

Conclusions and recommendations of the National Audit Office

Operations of the Financial Stability Authority as part of the banking union's Single Resolution Mechanism

Following the financial crisis that began in 2008, the European Union set up the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) to harmonise banking supervision and resolution procedures in Europe. The purpose of the SRM is to ensure that, in case of a bank failure, investors and the banking sector would bear the costs caused by the crisis, thus minimising the costs incurred by taxpayers and the economy. Under the SRM, the Single Resolution Board (SRB) is responsible for any resolution activities concerning 'significant banks', while national resolution authorities, such as the Finnish Financial Stability Authority, are responsible for resolution tasks concerning nationally controlled 'less significant banks'. A key task of the resolution authorities is to draw up resolution plans for banks in case of a situation where a bank is failing or is likely to fail.

The purpose of this audit was to evaluate how well the structures and procedures concerning the resolution of less significant banks have been implemented in Finland. According to the audit findings, the Financial Stability Authority is well placed to carry out bank resolution tasks. The Act on the Resolution of Credit Institutions and Investment Firms ('the Resolution Act') provides the Financial Stability Authority with powers in accordance with the Bank Recovery and Resolution Directive to apply resolution tools and powers. Operational independence has been ensured by establishing the Financial Stability Authority as a separate agency. The Financial Stability Authority has drawn up the first resolution plans for all less significant banks in Finland. These plans largely cover the topics recommended for such plans. However, some of the topics have only been covered briefly.

To clarify the procedures concerning the exchange of information laid down in law and required for operations, the Financial Stability Authority and the Finnish Financial Supervisory Authority drew up a memorandum of understanding (MoU) on cooperation in June 2019. However, a corresponding memorandum between the Financial Stability Authority and the Bank of Finland is yet to be drafted, and the MoU on cooperation concerning financial system crisis management drawn up between various Finnish authorities in 2007 has not been updated. The reporting by the Ministry of Finance regarding the activities of the Financial Stability Authority in the Government's annual report to Parliament has been limited.

So far, some of the topics of the resolution plan have only been covered briefly

The Financial Stability Authority has drawn up the first resolution plans for all eight less significant banks in Finland. The drafting of the resolution plans is governed by various requirements and guidelines laid down in different levels of legislation. The plans drafted so far largely cover the topics recommended for such plans. However, some of the recommended topics, such as information and communication plans and resolvability assessment, have only been covered briefly. This is partly because it has not been possible to take into account all the essential

matters in the first versions of the plan. On the other hand, relevant guidelines issued by the Single Resolution Board have been partly lacking. The plans do, however, mention that they are partly incomplete and that the topics concerned will be clarified when the plans are updated.

The procedures concerning the exchange of information between the Financial Stability Authority and the Bank of Finland have not been specified

The Resolution Act includes provisions on the cooperation between the Financial Stability Authority, the Ministry of Finance, the Bank of Finland, the Financial Supervisory Authority and other authorities. The Financial Stability Authority and the Financial Supervisory Authority have drawn up a memorandum of understanding (MoU) on cooperation to supplement the general obligation to disclose and submit information laid down in law. Such a measure is an effective way to clarify the views of each party regarding the submission of information and related obligations, as well as to increase the understanding of the role of each party in the promotion and maintenance of financial stability. A corresponding memorandum between the Financial Stability Authority and the Bank of Finland is currently under preparation.

The MoU on cooperation between Finnish authorities has not been updated

In 2007, various Finnish authorities (the Financial Supervision Authority, the Ministry of Social Affairs and Health, the Bank of Finland, the Insurance Supervisory Authority, and the Ministry of Finance) drew up a memorandum of understanding on cooperation concerning financial system crisis management. The purpose of the MoU was to enhance the crisis management capabilities of the parties by ensuring sufficient exchange of information between the parties in crisis situations and by increasing cooperation in the management and resolution of financial crises. The updating of the MoU started in the Ministry of Finance in September 2016, but the process was never completed.

The reporting regarding the activities of the Financial Stability Authority in the Government's annual report to Parliament has been limited

The 2015 Government's annual report to Parliament contains a brief description of the establishment and duties of the Financial Stability Authority. However, the subsequent annual reports do not cover the Financial Stability Authority or its activities. The establishment of national resolution authorities and the resolution plans drawn up by such authorities for banks play a key role in the preparedness for bank resolution. Considering the management of risks related to the financial liabilities of central government, the Government's annual report to Parliament should contain a more detailed account of the role and duties of the Financial Stability Authority and the implementation of its activities. Parliament should have more accurate information on how well the new structures and procedures to reduce risks to central government finances related to the banking sector have been implemented at the national level.

The National Audit Office does not have the mandate to audit all the national entities related to the banking union

In the framework of banking supervision and resolution, the Financial Supervisory Authority is responsible for the prudential supervision of banks, bank recovery activities and early intervention measures. Where these measures prove to be insufficient, the bank is considered to be failing or likely to fail. At this stage, the responsibility for any subsequent measures in Finland transfers to the Financial Stability Authority. The National Audit Office has also previously drawn attention to the audit gap concerning the first pillar of the banking union, i.e. single banking supervision. In Finland, the National Audit Office has the right to obtain information from the Bank of Finland and the competent banking supervisory authority operating under it, i.e. the Finnish Financial Supervisory Authority, but it does not have the mandate to audit these entities.

Recommendations of the National Audit Office

The National Audit Office recommends that

1. the Financial Stability Authority should clarify the resolution plans regarding the topics of information and communication plans and resolvability assessment;
2. the Financial Stability Authority and the Bank of Finland should draw up a memorandum of understanding on the exchange of information and on cooperation;
3. the Ministry of Finance should ensure that the memorandum of understanding on cooperation between various authorities is updated. This requires the participation of all relevant authorities in the updating process;
4. the Ministry of Finance should expand its reporting on the activities of the Financial Stability Authority in the Government's annual report to Parliament;
5. the Ministry of Finance, in order to enhance the comprehensiveness of the external audit of the banking union in Finland, should examine the possibility of extending the mandate issued to the National Audit Office pursuant to Article 59(2) of the Capital Requirements Directive to also cover the audit of the supervision of credit institutions.