ECONOMIC GROWTH THROUGH IPOS

An efficient listing environment is key to growth and capital market competitiveness in Finland

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NASDAQ OMX®

CONTENTS

This is a translation of the Finnish report "Listautumisilla kasvu-uralle – Toimiva listautumismarkkina avain Suomen kasvulle ja pääomamarkkinoiden kilpailukyvylle". In the event of any conflict between the Finnish original and the English translation, the Finnish original shall prevail.

1 INTRODUCTION

For over 100 years, NASDAQ OMX Helsinki Ltd ("NASDAQ OMX Helsinki" or "Exchange") has played an important societal role in helping companies acquire equity-based financing for funding their growth. The Exchange maintains a financial ecosystem for raising capital. The ecosystem is comprised of listed companies, trading members, institutional investors, investment funds, family enterprises, venture capitalists, and private investors. This offers listed companies the best possible climate for financing growth and investments as well as creating jobs.

Over the past ten years, the number of Initial Public Offerings (IPOs) in Finland has been exceptionally low. It was for this reason that the Exchange hosted an event in January 2014, where different stakeholders and representatives of capital market participants could discuss and draft proposals for developing the Finnish IPO and capital markets. The Exchange has published this final report and proposed measures based on these discussions.

Supporting the growth of small and medium-sized enterprises (SMEs) is crucial to Finland's economy and employment. Even though large corporations are still vital to the Finnish economy, companies with fewer than 50 employees generated 73% of all new jobs during the period 2001–2012[1]. In Sweden, the corresponding figure has been approximately 80% over the past ten years[2]. The flow of capital from banking sector to SMEs has been hampered by stricter regulations brought by the financial crisis. In the current situation, one of the Exchange's most important tasks is to also offer a channel for smaller emerging growth companies to raise capital to finance their growth. Indeed, it is essential that we examine the factors that have led to companies' lack of interest in going public.

The Exchange provides an effective channel for companies to raise market-based capital, and it facilitates the participation of institutional and private investors in share issues. The Exchange offers investors the opportunity to earn great returns in a regulated, balanced and supervised operating environment. Going public enhances the transparency of the company and its social responsibility, thus benefiting investors and the company's other stakeholders.

There have been an exceptionally low number of listings in Finland over the past ten years. In Sweden, over 160 small growth companies have already gotten listed on the First North market since 2005; in Finland, only six companies have done so during the same period[3]. In Sweden, 31 of these companies have already moved to the Main market from the growth market.

During the past seven years, First North companies, primarily in Sweden, have raised a combined total of EUR 1,597[3] million in new capital for growth, investments, expanding their business globally and job creation. At the same time, investors have been offered a wide variety of new, attractive and profitable investment opportunities. In Sweden, the impact that listed companies have on employment has been studied: The number of jobs in companies that listed their shares on the First North market showed an average annual increase of 21% after going public, compared to an average annual growth rate of 1.5% for companies in private sector[2]. Furthermore, during this period First North companies in Sweden have created a combined total of over 20,000 new jobs through market-based financing. In the United States,

[1] Statistics Finland
[2] NASDAQ OMX Stockholm: Ett förbättrat börsnoteringsklimat för Sveriges tillväxt - problemanalys och förslag till åtgärder, 2013
[3] NASDAQ OMX statistics 25 April 2014

according to a study as much as 92%[4] of job growth occurs after a company's IPO. Therefore it is of vital importance in the society to create favorable climate for listings.

Last year, NASDAQ OMX in Sweden launched an IPO Task Force project, whose purpose was to improve the climate for IPOs. The resulting White Paper[5] and proposed measures for improving the attractiveness of IPOs were well received and enjoyed a great deal of support. The Swedish Task Force proposed, among others, more flexible regulations concerning quarterly reporting, lobbying the improvements for the interest of SMEs, and increasing the level of co-operation between various market participants. Some of the measures will also be implemented by NASDAQ OMX at the Nordic level. One example of this is intraday auctions for less liquid shares, which have been in use in Finland since December 2013.

The fact that there are similar development projects underway in other parts of the world indicates the importance of developing the IPO market. Jointly drafted by various market participants, the Rebuilding the IPO-on-Ramp report[6] was published in the United States in October 2011, and a joint IPO Task Force project involving the Federation of European Securities Exchanges (FESE) and a few other capital market participants was launched in Europe in March 2014.[7]

It is generally assumed that the decline of the Finnish IPO market can be attributed to the administrative burden related for being a listed company as well as the burdensome listing process and its costs. These listing barriers cannot be eliminated by a single, easily implemented corrective measure. Instead, it is easy to correct the uneven tax treatment between listed and unlisted companies, which is a real obstacle to listings and companies' growth.

The measures proposed for developing the IPO market are summarized in section 2 below. The proposed actions have been divided according to whether they can be implemented at EU level, national level in Finland, or through the Exchange. In drafting this report, the Exchange has also specified the market participants, to whose field implementation of the proposed measures applies. Sections 3-5 of the report discuss the grounds for the proposed measures in the following areas: developing the capital markets and ownership, incentives for listings and decreasing listing barriers, and reducing the regulatory burden of listed companies. Sections 3-5 also provide conclusions and recommendations for approaches, which can be used to enhance practical functions or lighten the administrative burden.

The Exchange would like to thank everyone who participated in the discussion held in January 2014. Special thanks go to the discussion moderators Anne Leppälä-Nilsson, Risto Murto and Timo Ritakallio.

We hope that this report will lead to concrete measures, which will put Finland's IPO market on the path to growth.

[4] IHS Global Insight: Venture Impact 2007, 2008, 2009 & 2010 and IPO Task Force August 2011 CEO Survey
[5] NASDAQ OMX Stockholm: Ett förbättrat börsnoteringsklimat för Sveriges tillväxt - problemanalys och förslag till åtgärder, 2013
[6] IPO Task Force: Rebuilding the IPO-on-Ramp, October 2011
[7] FESE release 17 March 2014: "New Industry Task Force to propose solutions for Europe's IPO revival"

2 PROPOSED MEASURES

In the table below, proposed measures have been divided according to whether they can be implemented at EU level, the national level in Finland, or through the Exchange.

	Developing the capital markets and ownership	EU level	National level	Exchange
1.	The opportunities for pension funds to invest in listed equities should be increased in the ongoing reform of the Finnish solvency regime.		✔	
2.	Operational preconditions for pension funds should be confirmed in the ongoing regulatory reform since an adequate number of pension institutions of varying size are needed in order to promote diversity and liquidity of our capital markets.		✔	
3.	Equity research services should be expanded to cover all listed companies.			✔
4.	The tax treatment of unlisted and listed companies and their shareholders should be made neutral. One urgent measure is to make the dividend taxation of First North companies equal to that of unlisted companies.		✔	
5.	The interest of private investors in direct equity investments should be supported by means of tax neutrality and targeted savings incentives.		✔	
6.	Overall capital income taxation must be entirely reformed in order to encourage personal saving and investing.		✔	
7.	The listing of state-owned companies must be set as a goal in the State ownership policy.		✔	
8.	Multi-tiered custody of securities should be extended to also cover holdings in domestic securities by Finnish investors.		✔	

	Incentives for listings and decreasing listing barriers	EU level	National level	Exchange
9.	The development of an alternative light IFRS for smaller listed companies should be promoted at an international level.	✔	✔	
10.	Adjustments to IFRS standards should only be made if deemed necessary and according to an agreed timeline.	✔	✔	
11.	Secondary listings of foreign listed companies into Finland should be promoted.			✔
12.	Direct registration to the Finnish book-entry system of the foreign companies' shares should be made possible.		✔	
13.	A handbook for listing candidates should be prepared also for companies applying to the Main Market.			✔

14.	The Listing committee process should be assessed and improved.			✔
15.	When a lead manager is responsible for the listing process, lead manager statement should not be required.			✔
16.	Interpretation of Rules of the Exchange concerning the minimum number of qualified shareholders should be made more flexible.			✔
17.	Awareness of how going public fosters companies' growth and job creation should be increased.		✔	✔

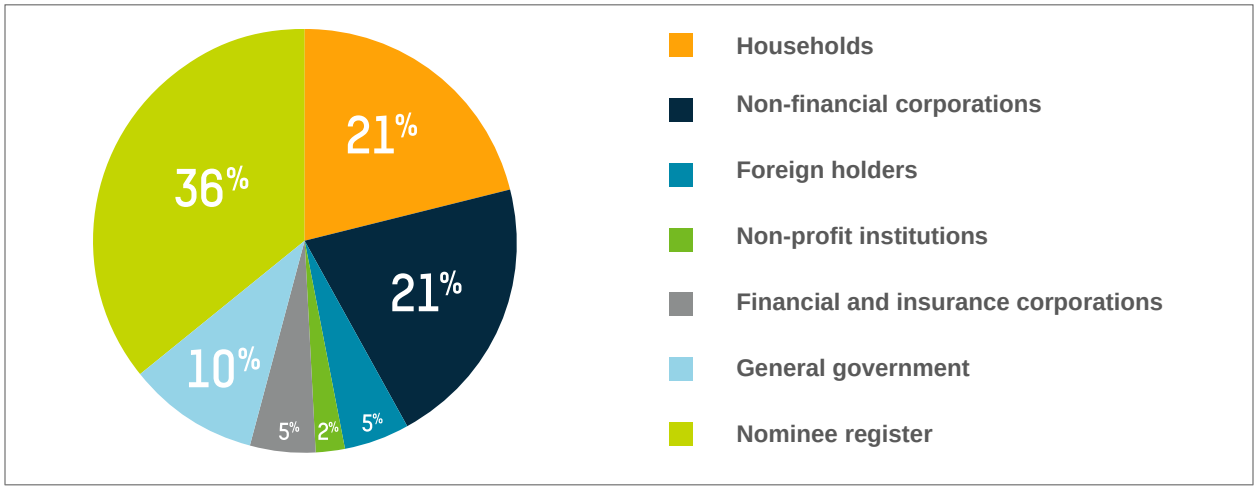
	Reducing the regulatory burden for listed companies	**EU level**	**National level**	**Exchange**
18.	Templates containing minimum requirements for Corporate Governance reports should be prepared.		✔	
19.	An advisory committee should be formed to specify key situations for regulatory interpretation and determine whether the administrative burden of listed companies could be reduced by means of new guidelines. If deemed appropriate, the committee would submit proposals on the new guidelines.		✔	✔
20.	It should be evaluated whether the disclosure procedure for stock exchange releases could be simplified by modifying technical requirements.		✔	✔
21.	Information to be reported as non-financial information should not be included in the Review by the Board of Directors, so that it will not be subject to external audit.		✔	
22.	It should be assessed if the requirement to audit the Review by the Board of Directors can be discontinued in accordance with general European practices.		✔	
23.	An effort should be made to reduce the impacts that increase the regulatory burden brought about by the EU directive proposal on addressing remuneration and related party transactions at Annual General Meeting both at EU level and, if necessary, in the national implementation.	✔	✔	
24.	The regular disclosure requirement which is compliant with the Transparency Directive should be implemented in Finland without the adoption of any additional national requirements. As a result, the requirement for submitting quarterly reports would be omitted from the legislation.		✔	
25.	Finland should advocate at EU level for broader provisions concerning the publishing obligations for listed company prospectuses.	✔		

3 DEVELOPING THE CAPITAL MARKETS AND OWNERSHIP

3.1 Target: wide domestic investor base

In Finland, domestic share ownership is concentrated among a few large institutional investors, while the medium-sized investor base is quite small. The percentage of Finnish shares owned by foreign shareholders is by international standards very high: 41% of the shares issued by Finnish companies are in foreign ownership, which currently accounts for 44.5% of the market value of companies. There are nearly 880,000 private investors in Finland. In most cases, Finnish private investors' investments in domestic shares are, however, rather small: over 80% of the shareholdings total less than EUR 20,000 per investor, frequently in only a single stock. For example, both Nokia and Elisa have over 200,000 shareholders[8].

DISTRIBUTION OF SHARE OWNERSHIP IN FINLAND BY SHAREHOLDER GROUP 31 MARCH 2014



Source: Euroclear Finland statistics March 31, 2014

A high level of foreign ownership indicates the extensive and high international reputation of the Finnish companies, and trust of global investors in our listed companies. A wider domestic investor base would, however, be an advantage, particularly to smaller listed companies with a lower international profile. Diverse and wide domestic investor base can also influence the composition of company boards and management. This, in turn, has a broader impact on investments made in Finland, the jobs these generate, and economic growth for Finland as a whole. The board and management of each company make decisions concerning the company's business, investments, and headquarters - it would be important that these decisions would be influenced by Finnish owners.

In Finland, there are very few small and medium-sized institutional investors. Therefore it is very important to ensure that the investor structure is as diverse as possible. There is greater depth, liquidity, and a superior pricing mechanism on a capital market if the market has investors with widely varying perspectives, risk profiles, and sizes.

[8] Euroclear Finland statistics March 31, 2014

Pension insurance companies and public-sector pension funds, who provide earnings-related pension insurance, are the largest single investor group in Finland. Pension insurance company investments are closely governed by the Finnish solvency regime, which are currently being reformed. The fastest way to increase investing in Finland is to use the solvency regime reform in increasing the opportunity for pension insurance companies to invest in domestic shares. In practice, this would happen by increasing the general risk-taking capacity of pension insurance companies, particularly where share risk is concerned. The investments made by public-sector pension funds in domestic companies are smaller than those made by pension foundations and funds. In this respect, an effort should be made to ensure that there are no obstacles for public-sector pension funds investing on the share and bond market also in Finland.

In Finland, only approximately 6%[9] (EUR 4.7 billion) in investment fund assets are directed into funds investing in Finnish stocks, while the corresponding share in Sweden is 30%[10]. Households account for approximately EUR 1.8 billion in Finnish equity funds[11]. Ideally, also in Finland, a larger share of fund investments would be made in Finnish listed companies, thus making it possible to strengthen their financing base and promote Finland's economic growth.

A complete reform of the Pension Funds Act and Public Insurance Funds Act is currently underway in the Ministry of Social Affairs and Health. Reform of the Pension Funds Act and Public Insurance Funds Act is included in the current Government program. The reform project is part of an effort to promote competition in earnings-related pensions called for in the Government program. Parliament has also previously required a complete reform of legislation concerning pension foundations and pension funds.

The task of the working group appointed by the Ministry of Social Affairs and Health is to prepare a draft Government proposal on the Pension Funds Act and Public Insurance Funds Act. The working group will determine what unnecessary barriers there are to establishing pension foundations and pension funds, as well as operational continuity, and make a proposal for eliminating these barriers. The objective of the reform is to promote decentralization of the earnings-related pension system and ensure that pension foundations and funds remain a functional alternative for providing statutory pension plans and supplemental pension plans. It is vital that Finland retains an adequate number of small pension institutions, which will significantly improve the liquidity and operating conditions of our capital markets.

Interest in investing can be increased by offering investors high-quality, comparable basic information on listed companies as well as investment analysis. At present, there is not enough equite research services available on all listed companies. Nearly one out of every four Finnish listed companies are not covered by any equity research analysts whatsoever. NASDAQ OMX's goal is to begin co-operation with an equity research service provider, whose task would be to offer basic analysis on all Nordic listed companies on the NASDAQ OMX.

+ **The opportunities for pension funds to invest in listed equities should be increased in the ongoing reform of the Finnish solvency regime.**

+ **Operational preconditions for pension funds should be confirmed in the ongoing regulatory reform since an adequate number of pension institutions of varying size are needed in order to promote diversity and liquidity of our capital markets.**

+ **Equity research services should be expanded to cover all listed companies.**

[9] Federation of Finnish Financial Services: Fund report, February 2014
[10] Swedish Investment Fund Association, March 2014
[11] Financial Supervisory Authority

3.2 Listings in Finland

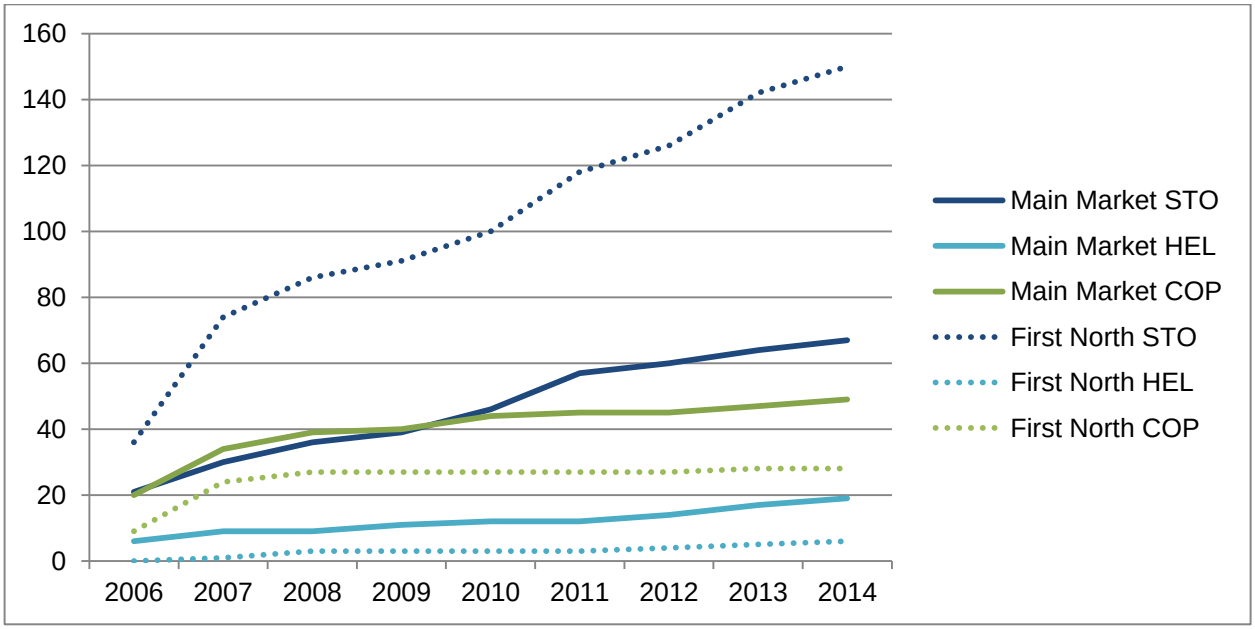
The problem with our listings market is a low supply of new listed companies. The more listed companies there are, the more attractive the market is for investors.

Generally speaking, it seems that going public and company growth are not currently the primary goals for Finnish entrepreneurs. The perception of an increasing administrative burden and publicity, particularly in small and medium-sized enterprises, may have an impact on the attractiveness of a listing. On the other hand, companies considering going public may, for example, fear that the information presented in the prospectus would reveal business secrets to unlisted competitors, even though regulations do not require the disclosure of business secrets.

In many cases, entrepreneurs are also concerned about exit opportunities becoming scarce once the company is listed. In cases where a company has already made several financing and ownership rounds with private capital investors, going public may be seen as a better and longer-term solution. At present, companies owned by capital investors often end up as part of a larger foreign corporation or another capital investor. In Finland, companies owned by venture capitalists are often relatively small, with the average amount of investment in them being small by international standards. Going public is usually not the most natural fit for these smaller companies.

In Sweden, the First North market has dozens of small companies with a market value below EUR 50 million. These companies have been able to acquire capital for growth, investments, and job creation by listing on a more lightly regulated market. There are no major differences between Finland and Sweden in the securities markets legislation involving these kinds of companies, and the First North market is also practically identical; indeed, the only major difference between the two countries is taxation. Some of the bigger problems involving Finnish taxation are discussed below.

CUMULATIVE NUMBER OF NEW LISTED COMPANIES IN FINLAND, SWEDEN AND DENMARK



Source: NASDAQ OMX statistics April 23, 2014

INVESTOR TAXATION

Taxation has a major impact on the attractiveness of various investment opportunities, and it influences investor behavior. Equity investing is more heavily taxed than debt investing in Finland. The total tax burden of shareholders is affected by both the tax paid based on the company result and the tax paid on dividends. As investors receiving interest or rental income are taxed only once, debt investors pay less tax for their investments than shareholders do. The tax deductibility of interest payables also affects the companies' use of liabilities and debt level.

The total tax ratio of shareholders should not be any heavier than the taxation of other forms of capital. Shareholders always bear the company and business risk. Risk-taking should be encouraged because without risk investments made by shareholders there is no job creation through it. Improving the conditions for the equity-based financing of Finnish companies is vital to ensuring growth, because banks can no longer provide debt financing to the extent they used to as a result of stricter solvency regulations.

In Finland the taxation favors private persons to investments in listed companies through investment funds and life insurance savings. This is due to the fact that fund dividends are not taxed and funds do not pay any capital gains tax. Fund investors only pay capital gains tax when disposing of shares, even if the investment objects within the fund are exchanged.

Because fund and residential investment is more economical than direct share investment, the savings of private persons are often put into housing, as well as funds offered by banks, life insurance savings, capitalization agreements, and other deposits. An increase in the number of direct share investments would be more beneficial to our national economy, as it would devote a larger percentage of investment assets to supporting Finland's economic growth and employment. Private persons currently have approximately EUR 80 billion[12] deposited in bank accounts with low interest rates. Over EUR 30 billion of these are fixed-term (at least one year) deposits. A portion of these assets would probably be allocated to finance the growth of Finnish companies through stock investment if it was tax neutral in relation to other forms of investment.

For example, in Sweden, Great Britain, and the United States, citizens have more say in and greater responsibility for their own pension investments, which has increased the level of interest in investing and even led to an increase in investment expertise. These countries also use a wide variety of tax incentives aimed at different types of investors for investment on the public market. Even in Finland, thought should be given to the implementation of precisely targeted tax incentives based on foreign models. It is important that various political decision makers be committed to taking the necessary actions to implement the necessary legislative amendments.

In Finland, the varying tax treatment of unlisted companies and listed company shareholders is clearly the threshold to going public. In practice, taxation can also be an obstacle to listings, because the dividend taxation of key shareholders often becomes heavier after the company goes public. The private shareholders of listed companies pay as much as 3.4 times[13] more in dividend taxes than the shareholders of unlisted companies. This heavier dividend taxation of listed companies is a major

[12] Federation of Finnish Financial Services and Statistics Finland statistics 30 September 2013

[13] Dividends received from a non-listed company are taxed, so that 25% of the dividends are regarded as taxable capital income, provided that the amount of the dividend does not correspond to an 8% annual return calculated on the mathematical value of the share, up to EUR 150,000. 85% of the dividend exceeding the EUR 150,000 threshold is taxable capital income (effective from the beginning of 2014).

problem, particularly for family-owned and other privately owned companies considering going public. A system in which the shareholders of unlisted companies enjoy a more favorable tax situation than those of listed companies is highly unusual by international standards.

We ended up with this non-neutral dividend taxation when the avoir fiscal (tax credit) system was eliminated. There was still a desire to give small companies the opportunity to pay dividends at a lower tax rate, with the distinguishing factor being whether the dividends were paid by a publicly listed company or not. Dividing companies into listed and unlisted leads to an end result that is totally contradictory to the original objectives. A majority of Finnish listed companies are, in practice, small[14], while many private companies are large. Dividing companies this way is entirely artificial. It has essentially led to a situation where private companies do not look to go public due to the considerably heavy dividend taxation. As a result, no new market-based capital is accessed and no additional debt is taken, thus leaving investments unrealized and no new jobs generated. The impacts can be clearly seen over the past ten years, and the difference between Finland and Sweden, particularly where growth company listings are concerned, is quite astonishing.

Non-neutrality in the taxation of listed and unlisted companies was further increased at the beginning of 2014, when the distribution of funds from non-restricted equity funds was also made subject to the dividend taxation. The distribution of funds by an unlisted company from non-restricted equity funds is, however, also taxed as capital gain in cases where the company returns capital within ten years of making the capital increase. In this case, capital returns are deducted from the original share acquisition cost.

Taxation neutrality in corporate taxes and capital taxes is broadly considered an acceptable goal in the public discourse. Neutrality is extremely important in taxing the shareholders of listed and unlisted companies, as well as the taxing of direct share investments and fund investments. In practice, the most meaningful actions toward improving the situation have not, however, been taken, and there are no signs of the situation essentially improving in the near future. This is why it is crucial to quickly eliminate the key tax disadvantages hampering listings and direct share investment.

If tax neutrality is not realized in the near future, an urgent measure should be to tax First North company dividends at the same rate as unlisted company dividends. This taxation model can be limited to companies whose primary listing is First North. This would encourage innovative growth companies to seek capital on the First North market. As companies grow and ownership is decentralized on the First North market, the transition to the Main list is a natural next step on their path to growth. At this stage, heavier dividend taxation is no longer a problem. In the long run, however, the tax treatment of unlisted and listed companies and their shareholders must be neutral. Only then can the conditions for efficient capital markets in Finland and equal growth opportunities be ensured.

If this imbalance in the dividend taxation of First North companies is not rectified, there is a danger that innovative Finnish companies will seek new avenues for growth, listing in, for example, Stockholm or London. Companies might give up their growth objectives or even sell their business to foreign buyers.

+ **The tax treatment of unlisted and listed companies and their shareholders should be made neutral. One urgent measure is to make the dividend taxation of First North companies equal to that of unlisted companies.**

[14] 46% of Finnish companies are small cap and 30% are mid cap.

+ **The interest of private investors in direct equity investments should be supported by means of tax neutrality and targeted savings incentives.**

+ **Overall capital income taxation should be entirely reformed in order to encourage personal saving and investing.**

LISTING OF STATE-OWNED COMPANIES

The State of Finland owns several dozen companies that would be eligible for listing. In companies where the Finnish State or Solidium Oy has a significant ownership, structural changes are often made as a private placement for large institutional investors. Many companies owned by the State of Finland would be eligible for listing on the Exchange. This could also be a way to encourage private investors to invest in equity market.

+ **The listing of state-owned companies must be set as a goal in the State ownership policy.**

3.3 Infrastructure efficiency – multi-tiered custody of securities

A multi-tiered custody of securities (nominee registration) is the prevailing model used in Europe and other large, developed capital markets. In the EU, Greece and Finland are the only remaining countries not using this model. In Finland, Finnish citizens and organizations are prohibited from using this model with Finnish securities. This ban based on nationality is extremely rare within the EU. It is difficult to justify the Finnish prohibition when companies in large markets and countries competing with Finland are able to use the multi-tiered model.

This model also makes it possible to ensure that investors, supervisory authorities, and the tax authority are provided with information in an adequate manner. Likewise, it is possible to ensure the publishing of information on company's main shareholders and trading activity of those listed on the company's insider register.

The multi-tiered custody of securities model is a requirement for the competitiveness of the Finnish securities market. The current requirement for direct registration adds considerable amount of extra costs, but only for Finnish investors. The multi-tiered custody of securities would offer direct and indirect benefits for the entire Finnish capital market as a result of, for example, greater liquidity of securities, a growing service offering, and open competition. Trading members believe that a multi-tiered structure would also reduce annual settlement costs.[15] In the multi-tiered system, trading members would be obligated to disclose information on known shareholders to the authorities on a regular basis and more frequently than is currently done. Because the trading members and custodians already have client registers at their disposal, the disclosure obligation would not significantly increase the trading members' costs in this regard.

Direct registration also has other adverse multiplicative effects. For example, the sale and marketing of Finnish investment funds abroad has been difficult for this reason. Sweden uses a registration model, in

[15] Report commissioned by the Ministry of Finance in 2010: Arvopaperien moniportaisen hallinnan ja hallintarekisteröinnin laajentamisen taloudelliset vaikutukset: selvityshenkilön raportti.

which investors can choose between multi-tiered custody and direct registration ("mixed model"). In Finland, the adoption of this kind of model would increase competition, thus reducing the costs of both domestic investors and issuers. Transaction and settlement costs would drop, and the growing competition would further decrease other investment-related costs. These changes would also improve the efficiency of price formation in securities trading. In addition to these, issuers would also be able to benefit from a more efficient registration function in the Euroclear Finland Ltd. The multi-tiered custody model works well in Sweden: listed companies post their biggest shareholders on their websites, and the tax authority receives the necessary information for the appropriate levying of taxes.

When adopting a multi-tiered model, shareholder rights must naturally remain unchanged. Shareholders are entitled to attend Annual General Meetings and receive dividends, and these should not incur any major costs. Other rights provided for by the Limited Liability Companies Act, such as minority shareholder rights, also remain intact in the multi-tiered custody model. It is also important to the shareholders that the tax authority is provided with information on ownership, using current practices without any extra costs.

+ **Multi-tiered custody of securities should be extended to also cover holdings in domestic securities by Finnish investors.**

4 INCENTIVES FOR LISTINGS AND DECREASING LISTING BARRIERS

4.1 Importance of regulation

REGULATIONS RELATED TO NEW LISTINGS

The threshold for listings is often found to be high, with going public being seen as creating extra work for companies and their major shareholders. In particular, the disclosure obligation of listed companies and insider issues seem to put pressure on smaller companies, with the potential for making mistakes with these issues being a cause for concern. Even the slightest error might result in a disproportionate publicity, which is experienced as leaving an indelible stain on the company's reputation.

The level of Finnish regulation is considered to be high, and there is an open dialogue between supervisory bodies and companies. Prevailing legislation and regulations are generally not considered as an obstacle to listings of companies. Consequently, these are not the reason for the low level of listings. However, this does not mean that it would not be possible to improve and develop regulations.

There is currently very little domestic flexibility in securities markets regulations. EU regulations are increasingly being implemented as directly applicable regulations, thus leaving no room for national regulation. Thus far, EU regulations have largely been implemented without taking differences in market size into consideration. Finnish listed companies are smaller than the EU average, which is why applicable regulations have a relatively harsher impact on Finnish companies than their competitors in other EU member states. Finland should have a greater say in EU regulations during the drafting process, in order to make the regulations competitive and appropriate for small and medium-sized companies.

It is important that the level provided by EU directives always serves as the basis for Finnish national regulations. If any deviations from this baseline are discovered, measures must be taken to rectify the situation (see section 5.2 Non-financial reporting and auditing of annual report). Deviation from the baseline may be justified if there are any grounds for promoting market efficiency and investor protection that stem from Finnish conditions. Likewise, compliance with the above-mentioned principle must be ensured in all new regulation projects.

IMPORTANCE OF THE IFRS TO LISTED COMPANIES AND COMPANIES LOOKING TO GO PUBLIC

The perceived difficulties and costs of adopting the IFRS is one of the biggest challenges facing listings. Implementation of the IFRS generates a lot of work and listing costs, because a private company does not have an established infrastructure required for IFRS preparedness. Building up a new organization like this with its related costs at the same time that a company is considering a major restructuring of its entire operation can raise the threshold for going public.

According to current requirements, companies must draft and disclose their financial statements for at least three accounting periods. A vast majority of the time spent preparing for a listing is devoted to converting to the IFRS. In addition to this, conversion is expensive. Upon being listed on the Main list, companies must draft IFRS-compliant financial statements for the accounting period ending as well as comparison figures from the previous year. Therefore, in practice, IFRS-compliant data is only needed for two years, with financial statements from the third year complying with national accounting principles. Although the IFRS conversion is considered necessary, the need for historical data can be called into

question. From an investor standpoint, historical data does have its place, but in a growing and developing company it is rarely comparable.

Going public is often an alternative for the trade sale of a company, with the listing process running parallel to the acquisition process. In such cases, an IFRS conversion might seem unnecessary. Investors are not buying the past – they are buying future cash flows. When selling, companies have more opportunities to present their future prospects in a positive light than when getting listed. Companies going public cannot only offer future prospects – the company's history is also an integral part of its story.

Even though adoption of the IFRS is a laborious and costly process, there is a constantly growing number of experts available for companies considering it. This is due to the fact that the IFRS has been applied in many companies for nearly 10 years. On the other hand, it is important to remember that, even today, a company considering going public can, if desired, list on the more lightly regulated First North market, which does not require compliance with the IFRS. An excellent alternative for companies considering going public can be to first get listed on the First North market, adopt the IFRS on a more flexible schedule, and then get listed on the Main list at a later time.

For companies looking to go public, it is also important to know that the IFRS will most likely not considerably increase the amount of work once the financial statements practice has already been adopted. In this case, however, it is still assumed that it will be possible to make recent adjustments in the IFRS more appropriate. Thus, the financial staff need not spend time on the constant monitoring of changes in the IFRS, particularly when the changes are only relevant for a few companies.

The European Commission will conduct an analysis of the functionality of the IFRS. The limitations of IFRS application and the introduction of a light IFRS will also be addressed. In practice, a light IFRS could mean a reduced obligation for smaller companies to disclose reference data. Small companies should be given exemptions from the full implementation of the IFRS in order not to make the listing process too overwhelming. However, it must still be possible to ensure that adequate and comparable information on all listed companies is available on the market.

+ **The development of an alternative light IFRS for smaller listed companies should be promoted at an international level.**

+ **Adjustments to IFRS standards should only be made if deemed necessary and according to an agreed timeline.**

4.2 Foreign companies

SECONDARY LISTING

The more interesting and diverse companies the Exchange can offer, the more attractive it is as a market. The attractiveness of NASDAQ OMX Helsinki could be enhanced by also admitting to trade the securities of foreign companies. The possibility of secondary listings should be promoted more actively and systematically. The Exchange can screen potential listing candidates and more actively offer secondary listings to foreign companies, which have Finnish shareholders, operate in Finland, or are otherwise linked to Finland. Finland also has companies which have stated their intention to list directly in the United States. A secondary listing in Finland could be more actively offered to these companies.

+ **Secondary listings of foreign listed companies into Finland should be promoted.**

REGISTRATION OF FOREIGN SHARES

In practice, Finland does not have a functional model for the registration of foreign company shares. In theory, possible registration models include Finnish Depositary Receipts (FDR), a link between securities depositaries, or direct registration. Registration has proven to be a major obstacle to the secondary listing of foreign companies in Finland. The link between securities depositaries is functioning only between Finland and Sweden, and trading in other foreign company shares is currently only possible through FDRs. The process is demanding and costly, which is why there is no interest in becoming a FDR provider.

Previously foreign companies have showed relatively low interest to list at NASDAQ OMX Helsinki. Therefore no proper solutions to register foreign companies' securities have been developed in Finland. In recent years, foreign companies have, however, showed increasing interest in Finland's listing market.

In and of itself, regulation does not require foreign companies to use the Finnish book-entry system. However, companies do have to register their shares with Euroclear Finland Ltd. for the purpose of settlement.

Registering shares in the book-entry system is a challenging process, in which attention must be given to, for example, foreign target country legislation, company events and taxation. The Euroclear settlement system will be outsourced at the beginning of 2017, at which time settlement will be transferred to the European system. After this, companies will be able to choose the European book-entry system to which they would like to register their shares, and the creation of links with European book-entry system providers will be made easier. Despite of this change, it will still be challenging for companies from countries outside the European Union to register their shares in the Finnish book-entry system.

The book-entry systems in Sweden, Denmark, and Norway are more advanced than the Finnish system, and the direct registration of foreign shares in them is functional and cost-effective. The current situation in Finland leaves a lot to be desired where the market, investors, and foreign companies considering listing are concerned. If Finland wants to attract foreign company listings, the book-entry system for securities needs to be developed to meet, at least, the Nordic level. Finland also needs more FDR service providers.

+ **Direct registration to the Finnish book-entry system of the foreign companies' shares should be made possible.**

REPORTING LANGUAGE

According to the Securities Markets Act, the disclosure obligation of listed companies requires that all information to be published is presented in either Finnish or Swedish. With authorization from the Financial Supervisory Authority, a foreign company may only provide information in English, provided that the company publishes a prospectus in English stating that it will only present information in English in the future. This practice is clearly stated for foreign companies. However, it is not clear as to what conditions a Finnish company making a listing must fulfill in order to receive a similar exemption.

Preparing and managing of several language versions creates a great deal of work, even for Finnish companies already listed. In internationally operating Finnish companies, English is often the primary operating and internal reporting language. In these companies the financial reports and company disclosures are first drafted in English. As required by law, they are then translated into Finnish. Even though this would not be mandatory, publishing of company disclosures in several languages is also part

of good investor relations, and a majority of the companies would surely continue publishing reports and company disclosures in Finnish.

If Finnish listed companies would be given the option to choose English as their disclosure language, it would increase flexibility and reduce the administrative burden of the company. However, investors in companies already listed and in companies going public would be placed in a different position. Investors in already listed companies would have to adopt the change meaning exclusive use of English. In any case, the possibility for listed companies to use English as their primary disclosure language should be considered.

4.3 Developing the listing process

LISTING PROCESS

Time consumed for the listing process is generally considered to be long, and it has grown even longer over the past twenty years. The listing schedule can be seen as being made too tight, thus posing problems for companies. Companies also have to run their normal business, even though their executives are closely involved in the listing process for several months.

Typically, there have been only four favorable point of time for listings, or "listing windows", during a year. The first two of these listings windows are passed by during the preparation phase, with listing only possible during the third or fourth window. Even though predicting when the listing window will open is more difficult than it used to be, it does not essentially prevent listing. It does, however, have an impact on the company's valuation and the duration of the entire process.

A company's readiness to function as a listed company affects the duration of the listing process. An adequate amount of time should be reserved for the IFRS conversion and making arrangements for the company's internal reporting and processes. Although prospectuses can be drafted in a few months' time, the entire process usually takes from six to nine months. The shortest processing time for going public is approximately one hundred days, provided that the company has, for example, first issued a bond. Bond issues could be an intermediate step toward listing.

The duration of the listing process affects the predictability of a company's valuation. In the beginning of the process, it is difficult to estimate the company's valuation level at the start of trading, because development of the general market situation has a major impact on the valuation level at the end of the listing process.

It would be prudent for companies considering a listing to ensure their listing readiness as early as possible in the process. Thus, the actual listing can be carried out as efficiently and quickly as possible when a suitable listing window opens and any uncertainty concerning the valuation level is mitigated. The implementation of financial reporting systems required for listed companies is also of benefit to unlisted companies, since private companies using equivalent operating approaches function very efficiently.

By speeding up and improving the efficiency of the process, listing costs can be kept under control. In co-operation with market participants, the Finnish Foundation for Share Promotion published the "Listautujan käsikirja" (Handbook for Listing Candidates), in order to increase the amount of information on the First North listing process and listing criteria in 2012. Both companies considering going public and advisers

can benefit from the Handbook and its checklist, which clearly outlines the required measures for each different phase of the listing process.

Drafting a prospectus is a time-consuming process and, particularly for small companies, a very costly undertaking. According to advisers and companies, a majority of the time taken to prepare a prospectus is devoted to resolving various interpretation issues. The content and scope of the prospectus is affected by regulations as well as established market practices. In order to limit their liability, advisers may make the scope of prospectuses and their risk descriptions unnecessarily extensive. It is, however, essential to avoid such unnecessarily broad risk descriptions in prospectuses. Otherwise, the investor might have a hard time determining which risks are material and which are not. The investor is best served by a risk description that describes key major risks in a clear manner. The Handbook could, indeed, clarify Prospectus Directive interpretations and risk description requirements using examples.

+ **The handbook for listing candidates should be prepared also for companies applying to the Main Market.**

LEAD MANAGER STATEMENT AND THE LISTING COMMITTEE PROCESS

After the beginning of the 2000s, a requirement was added to the Exchange rules, wherein the processing of a company's listing application would be handled by a separate Listing committee and a special statement by the lead manager was required of the company. During the IT boom, companies which were not able to fulfill all the requirements and obligations set for companies after going public were listed on the Exchange. Listing committee process and the lead manager statement were implemented to ensure that companies were able to fulfill their listing requirements also after they were listed.

Regulations and other requirements for listed companies have become significantly stricter after the above-mentioned changes were made. In light of the new regulations, the content of the Listing committee process and meaning of the lead manager statement should be re-evaluated.

The lead manager statement, which is attached to the listing application, is a brief, standardized statement on the company’s fulfillment of the listing requirements and of the company’s operation as a listed company. It also contains the company information to be included in the listing application. As issuing the statement somewhat increases adviser liability, elimination of this requirement would also reduce the costs of listing. In some cases, eliminating this requirement would also shorten the listing process. The statement could be considered unnecessary, particularly in cases where the company has an adviser (lead manager) to oversee the process.

Submitting a listing application is not considered to be a difficult or laborious process. In fact, the Exchange is considered to be flexible in regards to the listing process. The Listing committee meets regularly once a month and, if necessary, also outside the normal meeting schedule. Preparation for a company presentation in the Listing committee requires work, as the presentation for the meeting will not necessarily be used for other purposes. As the prospectus is often not published until after the company presentation, it will not always be possible to use the information contained in the prospectus in the company presentation.

Preparation of the materials being submitted to the Listing committee should help in drafting of the prospectus. The content of the Listing committee processing and company presentation could be developed.

+ **The Listing committee process should be assessed and improved.**

+ **When a lead manager is responsible for the listing process, lead manager statement should not be required.**

NUMBER OF SHAREHOLDERS

According to the Act on Trading in Financial Instruments and the Rules of the Exchange shares admitted to trading should have sufficient demand and supply that enable reliable price formation for the share. Rules of the Exchange require that the company has a sufficient number of shareholders and that a sufficient number of shares are held in public hands ("free float"). Companies with at least 500 qualified shareholders are considered to meet the requirement for number of shareholders. Free float requirement is considered to be fulfilled when 25% of the shares are in public hands.

The requirement for sufficient demand and supply has not been a threshold issue or an obstacle to listing. Even in the current situation, an exemption in the number of shareholders can be made, wherein 300 shareholders would be considered sufficient if the company uses a liquidity provider. Where family-owned companies are concerned, it would be important to decrease the requirement for the number of shares in public hands. Although the 25% free-float requirement is mandatory, it is possible to apply for an exemption from the Financial Supervisory Authority when the number of shares in public possession is slightly below the required amount. The Exchange will re-evaluate the listing criteria concerning a sufficient number of shareholders.

+ **Interpretation of Rules of the Exchange concerning the minimum number of qualified shareholders should be made more flexible.**

4.4 Attractiveness of going public

COSTS OF LISTING

In Finland, there is a general perception that going public is expensive. Small companies see the costs related to listings and, in particular, the drafting of prospectuses as a major obstacle. In some ways, this perception is accurate, but companies can also influence the total costs of going public. Companies often forget what they will get in return for the costs of the listing. In addition, not all costs are exclusively related to the listing process itself. Some of the costs involve, for example, the development of a financial reporting system or marketing.

Although consulting services related to listings (Corporate Finance) is a competitive field, this competition has not had a real impact on service prices. However, small companies looking to go public, in particular, feel that cost-effective consulting services are hard to find. The size of an IPO affects the interest of advisers and foreign investors. Small issues are relatively more expensive, and small companies must have a really good reason to make an IPO in order for it to be profitable. Indeed, Finland needs more Corporate Finance advisers.

An IPO discount given to subscribers in connection with the share issue can also be seen as part of the listing costs. Investors usually require a share price discount in an IPO. From the owner's standpoint, this would naturally reduce the attractiveness of going public.

In the secondary listing of foreign companies, Finnish Depositary Receipts (FDRs) substantially increase the costs of companies considering a foreign listing. There are no reasonably priced FDR service providers in Finland.

Costs of going public can also be reduced by clarifying the listing process. When costs go down, the number of listings goes up, thus further dropping costs through economies of scale.

PERCEPTIONS OF LISTING AND THE ROLE OF THE MEDIA

Going public and the publicity it brings are feared in Finland. The board and management of a company looking to go public worry that if a mistake in done by the company of its management, it may result in a disproportionately large amount of negative publicity in the media. In Finland, the media has a tendency to focus on the negative aspects of the securities market. News coverage often emphasizes individual mistakes, such as cases involving the failure to provide information or fulfill the disclosure obligation, thus giving these mistakes considerable publicity despite their relative triviality. The media devotes less attention to the role of capital markets in allocating capital, promoting growth, creating jobs, and increasing wealth through long-term saving.

In Finland, there is much room for improvement in perceptions related to listed companies and going public. All market participants should systematically build a positive image of listings and their benefits. A company going public benefits from a higher profile, an efficient administrative structure, the Exchange as a place for managing capital and, for example, the possibility of using shares as a means of payment in acquisitions. Finland needs more successful listing candidates, whose positive example will serve as a good role model for the market.

+ **Awareness of how going public fosters companies' growth and job creation should be increased.**

5 REDUCING THE REGULATORY BURDEN FOR LISTED COMPANIES

5.1 Factors affecting the administrative burden

CONCURRENT REPORTING REQUIREMENTS

Listed companies are required to produce several different reports. Reporting is concentrated to the spring, when companies draft their financial statement release and annual financial report, as well as the Corporate Governance Statement and Remuneration Statement. Most companies also draft an Annual Report and Corporate Responsibility Report. Spring is also the time for an Annual General Meeting, for which a Notice of Annual General Meeting and meeting arrangements must be taken care of. Websites are also updated at this time to reflect the changes in information.

Most companies draft regular reports in Finnish and English, with some also drafting reports in Swedish. Websites are primarily maintained in these languages.

The busy spring season belongs to a listed company's routine. In order to make this season easier, it is important that listed companies evaluate their best practices, the content of individual reports, and the need for different language versions. These will be addressed in greater detail below.

INTERPRETABILITY OF REGULATIONS

In general, the range of regulations applicable to listed companies is getting harder to manage. It may be difficult for a single listed company to understand what norms actually apply to its operations. Regulation should be transparent, clearly defined, simple and user-friendly.

The interpretability of regulations causes a great deal of administrative work in listed companies. Situations requiring interpretation are often encountered in matters related to corporate communications and insider administration. The amount of administration required is increased by case-specific assessment and documentation requirements. Greater clarity is needed in these matters. Rather than drafting new rules, the existing regulation should be made more concrete.

The Exchange's Guidelines for Insiders and guidelines on assessing the importance of corporate acquisitions in the Rules of the Exchange are considered useful to listed companies. Both contain examples of practical situations. Located in the Securities Market Association website, the Advisory Board of Finnish Listed Companies (LYNK) templates for a Notice of Annual General Meeting and its Minutes of the Meeting are also necessary tools. Another useful tool for listed companies is the Financial Supervisory Authority website portal, which contains compiled information on regulations concerning listed companies.

Situations involving interpretation could be facilitated so that the Securities Market Association drafts guidelines on minimum requirements or examples of key Corporate Governance reports: Corporate Governance statement, Remuneration Statement, Corporate Governance information (e.g. structure, content, updating) presented on the listed company website.

Assessing essentiality can help in determining whether information on, for example, an order or litigation, should be published or a project concerning it should be established. The concept of "acting in concert", which can trigger the mandatory bid obligation, can in many cases (e.g. when family members have

discussions in a listed company, in which they have a substantial holding) cause a great deal of uncertainty. The uncertainty associated with the requirement to issue profit warnings could be reduced by further defining criteria, particularly during the silent period.

The benefits of any additional guidelines must, however, be carefully assessed. Listed companies widely differ from one another in terms of size, sector, and how external factors affect the company's operations and its result. The outlooks published by companies also vary. These issues must all be taken into account when considering the need and content of possible additional guidelines.

+ **Templates containing minimum requirements for Corporate Governance reports should be prepared.**

+ **An advisory committee should be formed to specify key situations for regulatory interpretation and determine whether the administrative burden of listed companies could be lightened by means of new guidelines. If deemed appropriate, the committee would submit proposals on the new guidelines.**

BEST PRACTICES AND MARKET EXPECTATIONS

Listed companies have adopted a number of best practices. Although publishing an Annual Report is not mandatory, many companies still prepare one. One example of successfully evolved way to operate is the new practice of the Notices of the Annual General Meeting: only a short version of the Notice is published in printed newspapers, and the actual Notice of Annual General Meeting is posted on the company website in its full length.

The current Securities Markets Act allows companies meeting certain criteria to disclose financial reports less frequently than every quarter, and instead allows them to prepare a more limited interim management statement in lieu of the First and Third quarter reports[16]. In practice, companies have not actually taken advantage of this option. However, some feel that preparing two separate kinds of reports is difficult for companies. In addition to this, listed companies consider possible market reaction to reporting that deviates from the norm, despite the fact that all price sensitive information must always be published without any undue delay. Thus, the market constantly has adequate information on these companies for making a sound assessment. In any case, an effort should be made to reduce the amount of work used to prepare quarterly reports; the necessary information can also be presented more concisely.

Evolving best practices, such as publishing fewer quarterly reports, can also require adjustments in market expectations. Many companies feel that, for example, adoption of the interim management statement is not currently a true option, because the market expects quarterly reports. An established practice in the industry sector can also have the same effect. Market expectations will have an even greater impact, when the Securities Markets Act requirement to prepare interim management statements in the First and Third quarters is abolished in connection with the enactment of the Transparency Directive (see section 5.2).

Many contests evaluating the quality and scope of investor information can, despite their good intentions, add to the administrative burden, even in companies not participating in them. Reports are expanded in order to

[16] For example, if the market value of a listed company is less than EUR 150 million, or if the sufficient provision of information to investors can be ensured by means of the report in question, taking into account the nature of the listed company's business.

perform well in the contests, with the expanded content possibly setting a new standard. Indeed, in order to limit the administrative burden, it is essential that the minimum content of key reports is clearly defined.

It is vital that listed companies assess whether they can lighten their administrative burden by developing operating models. This assessment might determine the necessity of Annual Reports, the scope of quarterly reports and Corporate Responsibility Statements, Annual General Meeting protocols, and the drafting and scope of different language versions. It is, likewise, important that the various regulatory agencies (Financial Supervisory Authority, Securities Market Association, and the Exchange) ensure that listed companies are not required to submit reports or notices for which there is no real need, where the reliable function of the market is concerned.

It is also important that, in preparing for the enactment of the Transparency Directive, there will be discussion on the necessity of quarterly reports for the first and third quarters. Eliminating the requirement for quarterly reports offers an opportunity to reduce the administrative workload, particularly for small and medium-sized listed companies, as well as larger listed companies, taking the sector and shareholder base into consideration. In addition to listed companies, company shareholders, boards, and various types of investors should be invited to participate in the discussion. Companies admitted to trade on the First North market are already allowed to report on a semi-annual basis.

TECHNICAL REQUIREMENTS FOR DISCLOSURE PROCEDURE OF STOCK EXCHANGE RELEASES

The format requirements for stock exchange releases have remained largely unchanged for years and are, in some respects, outdated. Particularly it takes quite a bit of work to add tables to releases, because, due to the restrictions imposed by information vendors, the width of a release can be no more than 80 characters. As a result, wide tables will not fit on a single line. This makes it difficult to read wide tables. Where the publishing of regular disclosure obligation reports is concerned, it is enough that the actual stock exchange release contains all price sensitive information as well as information stating that the report has been published in its entirety. The release must also state where the report is available to investors. In this case, the regular disclosure obligation report should be attached to the stock exchange release in its full length. This kind of approach, however, is only suitable for the publishing of reports that fall within the regular disclosure obligation. The publishing of information falling within the continuous disclosure requirement, so that part of the stock exchange release is replaced with hyperlinks or attachments, does not fulfill the requirement for publishing releases unedited and unabbreviated. The requirement for publishing a release unedited and unabbreviated is to ensure that the information reaches the investors.

+ **It should be evaluated whether the disclosure procedure for stock exchange releases could be simplified by modifying technical requirements.**

5.2 EU regulations

Following the financial crisis, capital markets in Europe and other markets suffered from weak growth. In this kind of market situation, all new corporate legislation regulations should be carefully considered and analyzed, particularly in situations where only listed companies are subject to additional requirements and costs in relation to all other limited liability companies.

Additional regulation aimed at the securities market is only justified if it improves market efficiency and investor protection. Regulations which primarily aim to other objectives than these should apply to all companies meeting certain criteria, including unlisted companies.

Of the numerous EU regulatory projects, the following three have the greatest impact on the administrative burden of listed companies: non-financial information reporting requirements, addressing remuneration matters and related party transactions at shareholders' meetings, and issues related to the enactment of the Transparency Directive. The impacts and possible measures of these projects are discussed below. Other EU projects that will have an impact on listed companies include accounting regulations and changes to the auditing system (auditor rotation, the prohibition of services not related to auditing) and diversity reporting (e.g. age, gender, education). Upon being realized, these projects will increase the administrative workload of listed companies. The European Commission also published a recommendation concerning the quality of Corporate Governance reporting. This will bring about changes in the Corporate Governance code of listed companies.

REPORTING OF NON-FINANCIAL INFORMATION AND AUDITING OF THE REVIEW BY THE BOARD OF DIRECTORS

The European Commission is increasing the Corporate Social Responsibility reporting of large companies and consortia as an addendum to the annual Review by the Board of Directors. Reporting applies to non-financial information, such as information on environmental matters, social and employee-related issues, respect for human rights, and issues related to the prevention of corruption and bribery. The reporting obligation is, however, based on the Comply or Explain principle, according to which the company should explain the reasons for not reporting.

In April 2014, the European Parliament approved the directive proposal for non-financial reporting. The directive, which will be applied in 2017, concerns all organizations with over 500 employees that are essential to public interest. According to estimates, there are 80-90 listed or unlisted companies that are subject to the obligation of this directive. Deviating from the earlier draft directives, the approved directive proposal includes an option concerning the method for publishing information to be reported. If a member state so desires, the report can be published separately from the Review by the Board of Directors.

The reporting and auditing protocols used in Finland are a strong argument for using the member state-specific option mentioned above. If non-financial information would be reported as part of a Review by the Board of Directors, they would be subject to auditing, thus incurring substantial additional costs.

The auditing of the Review by the Board of Directors is a Finnish requirement, which is not used in any EU member state other than Finland and Sweden. It is, therefore, justifiable to examine whether this auditing obligation should be eliminated. The auditing obligation results in additional administration and costs for Finnish listed companies compared to other EU member states.

+ **Information to be reported as non-financial information should not be included in the Review by the Board of Directors, so that it will not be subject to external audit.**

+ **It should be assessed if the requirement to audit the Review by the Board of Directors can be discontinued in accordance with general European practices.**

ADDRESSING REMUNERATION MATTERS AND RELATED PARTY TRANSACTIONS AT SHAREHOLDERS' MEETINGS

Published in 2012, the European Commission Action Plan on Corporate Governance of Listed Companies includes a regulatory objective, which would cause executive compensation to be dealt at shareholders' meetings ("Say-on-Pay" shareholder's meeting votes on and approves the executive compensation policy every three years and the remuneration report every year).

By European standards, Finnish listed companies openly report compensation principles. This is primarily based on the Corporate Governance code of Finnish listed companies, which is supervised by the Exchange. The code requires that listed companies post the appropriate salary and remuneration statement on their websites.

The financial crisis brought a great deal of attention to executive compensation and the pressure put on compensation regulation and transparency requirements has risen both within the EU and throughout the world. The differences in listed company compensation amounts and structures are great. They are also, in part, related to broader differences in social structure. It is estimated that executive compensation in Finland and other Nordic countries is, on average, moderate compared to other EU member states and, particularly, the United States.

The current situation in Finland is, therefore, good. There has been some degree of public discussion on the proposed reform, and it has even been suggested that bringing compensation matters to shareholders' meetings for deliberation might actually compromise transparency, with shareholder votes leading to more generic compensation descriptions. In Sweden, where executive compensation has long been subjected to a shareholder vote, the system was criticized by many parties and the added value it provides investors was questioned.

The European Commission proposes the amendment of the Shareholders Rights Directive (SHRD) [17] so that remuneration policies and related party transactions would be subjected to shareholder votes. The remuneration policy and report concerning the compensation of the listed company board of directors and executives would have to be approved at the shareholders' meeting. A prescribed compensation report would be voted on each year at the annual shareholders' meeting.

In accordance with the SHRD proposal, the requirement for a shareholder vote would broadly apply to listed companies, thus having a significant impact on the administrative workload. It is highly questionable as to how a shareholder vote on compensation matters would fit in the current division of authority and responsibility specified in the Limited Liability Companies Act. A shareholder vote creates unnecessary bureaucracy and administrative work.

The above-mentioned SHRD proposal also includes a proposal for the shareholder approval of certain types of related party transactions prior to their completion. Some related party transactions are required to be announced on completion and accompanied by a fairness report. The related party would be defined according to international accounting standards. Even though the proposal includes, for example, the opportunity for advance approval of certain transactions and exemptions concerning group relationships to be determined by each member state, the proposal would lead to additional bureaucracy in company operations. In addition to costs, the proposal might also significantly increase the measures to be taken by listed

[17] Directive 2007/36/EC of the European Parliament and of the Council of July 11, 2007 on the exercise of certain rights of shareholders in listed companies.

companies in making normal business agreements, such as the procurement of raw materials, thus creating a considerable amount of extra work for preparing and holding shareholders' meetings.

+ **An effort should be made to reduce the impacts that increase the regulatory burden brought about by the EU directive proposal on addressing remuneration and related party transactions at Annual General Meeting both at EU level and, if necessary, in the national implementation.**

IMPLEMENTATION OF THE TRANSPARENCY DIRECTIVE IN FINLAND

The quarterly reporting requirement, based on the Transparency Directive, is being removed within the EU. In the future listed companies will publish financial statements and a half year financial report.

Under certain conditions, the Directive allows for the application of stricter regulations, i.e. an requirement to report on a more frequent basis. The condition is that stricter regulations cannot cause any undue economic strain on the member state in question, particularly for small and medium-sized companies. The content of any additional reporting must be meaningful to the grounds for investment decisions made by investors in the member state in question. Prior to setting any additional requirements, the member state in question must determine whether these additional requirements would lead to an excessive increase in short-term financial performance or have a negative impact on the listing conditions for small and medium-sized companies. Contrary to the above, a member state can, however, require additional national reporting from financial institutions, without the additional requirements mentioned above. The directive also changes the publishing times of the financial statements and half year financial report.

It is important to ensure that the reporting frequency and publishing times stated in the directive are observed in Finnish legislation and that no additional obligations are set.

+ **The regular disclosure requirement which is compliant with the Transparency Directive should be implemented in Finland without the adoption of any additional national requirements. As a result, the requirement for submitting quarterly reports would be eliminated.**

5.3 Legislation and authorities

PUBLIC REGULATION

Although regulations and guidelines are generally considered sufficient, they are also subject to conflicting expectations: while large companies would be satisfied with the Securities Markets Act alone, smaller companies desire more practical guidelines. Achieving credibility is also important to smaller companies – the level of regulation on the First North market ensures this.

It is probable that as the number of EU regulations and European Securities and Markets Authority (ESMA) guidelines increases, the Financial Supervisory Authority will correspondingly scale down its own guidelines. It is also crucial that the uniform application of these EU level regulations is ensured throughout the entire EU.

Within the new framework of EU regulations and ESMA regulations, changes in the role of authorities will be a challenge for them. It is important that the Ministry of Finance, in the preparation of legislation, and the Financial Supervisory Authority, in the application of regulations, ensure that new EU regulations (e.g. Market Abuse Regulation) receive adequate recognition in Finland and that their implementation in Finland's regulatory environment is clearly understood by users.

The amended Securities Markets Act gives the Financial Supervisory Authority the power to impose broader and harsher administrative sanctions. It is important that the Financial Supervisory Authority emphasizes proactive oversight. Thus, administrative sanctions would only be used in individual cases. It is clear that the publicizing of sanctions and the resulting media circus create a negative image of operating on public markets.

PROSPECTUSES

Drafting a full listing prospectus requires a considerable amount of work and is very costly. A listed company, which is growing and increasing its share capital, may have to prepare financial statements and three interim reports, as well as one to three prospectuses each year. Listed companies often consider preparing new prospectuses to be an extra administrative burden, such as in a directed share issue made as part of a corporate acquisition.

Prospectus content requirements are based on the EU Prospectus Directive, which contains separately specified requirements concerning, for example, warrant issues. The abbreviated prospectus, however, is only used in situations, where a rights issue is being sought for less than 10% of the number of shares already admitted to trading on the same regulated market. The regulations and the possibility for an exemption included in them are currently interpreted to the letter of the law, wherein the abbreviated prospectus may not be used in situations where the number of shares exceeds 10%. Thus, for example, in targeted issues exceeding the 10% share limit in connection with a takeover or merger, a full prospectus must be drafted.

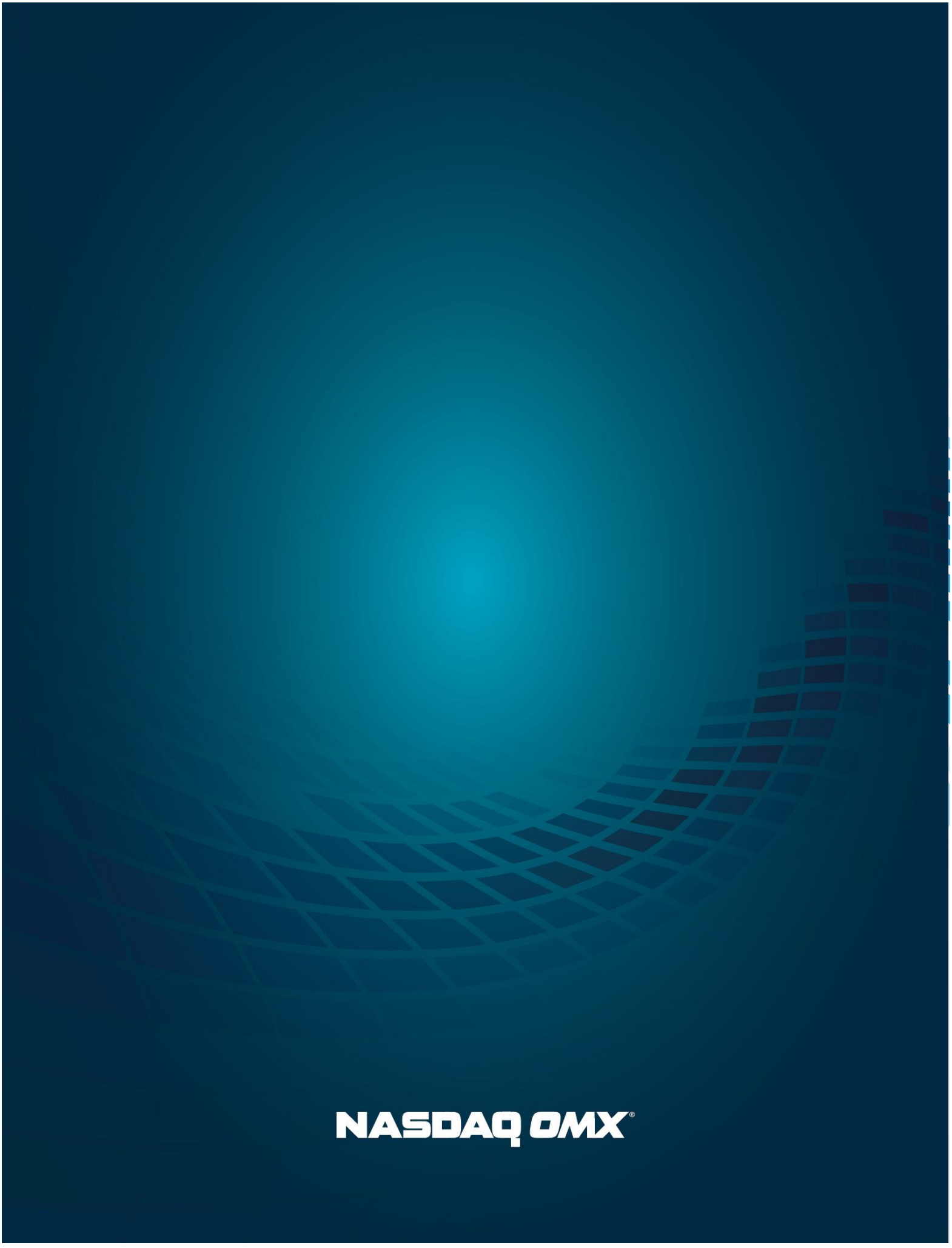
Regulations include a provision, wherein companies can, under certain conditions and the approval of the Financial Supervisory Authority, leave certain, less vital information out of the prospectus. However, in practical terms, broader prospectus regulations for abbreviating and condensing content as well as broader possibilities for exemptions are needed. These would reduce the workload of companies, while still providing the necessary information to investors. Indeed, where publishing obligations are concerned, broader possibilities for exemptions and appropriate interpretation practices must be sought at EU level. These would be aimed at, for example, targeted issues, successive prospectuses, retaining cross-referencing methods and lighter content requirements.

+ **Finland should advocate at EU level for broader provisions concerning the publishing obligations for listed company prospectuses.**

5.4 Exchange and Securities Market Association self-regulation

The self-regulation of the Exchange is considered functional. Although the Exchange regularly provides training for listed companies, companies could more actively maintain contact with the Exchange, which gladly provides advice on the interpretation of regulations and offers tailored training.

The current guidelines of the Exchange and Securities Market Association are considered useful from a listed company standpoint. The report proposes that the Securities Market Association draft new reporting models deemed necessary for use by listed companies (see section 5.1). The role and profile of the Securities Market Association's Market Practice Board and Takeover Board should, however, be enhanced. If necessary, the Boards should also take proactive measures to develop regulations and practices.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