SRB internal resolution teams (IRT) of Nordea, OP and Municipality Finland.  However, establishing cross-border cooperation requires significant investment to develop the required shared understanding, coordination mechanisms, and analytical methodologies necessary to support coordinated monitoring,

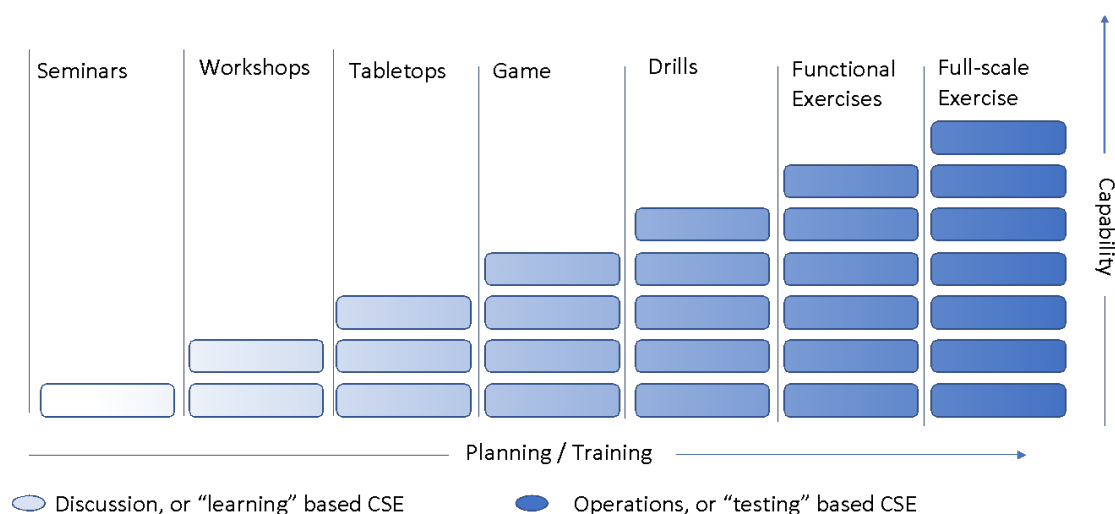
Recommendations	Time <sup>1</sup>	Status
<b>General</b>		
		stress testing, and analysis both in peacetime and crisis. Similarly, sustaining such cooperation requires dedicated resources. While there has been progress since the last FSAP, discussions are at an early stage, and sustained effort over a multi-year engagement strategy is necessary before home and host authorities have the capability to take coordination action in a crisis with acceptable levels of execution risk.
Strengthen legal protection for staff of all financial oversight agencies.	I, C	<b>Not implemented.</b> No progress since previous FSAP. A public official may be subject to legal action if they violate official duties by an unlawful act, regardless of whether that is done in good faith. Personal accountability and protection of legal protection for staff of financial oversight agencies is established in the general constitutional and administrative law and generally applicable to the staff in all public authorities.
<b>Contingency Planning and Crisis Management</b>		
Formalize inter-agency cooperation on crisis preparedness and management at the national level, possibly through an expanded mandate for the FFSA Advisory Council.	NT	<b>Partially implemented.</b> Finnish authorities coordinate preparatory work with respect to matters falling within the competence of the FFSA through the FFSA Advisory Board. The legislative mandate of the FFSA Advisory Board has not been expanded beyond this since the last FSAP. More recently, Finnish authorities (MoF, MoSAH, FIN-FSA, BoF, FFSA) updated a crisis coordination MoU which uses a Crisis Management Cooperation Management Group to facilitate crisis coordination. While cross-authority coordination has improved since the last FSAP and further increased due to COVID and war in Ukraine, more work is required to fully institutionalize cross-authority crisis coordination of work to 1) prepare for, and 2) manage crises.
Under the oversight of the FFSA Advisory Council, ensure agency-specific and national financial crisis planning.	C, NT	<b>Partially Implemented.</b> There has been good coordination among the authorities in the development of crisis plans for SI and LSI on recovery and resolution, as well as in responding to the recent COVID and Ukrainian crises. Progress has been made to establish information dependencies between the authorities, the legal arrangements in place to support information sharing and developing the systems for FFSA access to relevant supervisory information. As firm-specific crisis management plans develop these arrangements will need to be further developed and expanded including to ensure the

Recommendations	Time <sup>1</sup>	Status
<b>General</b>		
		BoF can access the resolution plans for domestic SIs and LSIs to enable it to prepare for its function as lender of last resort. This will raise issues related to the work of the BoF that go beyond matters falling strictly within the competence of the FFSA.
Expedite resolution planning for systemic financial institutions.	NT	<b>Partially Implemented.</b> There has been good progress in resolution planning for SIs and LSI with both complying with national resolution planning and MREL in close cooperation with SRB. Drawing on SRB and EBA policy, the FFSA has established clear internal processes and processes and procedures to support its resolution planning work. However, much work is still required by SIs and LSI to comply with non-MREL resolvability expectations and for FFSA to assess firms' actions consistently as well as verify the capabilities of the firm systems described in their self-assessment reports.
Define strategies for liquidity assistance to banks in resolution and introduce an indemnification arrangement for ELA losses if incurred by the BoF.	NT	<b>Not implemented.</b> Under the Eurosystem monetary framework, the BoF has the statutory responsibility for provision of emergency liquidity assistance (ELA) and bears the costs and risks inherent in doing so. It has developed internal arrangements to define the policy framework and considerations related to the provision of ELA. However, BoF has not taken any additional steps since the last FSAP at a national level to specify publicly its role in ELA or funding in resolution beyond what is already set out in the European agreed framework for national central banks. The BoF and the FFSA have not developed any formalized agreements, defined non-firm specific scenarios or handling strategies for considering together how to address the risk of banks in resolution needing access to its temporary collateralized liquidity support.
<sup>1</sup> C = continuous; I (immediate) = within one year; NT (near term) = 1-3 years; MT (medium term) = 3-5 years.		

## Appendix III. Crisis Simulation Exercises—Examples of International Good Practice

1. There are two broad purposes for conducting different types of CSE, as follows: learning and testing. Learning-focused simulations are intended to raise awareness of crisis management issues and improve knowledge of the crisis organization, plans, procedures, protocols, etc. Such learning-focused simulations are targeted at discussing and gaming aspects of the crisis management framework and reactions of those individuals responsible for implementing that aspect and related decision-makers. Testing-focused simulations are designed to probe individuals, teams, and organizational preparedness and identify areas of strength or vulnerability. Such testing-focused simulations involve more elements of surprise (e.g., akin to a fire drill), with the scenario generally unknown to the players in advance. Learning and testing focused simulations share the same design parameters (e.g., players involved, level of realism, the openness of scenario, context and setting, player role, timing, etc.) but may make different choices as to how each parameter should be arranged in a CSE.

**Figure 1. Finland: Different Types of CSE**



2. For example, a testing-based approach to CSE is likely to require crisis processes, protocols, and capabilities (e.g., systemic impact assessment frameworks, established valuation approaches to inform solvency and viability assessments, operational liquidity facilities, etc.) to largely be complete and known to be functioning by those involved in the CSE. This is because the purpose of the simulation is to see how well such issues are understood by the players and identify areas of strength or vulnerability. Alternatively, a learning-based approach to CSE design can help develop players' capability in a more targeted way on specific aspects of a team/organization crisis capabilities in isolation, often through discussion (e.g., decision-making frameworks) while other aspects of the approach to managing crisis remain under development. Learning-based CSE is used



to develop capabilities and harmonize understanding of decision-maker reaction function in the defined scenario.

3. If the crisis management framework remains relatively novel for many players (e.g., resolution regime tools have yet to be fully operationalized, etc.) and their operational capability with respect to the nuances of how going and gone concern statutory regimes interact is still developing, then this will constrain the complexity of the CSE scenario to avoid overwhelming players with issues they are unfamiliar which does not require a CSE to identify. Until a crisis management framework is fully operational, learning-focused CSE is more appropriate. Failure to recognize such in advance risks incurring the high cost of CSE development, execution, and evaluation without deriving the benefits. It could also result in players deriving meaning from the CSE that is inconsistent with the authorities' preferred crisis management strategy or effective crisis management, e.g., internal processes/procedures are inadequate due to a failure to recognize they are incomplete or poorly understood.

4. Authorities should generally not attempt CSE involving external parties (e.g., other government agencies, banks, or foreign authorities) before the crisis management framework it is based on is fully operationalized and functioning and understood by its own staff. This is needed to avoid negatively impacting external parties' confidence in the authorities' capability to act as an effective partner in a high impact crisis management scenario. However, if a cross-border CSE is considered essential for whatever reason before this precondition can be met, a more learning focused approach should be taken in developing a cross-border simulation with foreign authorities relying on the CSE options (to the left of Figure 1). Such a simulation should focus on an element of the domestic crisis management framework that is well understood by both and important for cross-border cooperation.

## Appendix IV. Bail-in Mechanics—Policy Design Choices

1. There are important variations between jurisdictions' bail-in mechanics when compared to the objectives of a bail-in mechanic. An authority designing its open bank bail-in mechanic will need to be clear on its approach concerning these differences. The most material difference in considering a preferred open bank bail-in mechanic is as follows:

- Valuation timelines: Some approaches assume that the final valuations of an SI and LSI can be concluded in a matter of days, while others assume a lengthier valuation process (e.g., 3+ months) is required to arrive at valuation conclusions necessary to inform the final bail-in terms and losses to be imposed on creditors.
- Treatment of resolved bank shares: Some authorities assume that all shares in the resolved bank are cancelled, and new shares are issued to be distributed to the formed creditors as compensation. Alternatively, other authorities assumed that existing shares are only suspended for the period until the final terms of the bail-in can be informed by the completed resolution valuation. The former approach may necessitate additional regulatory approval processes including prospectus directive requirements.
- Issuance of new shares: Some authorities propose to require the Common Securities Depository to create new shares on the issuance of the resolution order by the resolution authority. It is assumed that the stock exchange initiates the listing process for the new shares in the trading systems and hence prepares them for trading. Although the new shares have been created legally, a global note is necessary for the technical creation of the shares at the central securities depository. Under this approach, the bank in resolution is responsible for creating the global note. The new shares/global notes will be allocated by the administrator to the former bondholders affected by the bail-in. Other authorities do not require the issuance of new shares under its Certificate of Entitlement (CE) mechanic<sup>1</sup>. However, as noted above, some authorities envisage cancelling all shares in the resolved bank and requiring it to issue new shares to be allocated to former creditors in exchange for their claim rights. Under this approach, the statutory resolution order would be the vehicle used to facilitate the new shares being listed on the stock exchange and for amending the articles of association of the bank in resolution.
- Issuance of interim securities: Some authorities assume that interim securities (i.e., CEs or claim rights) are issued to the resolved bank creditors. These interim securities can be traded in the period between the resolution action and the final terms of the resolution valuation being available to inform the exchange process. For example, in the UK, the issuance of CEs to former creditors of the resolved banks does not involve the acceptance of an offer by those creditors. Therefore, CEs do not need to comply with the

<sup>1</sup> A certificate of entitlement is a registered security issued by a bank in resolution that representing an entitlement to shares, other securities or cash as following the resolution valuation.

Listing Authority or EU Prospectus Directive requirements to publish a prospectus which is typically required on an offer of securities to the public or if securities are being admitted to trading on a regulated market. This is important as it means the CEs can be distributed on the Monday morning after the resolution weekend providing clarity to the market on their economic entitlement in the resolved bank but well before the valuation on which the allocation of that economic entitlement will be based is completed.

- Compliance with change in control/other regulatory requirements: Some mechanics more explicitly address how compliance with supervisory change in control and other regulatory requirements (e.g. the FI's role in supervising takeover bids, enforcing compliance with the Takeovers Act, and approving offer documents and prospectuses etc.) can be met, whereas others are less explicit about how their mechanic ensures that the new owners are fit and proper particularly given the challenges in identifying the holders or any interim securities or new shares in advance of any distribution or exchange process is completed.

2. The difference in approach in responding to these considerations is in large part a result of the differences in national legislative frameworks. However, ensuring a common approach to bail-in mechanics will be important to ensuring coordinated home and host cooperation in the resolution of a cross-border bank resolution. In developing its bail-in mechanics, the FFSA should, in the first instance, consider developing an "open bank" bail-in mechanic that relies on the suspension of liabilities and the use of interim instruments.