



NORDIC-BALTIC
FINANCIAL SECTOR
EU POLICY
RECOMMENDATIONS
2019 – 2024

NORDIC-BALTIC FINANCIAL SECTOR EU POLICY
RECOMMENDATIONS 2019 – 2024

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The combined Nordic-Baltic financial sector is the fifth largest in Europe and saw unmatched total growth of 25 percent from 2010 to 2016

THE NORDIC-BALTIC COUNTRIES

The Nordic-Baltic countries together have more than 33 million inhabitants. Combined, they form the fifth largest economy in Europe and the tenth largest economy in the world. GDP growth in the region is vigorous and its financial sector saw unmatched total growth of 25 percent from 2010 to 2016. The Nordic and Baltic financial markets are at the forefront of rapid modernisation. In the EU innovation scoreboard, most of them surpass the EU average in terms of financial support for growth. Five of the ten most entrepreneurial European countries, and three of the four most fintech-invested European countries (measured in terms of fintech investments per capita) are located in the region. Digital payment methods are widely used, and their use continues to grow at a fast rate.

Foreword by the CEOs

March 2019

Europe is at a crossroads. Climate change, global economic risks with unsustainable public debt levels, and urgency on cross-cutting issues such as trade protection are provoking strong public sentiment and affecting all sectors. Amidst these global challenges the EU also needs to deal with the UK's disruptive exit from the European Union.

With the European elections approaching, the new Parliament and Commission must approach these challenges as an opportunity to form a better future for Europe and its citizens. Throughout the EU, it is important that decision-makers and businesses are looking for ways to minimize the negative consequences of disruption and find solutions that will reinforce the reliability of the EU financial system.

A well-functioning and reliable financial system is fundamental to a prosperous and sustainable society. The Nordic-Baltic financial sector

acknowledges its central role in combatting money laundering, tax evasion schemes and terrorist financing. The financial sector must do its utmost to conduct business in a way which both customers and society can trust – and we, in the Nordic-Baltic financial sector, are fully committed to achieving this goal.

With this paper, the Nordic-Baltic financial sector seeks to contribute its expertise, experience and recommendations on how the EU can be a driving force for sustainable economic growth. Such a future is possible through policies and regulation that ensure a reliable financial system, embrace the financing of a greener future, accelerate the rate of innovation and digitalisation and allow entrepreneurs and businesses to grow.

We look forward to continuing the dialogue with you.

Finance Denmark

Ulrik Nødgaard



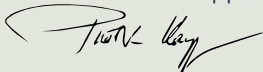
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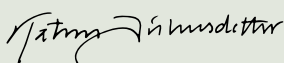
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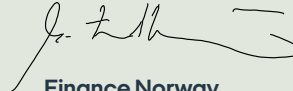
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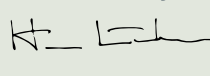
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1

Sustainable Finance as a Driving Force Towards a Sustainable Society

The financial sector plays a key part in the decisive effort to transition to a green and sustainable economy in Europe. The Nordic-Baltic financial sector is actively engaged in the process to ensure that the sector is an integral contributor and participant in this transition. The Commission's Action Plan on Financing Sustainable Growth has been an important step forward, but further action is still required.





For several years already, we have seen growth in investment products that recognise and promote environmental and social aspects. Professional asset managers offering these products play an important part in supporting sustainable economic growth, but the direction of development is ultimately driven by investors' demand for specific products.

A similar beneficial trend in the development of sustainable products should ultimately spread to the entire financial sector. Sector-led global initiatives such as the Task Force on Climate-Related Financial Disclosures

(TCFD) and Principles for Responsible Banking stand as proof of the sector's willingness and capability to engage.

Increased competition in the provision of investment products with a sustainable profile stresses the need for solid and reliable information. Disclosure requirements must be developed with two goals in mind:

- 1) ensuring solid and reliable information for consumers, and
- 2) promoting affordable sustainable products at the same time. Therefore, a balance must be struck between the need to regulate such information and, on the other hand, to avoid creating advisory processes that become too burdensome and ultimately lead to higher costs for consumers.

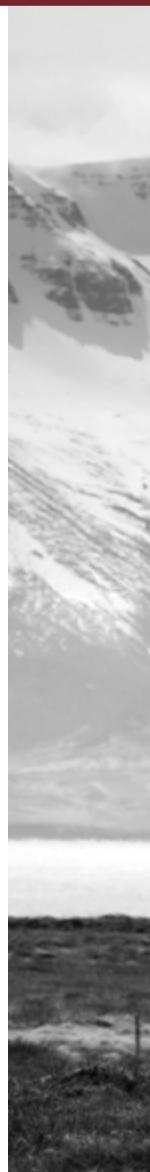
The development of an easy-to-use unified classification system for sustainable activities – the sustainable finance taxonomy – will be the backbone for the European financial sector's engagement in sustainable growth, reaching the Paris Agreement targets and contributing to the UN's Sustainable Development Goals.

The financial sector is willing to act as an integral and active player in shaping the EU rules and initiatives intended to increase the sector's contribution to the EU economy.

Finally, climate-related risks must be addressed specifically in higher education programmes preparing students for employment in the financial sector.

RECOMMENDATIONS ON SUSTAINABLE FINANCE

- The finalisation of a unified classification system or taxonomy for sustainable financial activities is central. The taxonomy will provide a common language on what sustainable investments and sustainable financing specifically mean in terms of the environment and climate, but also in terms of the social and governance dimensions.
- The taxonomy must build and integrate existing standards and classification systems. This is imperative to ensure the efficient use of available finance but also to avoid unnecessary administrative burden for companies, which ultimately would increase prices for consumers – and risk slowing down the transition process.
- The taxonomy must be flexible, as new methodologies and views on what is sustainable will develop along the way. An appropriate timeframe is important to ensure proper and suitable legislation.
- It is important to general economic sustainability that we maintain a robust framework for financial stability. The longterm objective must be that risks related to sustainability and the so-called environmental, social and governance [ESG] criteria are fully integrated in and handled as part of banks' risk management.
- Disclosure requirements should be harmonised to ensure transparency, and should rely on already developed systems, i.e. the TCFD recommendations, Global Reporting Initiative and UN Principles for Responsible Investment. It is important to ensure consistency between these new disclosure requirements and already existing disclosure requirements set for financial participants in financial services legislation.





Disclosure is key for making sustainable finance possible

The Nordic-Baltic financial sectors support the EU Commission's Technical Expert Group on Sustainable Finance in its work to implement the TCFD recommendation in the EU's non-binding guidelines on non-financial reporting. Adoption of disclosure and reporting measures will provide banks with better data for internal risk assessments, and investors and other stakeholders with better data for the investment decision process. This will be an important step forward in securing the funding required in the sustainability transition.

2

The Fight Against Money Laundering, Terrorist Financing and Tax Evasion

A high level of confidence in the financial system is vital for the financial sector and the society as a whole. Banks and authorities together share a wide responsibility for mitigating the risks of money laundering and terrorist financing. Regrettably, the recent cases in the Nordic-Baltic region show that there are still challenges in living up to the responsibilities.

The Nordic-Baltic financial sector is committed to restoring the society's confidence and trust. We are stepping up our initiatives in the fight against money laundering, tax evasion, terrorist financing and financial crime. It is in everyone's interest that the measures to combat money laundering and terrorist financing are as effective as possible. This requires strong legislation and improved collaboration between authorities and the sector at both national and EU levels.



The financial sector has redoubled its efforts against money laundering and terrorist financing by hiring new people, upgrading its processes and procedures, and introducing new IT-systems. The number of suspicious activities reported by banks has increased significantly and the sector has strengthened its cooperation with the authorities. Nevertheless, we acknowledge that there is still much to be done to put all the right safeguards in place.

We believe that it is in everyone's interest that anti-money laundering [AML] and counter-terrorist financing [CTF] measures are as effective as possible. Europe needs strong legislation and improved collaboration between authorities and the sector at both national and EU levels. Cooperation at EU level is a fundamental prerequisite for an efficient AML/CTF framework. These criminal activities are almost by definition international and digital and must be met by cross-border cooperation that enables efficient control and harmonisation across Member States.

To increase the efficiency of anti-money laundering and counter-terrorist financing activities it is important that banks receive continuous feedback from the finan-

cial intelligence units [FIU] regarding the banks' own suspicious activity reporting as well as the trends and risks that the FIU notice in their analytical work. Legislation must also enable more extensive information exchange between banks than what is possible today.

The Nordic and Baltic financial associations have initiated cooperation to exchange experiences and share information regarding the application of the EU AML/CTF framework in the different countries in the region, and to enhance the banks' possibilities to share their Know Your Customer [KYC] utilities.

The Nordic-Baltic financial sector supports initiatives that will contribute to strengthening anti-money laundering and counter-terrorist financing measures in the EU. We therefore support the Commission's September 2018 proposal to strengthen the European Banking Authority's [EBA] role at both national and EU levels. With this proposal, European AML/CTF supervision will be centralised at the EBA, and the EBA will have an enhanced role in issuing guidelines for member states, but also in intervening in specific cases.

RECOMMENDATIONS ON ANTI-MONEY LAUNDERING

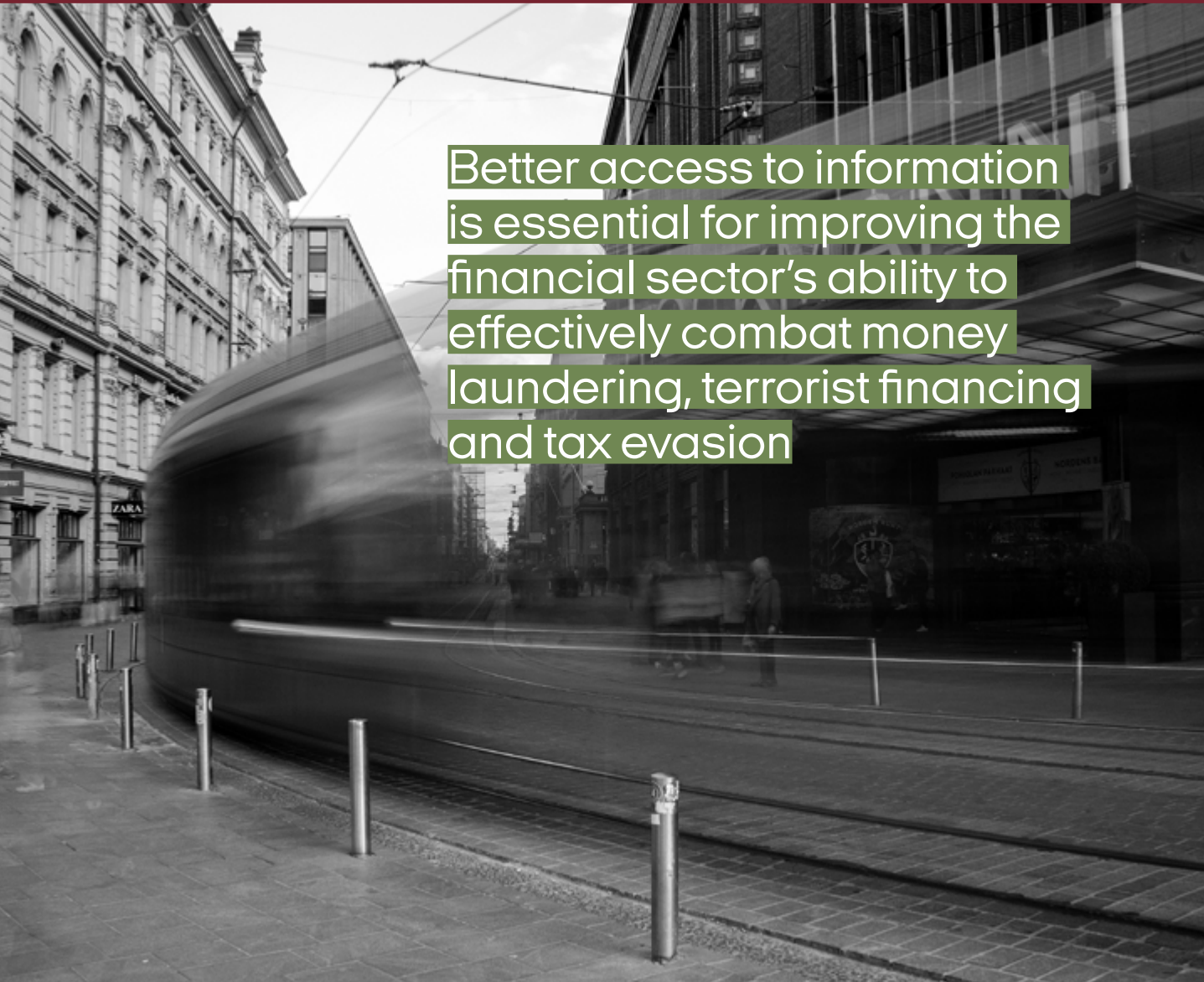
- We are in favour of centralising anti-money laundering and counter-terrorist financing supervision by supporting the EU-level efforts of national authorities, ensuring more uniform standards of curbing money laundering and terrorist financing.
- At the same time the national financial supervisory authorities should still have a main role in the day- to-day supervision in order to guarantee in-depth knowledge on the specific risks of national markets and the continuation of efficient cooperation with the national police forces and tax authorities.
- Appropriate harmonisation of the regulation of digital currencies in the context of AML/CFT could facilitate the establishment of compatible systems for regis-

tration, reporting and supervision, and enable more effective communication and cooperation across national borders.

- As a future initiative to improve the AML/CTF framework we recommend enabling mutual information exchange between the private sector and the authorities on EU level as regards individual cases with cross-border elements.

Better access to information is essential for improving the financial sector's ability to effectively combat money laundering, terrorist financing and tax evasion.





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DIGITAL EUROPE

3

A Digital Europe

The financial sector is at the forefront of the digital transformation of the economy and society. The Nordic-Baltic financial sector is dedicated to exploring and helping safeguard the security of the many new opportunities made possible by a true digital Europe, benefiting consumers and businesses across Europe.

The Nordic-Baltic financial sector is a truly digital industry. The sector's strong traditions for collaboration, combined with consumer confidence and the sector's integration with the public sector's data and registries, have been key for the digital transformation of the Nordic and Baltic countries. The number of electronic payments, for example, has for many years surpassed cash payments. The Nordic-Baltic financial sector is fully committed to continuing this digital transformation. It is therefore constantly developing new innovative digital solutions based on new technologies, like distributed ledger technology (DLT), and new payment solutions made possible by the revised Payment Service Directive (PSD2). In this context the collaboration between the traditional financial sector and new fintech is important for Europe to succeed in the global financial market competition. Caution should also be kept in mind: the many new digital services also increase the risk of cyberattacks against the financial sector and businesses in general.

New technologies as a basis for new services Distributed Ledger Technology (DLT) is a shared database of transactions and contracts that allows all involved parties continuous access but still prevents the manipulation of contracts without the knowledge of all other parties to the network. DLT has attracted a lot of attention, especially in connection to cryptocurrencies. Cryptocurrencies are virtual digital assets designed with the idea of creating a decentralised alternative monetary system that enables users to transfer money directly, bypassing the existing payment infrastructure.

The Nordic-Baltic financial sector is looking into ways to utilise and benefit from new technologies and is actively working on creating new products and services

for consumers. At the moment, different DLT-based techniques are at the forefront of the development and new services are being developed on the basis of this. For example, DLT is used in the development of efficient trade finance projects, for example the collaborative digital platform "WeTrade" in the Nordics.

RECOMMENDATIONS ON BLOCKCHAIN AND CRYPTOCURRENCIES

- European regulators are currently exploring the necessity and solutions of regulating cryptocurrencies. In this context, it is important to create the best possible regulatory framework for utilising the new technologies, such as blockchain, but without jeopardising consumer protection. These new technologies, the risks and the opportunities should therefore be thoroughly investigated in joint processes between authorities, financial incumbents and fintech start-ups.
- Future regulation that concerns distributed ledger technology should focus on regulating the activity, and not the technology.

The Nordic-Baltic
financial sector is fully
committed to continuing
the digital transformation



Payments and Open Banking

The European payments landscape is currently undergoing a huge transformation with the introduction of many innovative solutions. This transformation is partly made possible by the introduction of the Revised Directive on Payment Services [PSD2] and the opening of the payment infrastructure to third-party providers. The Nordic-Baltic financial sector welcomes the competition from the new market players and is dedicated to developing API solutions that support their access to the payment infrastructure.

RECOMMENDATIONS ON PAYMENTS AND OPEN BANKING

- To ensure a level playing field in payments and Open Banking, regulation should be based on the following three principles:
 - 1) Regulation of activity, not businesses
 - 2) Technology-neutral regulation
 - 3) A risk-based approach





EXAMPLE OF THE WORK TO INCREASE CYBER SECURITY:

THE FIGHT AGAINST SMS PHISHING

- Raising awareness of “SMS phishing” should be made a key objective. Companies should have the possibility to register and protect the message headers they use in their SMS communications to consumers.
- Consumers should be able to report fraudsters who send messages impersonating a brand in the message header.
- Mobile operators should establish protective practices to combat SMS phishing attacks and to secure the status of SMS as a trusted communication channel for brands and consumers.

Nordic Financial Sector Investing Heavily in Cybersecurity

The new digital services make the financial sector more vulnerable to cyberattacks, like any other sector or business. The European Commission has launched several new initiatives to strengthen cybersecurity in the EU. The Nordic-Baltic financial sector supports these initiatives, particularly the aims to strengthen the European Union Agency for Network and Information Security (ENISA). The Nordic-Baltic financial sector invests heavily in the improvement of cybersecurity, and to prevent future cyberattacks, the sector also collaborates through mutual information exchange to the extent possible within the current legal framework.

RECOMMENDATIONS ON CYBERSECURITY

- Cyber security should be an integral part of all digital agendas. The authorities and the financial sector should work together in order to strengthen confidence in the Digital Single Market and to increase EU citizens' knowledge about security in a digital world. Guidance and awareness-raising activities targeted at citizens must be continuously improved by the financial sector, national authorities and the EU.
- The EU should develop specific plans for critical sectors and contemplate introducing measures such as sector-specific computer emergency response teams (CERTs), cyber stress tests and mapping of mutual interdependencies.



NORDIC FINANCIAL CERT

Banks in the Nordic countries have set up the Nordic Financial CERT [NFCERT], which is a partnership that includes many financial sector entities such as banks, insurance companies and pension companies in the Nordic countries. The purpose of the NFCERT is to protect the member financial institutions from cyberattacks directed at their customers' assets, protecting large and small financial institutions alike at the same time. The aim is to ensure that the Nordic financial sector can proactively, quickly and resolutely identify and defend itself against cyberattacks. A prerequisite for being successful in this work is comprehensive cooperation and information sharing – within the financial sector, between different parts of the private sector as well as with relevant authorities, especially the police and security authorities.

A black and white photograph featuring a wireframe sculpture of a human head in profile, facing left. The sculpture is composed of a dense grid of thin white lines. In the background, a modern building with a curved glass facade and a prominent white structural frame is visible. The text is overlaid on the upper left portion of the image.

The Nordic-Baltic financial sector supports the development of a comprehensive AI plan at EU level and stand ready to contribute to this work

Artificial Intelligence and the Financial Sector

Artificial intelligence [AI] is technology that is expected to have a substantial impact on how various businesses and industries create value to their customers, optimise their processes and strengthen their regulatory compliance. AI refers to a variety of technologies that at present are at different degrees of maturity, but the entire field is evolving rapidly.

Artificial intelligence has raised concern with regard to how it is used, what kind of data is used to train it, and what potential negative effects it has on employment, for example. It is important to address these concerns. Before the full potential of AI can be reached, we must first understand it thoroughly, and companies and citizens must also be able to trust that the technology is not misused.

RECOMMENDATIONS ON ARTIFICIAL INTELLIGENCE

- The Nordic-Baltic financial sector supports the development of a comprehensive AI plan at EU level and stand ready to contribute to this work.
- It is important that the EU applies both horizontal and vertical approaches to any future regulation of AI.
- Some issues, such as the use of data and the general rights of companies and consumers could be governed by a set of horizontal rules. With that said, we acknowledge that at industry level, specific regulation of AI will also be necessary. It is important to attain high levels of consumer protection and confidence. Similar businesses and similar products and services should be treated the same.



There is a need for efficient and dynamic capital markets to work in tandem with a strong and stable banking sector

Efficient and Dynamic Capital Markets

The Nordic-Baltic financial sector supports the continued development of the EU capital markets as a key element in strengthening the Single Market. There is a need for efficient and dynamic capital markets to work in tandem with a strong and stable banking sector. Well-functioning capital markets are essential to growth and job creation in Europe, as they improve businesses and consumers' access to financing in the Single Market.

The multitude of business functions and players in the capital markets makes them strong and versatile, enhances economic growth and increases welfare.

Where a bank loan or credit is often what is needed for a company to expand or invest in new technology or services, alternative sources of finance can be found through the capital markets. Capital markets and banks complement each other in financing the real economy. This is especially true for the financing of SMEs and entrepreneurs, who are the builders of tomorrow's Europe. Well-functioning capital markets are therefore the key to a prosperous Europe.

Banks provide intermediary services when providing transaction services for other capital market players. Well-functioning, stable and developed banking is the cornerstone of the traditional European financing model. The universal banking model enables the supply of both the direct and intermediate functions needed in well-functioning capital markets.

Although some work towards a more integrated EU Capital Markets Union has been undertaken, more needs to be done. Strong European capital markets are even more important during the next years, as UK capital markets will no longer be part of the core European market. A holistic and long-term perspective is essential to this journey. The starting point should be to allow European industries total access to financing and free competition in EU capital markets. Balancing the regulatory environment to avoid distortion of pricing between different financing alternatives is key going forward.

RECOMMENDATIONS FOR HEALTHY AND WELL-FUNCTIONING CAPITAL MARKETS

- A balanced system of capital market financing and bank lending must be maintained throughout the EU without privileging or undermining either one of these two main types of financing.
- Regulation of activity rather than entity ensures equal footing for competition as markets develop.
- Europe needs a solid and competitive legal framework as a foundation on which to build a healthy EU-27 capital market that stands on equal footing with those in the US, UK and other regions.
- With Brexit the need for focussed, concerted action to ensure the single market's access to the services of all capital markets has grown. This entails mapping out what services need to be strengthened within the single market and the global capital markets and identifying possible need for changes in the equivalence regime is part of this.
- All new bank and capital markets regulation must be adequately calibrated to secure liquidity and efficient access to capital.





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Central Information to Investors

When a retail investor considers making an investment, they are often faced with a wide variety of investment products. It is vital that the information that a retail investor is given on an investment product is presented in a form and language that the investor can understand.

Information on costs and charges is regulated by several sets of rules, such as MiFID II, which regulates the markets for financial instruments, and the PRIIPs regulation, which applies to all ‘Packaged Investment and Insurance Products to Retail Investors’.

The disclosure rules must be developed from the starting point of consistency and clarity to the investor. The need to align the different sets of rules is urgent, as this important aim is in many cases not achieved at present. While the rules address the need to provide key information to investors, they are not entirely compatible due to the differentiated approach in their respective methodologies. Although they address the same information, they consequently end up showing different costs for the product, ultimately causing more confusion than clarity for the investor.

- In order to address the shortcomings of the PRIIPs regulation, the Nordic-Baltic financial sector urges the Commission to carry out a proper review of the PRIIPs regulation in due time. We look forward to constructively contributing to this process.

NORDIC-BALTIC FINANCIAL SECTOR EU POLICY RECOMMENDATIONS 2019 – 2024

