

Standard 1.4

Assessment of fitness and propriety

Regulations and guidelines



**RAHOITUSTARKASTUS
FINANSINSPEKTIONEN
FINANCIAL SUPERVISION**

How to read a standard

A standard is a collection of subject-specific regulations and guidelines which both obliges and guides supervised entities and other financial market participants, indicates the quality level expected by the supervisor, sets out the supervisor's key principles of good practice and provides justification for regulation.

Issued on:
FIN-FSA decision on issuance of the paragraph.
Valid from:
Entry into force of the paragraph.

THE FINANCIAL SUPERVISION AUTHORITY Issued on 1 January 2006
1 Sample Valid from 1 January 2006
1.1 Margin notes J No. 1/120/2006

Each paragraph in a standard is furnished with a particular margin note:

- **Norm:** A reference to a current legal or regulatory provision.
- **Binding:** A FIN-FSA regulation that is legally binding on supervised entities or other financial market participants, issued by the FIN-FSA by virtue of its regulatory power based in Finnish law.
- **Recommendation:** FIN-FSA recommendatory guidance to supervised entities or other financial market participants.
- **Application guideline/example:** A practical application guideline or example related to a norm, binding regulation or recommendation. A reference to a FIN-FSA standard or a particular point in the standard. See the attached example.
- **Justifications:** An explanation of the background, purpose and objectives of a regulation or standard.

Norm
Issued on 27 February 2007
Valid from 1 April 2007

Binding
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Justification
Issued on 28 April 2006
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Binding
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Recommendation
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Binding
Issued on 28 April 2006
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Recommendation
Issued on 27 February 2007
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Application guideline/example
Issued on 27 February 2007
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(1) An appropriate fit & proper survey must be appended to respect of all members and alternate members of the board, managing director and the possible deputy managing director.

(2) The fit & proper notification must be prepared using the FIN-FSA standard RA 1.4 on the disclosure of information on eligibility and professional competence.

(3) The FIN-FSA has the right to obtain from the Legal Register extract from the criminal records¹, as referred to in the Act on Registers (770/1993), and an extract from the register of financial management's credit register details as part of the procedure.

(4) More detailed provisions on the reliability, eligibility and competence of management are laid down in standard 1.4 (Eligibility, reliability, eligibility and professional competence).

1.1.2 Staff and its competence

(5) Management must make sure that the number of staff is that staff members are professionally competent, eligible for have good reputation. Explicit demands for the number of staff placed, as it is dependent on the nature and scope of the business.

(6) Further provisions concerning the staff and their competence down in the FIN-FSA standard 4.4b on operational risk.

(7) The managing director must allocate sufficient time for the organisation's daily activities. This is why the managing director secured even when the managing director is unable to exercise. That is why it is important that a competent deputy managing director is appointed.

(8) An exception can be made to the provision concerning the employment of the managing director if the organisation is so small that its business is limited and the type of business is simple. The FIN-FSA on such exceptions on a case-by-case basis. In its evaluation pay attention to whether the administration has been arranged.

¹ Section 6, subsection 2 of the credit institutions decree, section 24 of the insurance companies decree, section 13 of the management companies decree.
² Section 4a of the decree on criminal records.
³ See section 15, subsection 6 of the FSA Act.

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Sample standard only

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1 APPLICATION

*Issued on 20 March 2007
Valid from 1 July 2007*

(1) This standard sets criteria for the integrity, fitness and professional competence (fitness and propriety) of persons responsible for a supervised entity's management and key business functions, and principles to be followed in fit and proper assessment.

*Issued on 20 March 2007
Valid from 1 July 2007*

(2) The standard applies to the following corporations (hereafter also 'supervised entities'):

- credit institutions and their foreign branches
- investment firms and their foreign branches
- fund management companies and their foreign branches
- custodians
- stock exchanges
- clearing corporations
- options corporations
- central securities depository
- holding companies of credit institutions and investment firms
- central body referred to in the Act on Cooperative Banks and Other Cooperative Credit Institutions
- holding companies of financial and insurance conglomerates primarily engaged in financial activities
- pawnshops.

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Valid from 1 July 2007*

(3) In line with the principle of home country supervision, the supervisory authorities of the home member state have responsibility for the fit and proper assessment of the management of Finnish branches of credit institutions, investment firms and fund management companies domiciled in the European Economic Area (EEA).

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(4) Information regarding the manager and the deputy manager of a branch referred to in paragraph (3) is reported to the Financial Supervision Authority (FIN-FSA) in accordance with the notification procedure (see standard 1.1 on market entry, section 8.1).

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(5) Information regarding the manager and deputy manager of a Finnish branch of a credit institution, investment firm or fund management company domiciled outside the European Economic Area (EEA) is reported to the FIN-FSA in accordance with standard RA1.4 on the reporting of fitness and propriety to the Financial Supervision Authority.

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(6) In this standard, 'person responsible for management' refers to a member and deputy member of the board of directors as well as the managing director and deputy managing director.

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(7) If a supervised entity has a supervisory board, provisions of section 6.3 on supervisory board shall apply.

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(8) In assessing the fitness and competence of management and adherence to sound and prudent business principles, the provisions of standard [4.1](#) on the establishment and maintenance of internal control and risk management, as well as the principles of sound corporate governance, shall be applied, among others.

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(9) Fit and proper criteria set for owners are dealt with in the standard on owner control (under preparation).

2 OBJECTIVES

*Issued on 20 March 2007
Valid from 1 July 2007*

(1) Regulation on integrity, fitness and professional competence (fitness and propriety) is a central part of supervised entities' sound corporate governance. The purpose of this standard is to support supervised entities in having and maintaining healthy corporate culture. Responsibility for the soundness of corporate governance lies primarily on supervised entities themselves.

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(2) One of the key requirements for supervised entities subject to authorisation is that they have fit and proper management. This ensures that the supervised entity will be managed with professional competence as well as in accordance with sound and prudent business principles.

*Issued on 20 March 2007
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(3) This standard sets the supervised entity's board of directors the obligation to specify persons responsible for the organisation's key business functions and establish procedures for controlling the fitness and propriety of these persons.

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(4) The standard also clarifies criteria set for competent management operating in accordance with sound and prudent business principles as part of the fit and proper assessment.

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(5) The standard emphasises the importance of an overall assessment (made on case-by-case basis) when a person's actions or events relating to the person can jeopardise the soundness of a supervised entity's corporate governance or market confidence in the supervised entity's operations.

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(6) The standard also provides some examples to clarify factors affecting the overall assessment which, in individual cases, could have an impact on the assessment of the soundness of a supervised entity's corporate governance and the fit and proper assessment of a person.

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(7) The standard also contains a recommendation that a person should, on his or her own initiative, refrain from performing the functions of his position or a supervised entity's management should take the available measures to transfer a person or relieve him from his duties for the duration of clearing the matter when necessary for ensuring the soundness of a supervised entity's corporate governance or maintaining or restoring market confidence.

3

INTERNATIONAL FRAMEWORK

*Issued on 20 March 2007
Valid from 1 July 2007*

(1) In preparing the standard, account has been taken of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council repealing Council Directive 93/22/EC (32004L0039); OJ L 145, 30.4.2004, p. 13.

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(2) In addition, the standard is based on the following international recommendations:

- Core Principles for Effective Banking Supervision, Basel Committee on Banking Supervision, Basel, October 2006
- Supervision of Financial Conglomerates, Papers prepared by the Joint Forum on Financial Conglomerates, February 1999; Fit and Proper Principles Paper
- European Standards on Fitness and Propriety to provide Investment Services, 99-FESCO-A, April 1999.

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Valid from 1 July 2007*

(3) Core Principles for Effective Banking Supervision require that, when granting an authorisation, a supervisory authority must ascertain that a credit institution will be managed in a sound and prudent manner. The credit institution must also have a management with sufficient expertise and integrity throughout the institution's lifespan, and have in place sufficient measures to this end.

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(4) The objective of the Joint Forum (the Basel Committee on Banking Supervision, IOSCO and IAIS) is to create common principles for supervisors to ensure that financial and insurance conglomerates are managed soundly and prudently. According to these principles, factors relating to the assessment of fitness and propriety of management include a person's criminal record, financial position, possible civil actions to pursue personal debts, sanctions applied by authorities or self-regulating bodies and previous

questionable business practices. Fitness and propriety tests are applied both in connection with new appointments and on the occurrence of specific events. One of the guiding principles is that entities within a conglomerate will take the measures necessary to ensure that fitness and propriety criteria are met on a continuous basis.

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(5) Fesco's (currently CESR) standard seeks to set the minimum requirements to be fulfilled by the management and persons carrying out key functions when an investment firm applies for an authorisation or makes new appointments. Individuals must be of sufficiently good repute and sufficiently experienced in order to be competent and capable of performing the functions currently performed or which it is proposed they should perform. The management is always expected to ensure the fitness and propriety of other employees in the company and to pursue appropriate internal policies and procedures to this end.

4

LEGAL BASIS

*Issued on 20 March 2007
Valid from 1 July 2007*

(1) International regulation relating to the subject matter of this standard is based on the following directives:

- Directive 2006/48/EC of the European Parliament and of the Council relating to the taking up and pursuit of the business of credit institutions (32006L0048); OJ L 177, 30.6.2006, p.1
- Council Directive 93/22/EEC on investment services in the securities field (31993L0022); OJ L 141, 11.6.1993, p. 27
- Directive 2001/107/EC of the European Parliament and of the Council amending Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) with a view to regulating management companies and simplified prospectuses (32001L0107); OJ L 41, 13.2.2002, p. 24
- Directive 2001/108/EC of the European Parliament and of the Council amending Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), with regard to investments of UCITS (32001L0108); OJ L 41, 13.2.2002, p. 35
- Directive 2002/87/EC of the European Parliament and of the Council on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council (32002L0087); OJ L 35, 11.2.2003, p.1.

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(2) National regulation relating to the subject matter is based on the following legislation:

- sections 22, 24, 40, 49 and 93 of the Credit Institutions Act (121/2007) (credit institutions);
- sections 9, 10, 12, 12b and 29 of the Investment Firms Act (579/1996) (investment firms);
- sections 5a, 5b, 5e and 30a (fund management companies) and sections 9, 9a and 9d (custodians) of the Mutual Funds Act (48/1999);
- chapter 3, sections 1a, 2 and 2c (stock exchanges) and chapter 4a, sections 1a, 2 and 3 (clearing companies) of the Securities Markets Act (495/1989);
- chapter 2, sections 12a, 2 and 3 of the Act on Trading in Standardised Options and Futures (772/1988) (options corporations);
- chapter 3, sections 12 and 12a of the Act on the Book-Entry System (826/1991) (central securities depositories);
- sections 5 and 12 of the Act on Cooperative Banks and Other Cooperative Credit Institutions (1504/2001);
- sections 14 and 16 of the Act on the Supervision of Financial and Insurance Conglomerates (699/2004);
- sections 4, 5 and 5a of the Act on Pawnshops (1353/1992);
- sections 9 and 10 of the Act on Foreign Credit and Financial Institutions in Finland (1608/1993)
- sections 8 and 9 of the Act on the Right of Foreign Investment Firms to Provide Investment Services in Finland (580/1996) and
- sections 7 and 8 of the Act on Foreign Fund Management Companies in Finland (225/2004).

5

KEY PRINCIPLES OF THE ASSESSMENT

5.1 General principles

Norm

Issued on 20 March 2007
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(1) An authorisation is granted on the condition that a supervised entity is managed with professional competence as well as in accordance with sound and prudent business principles throughout the supervised entity's lifespan.

Binding

Issued on 20 March 2007
Valid from 1 July 2007

(2) The primary responsibility for ensuring that persons responsible for a supervised entity's management and key business functions are fit and proper rests with the supervised entity itself.

Recommendation

Issued on 20 March 2007
Valid from 1 July 2007

(3) It is recommended that a supervised entity establishes the assessment and control of fitness and propriety of persons responsible for the supervised entity's key business functions as stated in this standard and that it follows the standard's assessment principles.

Application guideline

Issued on 20 March 2007
Valid from 1 July 2007

(4) A fit and proper assessment comprises the consideration of three factors: integrity, fitness and professional competence. Each factor is assessed independently. This means that, for example, lack of integrity cannot be compensated with good professional competence.

Application guideline

Issued on 20 March 2007
Valid from 1 July 2007

(5) An assessment must be conducted whenever a new person is appointed to act in a position in which he is responsible for a supervised entity's management or a key business function. An assessment must also be conducted before a person is appointed to a new position more significant than the one held previously or when a person's responsibilities increase substantially. An assessment must also be conducted whenever the fitness and propriety of a person is jeopardised in the manner described in this standard.

Recommendation

Issued on 20 March 2007
Valid from 1 July 2007

(6) It is recommended that a supervised entity updates information regarding the person regularly and in accordance with section 6.1.1.

Application guideline

Issued on 20 March 2007
Valid from 1 July 2007

(7) Integrity and fitness can be lost or jeopardised as provided in sections 5.2 and 5.3. Professional competence can be jeopardised as provided in sections 5.3 and 5.4.

Binding

Issued on 20 March 2007
Valid from 1 July 2007

(8) Professional competence of management and compliance with sound and prudent business principles can be jeopardised, for example, if a supervised entity, in its operations, does not adhere to standard 4.1 on the establishment and maintenance of internal control and risk management, or the principles of sound corporate governance.

Binding

Issued on 20 March 2007
Valid from 1 July 2007

(9) A fitness and propriety test shall be applied on a case-by-case basis as an overall assessment, taking into account all factors affecting the evaluation. The aim is to ensure the maintenance of confidence in a supervised entity's activities under all circumstances.

5.2 Integrity

Norm

Issued on 20 March 2007
Valid from 1 July 2007

(10) Persons responsible for a supervised entity's management shall always show integrity and be persons whose capacity has not been restricted.

Application guideline

Issued on 20 March 2007
Valid from 1 July 2007

(11) The loss of integrity or the restriction of legal capacity can lead to a person not being appointed as a member or deputy member of the board of directors or the managing director or deputy managing director, or that the person can no longer continue to act in the above-mentioned positions.

Norm

Issued on 20 March 2007
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(12) If the FIN-FSA finds that a person referred to in paragraph 11 is responsible for the management of a credit institution, an investment firm, a holding company of either of these two, a fund management company, a custodian, or a holding company of a financial and insurance conglomerate primarily engaged in financial activities, the FIN-FSA can prohibit the person from acting as a member or a deputy member of the board of directors or as a managing director or a deputy managing director, as separately provided in law.

5.2.1 Legally valid sentences of imprisonment and pecuniary penalties

Norm

Issued on 20 March 2007
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(13) A person referred to in paragraph 10 shall not be deemed to show integrity if the person has been sentenced to imprisonment within the last five years or to a fine within the last three years for a crime which can be deemed

to indicate that the person is manifestly unsuitable as a member or deputy member of the board of directors or the managing director or deputy managing director of a supervised entity.

Application guideline
Issued on 20 March 2007
Valid from 1 July 2007

(14) A person is manifestly unsuitable if he has, for example, taken illegal action in order to obtain personal financial benefit at someone else's expense.

Application example
Issued on 20 March 2007
Valid from 1 July 2007

(15) The following list comprises examples of criminal offences that can constitute grounds for the assessment of manifest unsuitability. The list is not exhaustive: fraud and other dishonesty (Penal Code, chapter 36); receiving and money laundering offences (Penal Code, chapter 32); offences by a debtor (Penal Code, chapter 39); theft and embezzlement (Penal Code, chapter 28); extortion (Penal Code, chapter 31); forgery (Penal Code, chapter 33); providing false documentation to a public authority, registration offence (Penal Code, chapter 16); security markets offences (Penal Code, chapter 51); accounting offence and bribery (Penal Code, chapter 30).

Application guideline
Issued on 20 March 2007
Valid from 1 July 2007

(16) The time periods referred to in paragraph 13 above start from the date on which a judgment has come into force and end on the commencement date of the term of office of a member or deputy member of the board, or of the managing director or deputy managing director.

5.2.2 Adjudication of bankruptcy and restriction of legal capacity

Norm
Issued on 20 March 2007
Valid from 1 July 2007

(17) A person referred to in paragraph 10 may not be adjudged bankrupt. Bankruptcy begins when a court has decided to adjudicate bankruptcy. Bankruptcy ends on account of a court decision, lapse of bankruptcy, composition or abatement.

Norm
Issued on 20 March 2007
Valid from 1 July 2007

(18) The capacity of a person may not be restricted as provided in the Guardianship Services Act (442/1999).

Norm
Issued on 20 March 2007
Valid from 1 July 2007

(19) A person may not be subject to business prohibition as provided in the Business prohibition Act (1059/1985).

5.3 Fitness

5.3.1 Overall assessment

Binding
Issued on 20 March 2007
Valid from 1 July 2007

(20) A supervised entity shall always have competent management that is capable and fit to perform the tasks entrusted to it and that can claim the confidence of customers, owners and markets in the supervised entity's operations under all circumstances.

Binding

Issued on 20 March 2007
Valid from 1 July 2007

(21) Fitness shall be assessed as an overall assessment, taking into account all factors affecting the evaluation. The assessment shall be conducted on a case-by-case basis as to ensure the maintenance of the soundness of a supervised entity's corporate governance and market confidence in the supervised entity's operations.

Application guideline

Issued on 20 March 2007
Valid from 1 July 2007

(22) Consequently, any element mentioned in the list below (paragraph 29) does not alone necessarily constitute grounds for a person to be deemed as not meeting the fit and proper test. On the other hand, for example pending legal proceedings in a matter relating to financial irregularities, seeking of own benefit or offences referred to in section 5.2.1 (15) may jeopardise the soundness of a supervised entity's corporate governance and requires therefore action by the supervised entity's management.

Self-assessment by a person

Recommendation

Issued on 20 March 2007
Valid from 1 July 2007

(23) If a person's fitness and propriety are jeopardised he himself should always primarily assess the significance of his position to the soundness of the supervised entity's corporate governance and market confidence in the supervised entity's operations.

Recommendation

Issued on 20 March 2007
Valid from 1 July 2007

(24) The FIN-FSA recommends that a person, on his own initiative, renounces or refrains from performing the functions of his position for the duration of clearing the matter whenever necessary for ensuring the soundness of a supervised entity's corporate governance or maintaining or restoring market confidence.

Assessment by the management of a supervised entity

Binding

Issued on 20 March 2007
Valid from 1 July 2007

(25) A supervised entity's management shall assess the significance of the situation and occurrences for the soundness of the supervised entity's corporate governance and market confidence in the entity's operations.

Recommendation

Issued on 20 March 2007
Valid from 1 July 2007

(26) The FIN-FSA recommends that a supervised entity's management takes the available measures to transfer a person or relieve him from his duties for the duration of clearing the matter whenever necessary for ensuring the soundness of the supervised entity's corporate governance or maintaining or restoring market confidence.

5.3.2 Factors affecting overall assessment

Jeopardising competent management, operating in accordance with sound and prudent business principles

Application guideline
Issued on 20 March 2007
Valid from 1 July 2007

(27) Failure to pass the fit and proper test can result from the fact that a supervised entity is not managed with professional competence as required in section 5.5 of the standard.

Application guideline
Issued on 20 March 2007
Valid from 1 July 2007

(28) Failure to pass the fit and proper test can also result from the fact that a person is not carrying out his responsibilities carefully as is expected considering his professional competence and experience and as provided in section 5.4, even though the supervised entity's operations as such raise no comments.

Other factors that could jeopardise the soundness of corporate governance and market confidence in a supervised entity's activity

Application example
Issued on 20 March 2007
Valid from 1 July 2007

(29) The following list comprises examples of situations in which a supervised entity's management may have to assess the fitness of persons responsible for management and key business functions from the perspective of sound corporate governance and market confidence. The list is not exhaustive.

- Criminal matters: pending criminal trial in a court or pending or ended pre-trial investigations in a matter relating to financial misconduct or the seeking of own benefit, for example the misuse of a position of trust or any other criminal offence that can compromise market confidence in a supervised entity's operations or weaken a person's capacity and possibilities to act in the position to which he has been appointed.
- Civil matters: debt restructuring; enforcement; registered payment defaults; other civil disputes or financial irregularities that can be relevant when assessing a person's financial position and that can jeopardise market confidence in a supervised entity's operations or weaken a person's capacity and possibilities to act in the position to which he has been appointed.
- Disciplinary actions, objections or other reprimands: for example decisions given by a market court, an authority, the disciplinary board of a stock exchange, the board of directors of a stock exchange, the board of directors of an options corporation, the board of the Finnish Central Securities Depository, an auditing board or a bar association; ie objections, warnings, conditional fines, disciplinary fines imposed on the basis of self regulatory provisions and revocations of rights.

Application guideline
Issued on 20 March 2007
Valid from 1 July 2007

(30) The fitness of a person can also be subject to an assessment if he has such financial links or conflicts of interest that could significantly compromise market confidence in a supervised entity's operations or weaken the person's capacity and possibilities to act in the position to which he has been or will be appointed.

Application example
Issued on 20 March 2007
Valid from 1 July 2007

(31) Financial links and conflicts of interest refer for example to a person's direct and indirect holdings in, agreements and other arrangements with a supervised entity or another entity operating in financial markets (eg customer company) or other links with an external party, including positions of trust, board membership or a contract for services with the supervised entity's customer company.

5.4 Professional competence

Norm
Issued on 20 March 2007
Valid from 1 July 2007

(32) An authorisation is granted on the condition that a supervised entity be managed with professional competence as well as in accordance with sound and prudent business principles throughout the supervised entity's lifespan.

Application guideline
Issued on 20 March 2007
Valid from 1 July 2007

(33) Professional competence refers to a person's education, professional experience, personal character and capability to act in the position to which he is appointed.

Application guideline
Issued on 20 March 2007
Valid from 1 July 2007

(34) In applying the criteria of professional competence, account is taken of the nature and scope of a supervised entity's operations. Supervised entities differ by factors including the scope of activity, organisation, the number and diversity of financial services and customer structure.

5.4.1 Managing director and deputy managing director

Application guideline
Issued on 20 March 2007
Valid from 1 July 2007

(35) Managing director and deputy managing director are expected to possess sufficient education, professional experience suitable for the position, experience in directorship and other qualifications required for the successful fulfilment of the responsibilities of the position.

Norm
Issued on 20 March 2007
Valid from 1 July 2007

(36) A person shall also possess such general knowledge of the supervised entity's business area as is deemed necessary with regard to the nature and scope of the supervised entity's operations.

Application guideline
Issued on 20 March 2007
Valid from 1 July 2007

(37) General knowledge of a supervised entity's business area can refer to such knowledge of the business that a person can have obtained for example by working at the supervised entity or in other lines of business/another

industrial sector in functions where the person has familiarised himself with the operation of financial markets.

Recommendation
Issued on 20 March 2007
Valid from 1 July 2007

(38) It is recommended that a managing director always possess good knowledge of the supervised entity's business area, has experience in the business from a sufficiently long time and that there is proven evidence of the director's success in the business.

5.4.2 Members and deputy members of the board of directors

Application guideline
Issued on 20 March 2007
Valid from 1 July 2007

(39) The criteria of professional competence of the board of directors is assessed collectively.

Norm
Issued on 20 March 2007
Valid from 1 July 2007

(40) Each member of the board of directors shall possess such general knowledge of the supervised entity's business area as is deemed necessary with regard to the nature and scope of the supervised entity's operations. However, the members of the board of directors of a fund management company elected by the unit holders need not possess knowledge of mutual fund or investment firm activity (section 5e of the Mutual Funds Act).

Application guideline
Issued on 20 March 2007
Valid from 1 July 2007

(41) General knowledge of a supervised entity's business area can refer to such knowledge of the business that a person can have obtained for example by working for the supervised entity or by working in another industrial sector in functions in which the person has familiarised himself with or has gained experience from the operation of financial markets, or by acting in positions of trust in the supervised entity.

Recommendation
Issued on 20 March 2007
Valid from 1 July 2007

(42) It is recommended that a member of the board of directors who has insufficient knowledge of the supervised entity's business area is given the possibility to acquire education and knowledge necessary for carrying out the responsibilities of the position.

5.5 Competent management operating in accordance with sound and prudent business principles

Binding
Issued on 20 March 2007
Valid from 1 July 2007

(43) In assessing management that is professionally competent and operating in accordance with sound and prudent business principles, the provisions of standard [4.1](#) on the establishment and maintenance of internal control and risk management, as well as the principles of sound corporate governance, shall apply.

Binding
Issued on 20 March 2007
Valid from 1 July 2007

(44) Sound and prudent business principles comprise at least the following:

- establishment and maintenance of sound corporate governance
- establishment of sufficient high-grade internal control and risk

- management that covers all activities of the supervised entity
- ensuring the reliability and correctness of financial information
 - adequate safeguarding of a supervised entity's assets and customers' funds
 - appropriate and adequate IT and/or manually operated systems to support operations.

Norm

*Issued on 20 March 2007
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(45) On conditions more closely provided by law, the FIN-FSA can prohibit a person from acting as a member or deputy member of a board of directors or as a managing director or deputy managing director if it finds that a credit institution, an investment firm, a holding company of either of these two, a fund management company, a custodian, or a holding company of a financial and insurance conglomerate primarily engaged in financial activities is not managed with professional competence and in accordance with sound and prudent business principles.

6

MEASURES OF THE SUPERVISED ENTITY

6.1 Approval of control policies and procedures

Norm

Issued on 20 March 2007
Valid from 1 July 2007

(1) A supervised entity shall have sound corporate governance enabling effective risk management, as well as adequate internal control and adequate risk management processes in relation to its operations.

6.1.1 Persons responsible for management

Binding

Issued on 20 March 2007
Valid from 1 July 2007

(2) The board of directors shall approve and document principles as well as establish and document procedures to control and ensure that persons responsible for management meet the fitness and propriety criteria on a continuous basis.

Recommendation

Issued on 20 March 2007
Valid from 1 July 2007

(3) It is recommended that the board of directors regularly reviews (for example every other year) information relating to persons responsible for management, as appropriate and approved.

6.2 Approval of persons responsible for key business functions

6.2.1 General

Application guideline

Issued on 20 March 2007
Valid from 1 July 2007

(4) Sound corporate governance requires that functions central and significant for the operations of a supervised entity have been identified and that persons responsible for them are fit and proper.

Application guideline

Issued on 20 March 2007
Valid from 1 July 2007

(5) The board of directors shall identify the persons responsible for the supervised entity's key business functions as well as establish and document

policies and procedures with which it intends to ensure that these individuals are fit and proper in performing their responsibilities.

Recommendation

Issued on 20 March 2007
Valid from 1 July 2007

(6) It is recommended that the managing director reviews regularly (for example every other year) information relating to persons responsible for key business functions, as appropriate and approved.

6.2.2 Managers of foreign branches

Binding

Issued on 20 March 2007
Valid from 1 July 2007

(7) The following shall always be considered as persons responsible for key business functions:

- manager and deputy manager of a foreign branch of a Finnish credit institution, investment firm and a fund management company
- manager and deputy manager of a Finnish branch of a foreign credit institution, investment firm and a fund management company domiciled outside the European Economic Area (EEA).

Binding

Issued on 20 March 2007
Valid from 1 July 2007

(8) Persons referred to in paragraph (7) above shall be reported of to the FIN-FSA in accordance with standard RA1.4 on the reporting of fitness and propriety to the Financial Supervision Authority.

6.2.3 Other persons responsible for key business functions

Application example

Issued on 20 March 2007
Valid from 1 July 2007

(9) Other persons responsible for key business functions are for example:

- member and a deputy member of a management group
- head of a business area
- other person comparable to the persons mentioned above.

Application guideline

Issued on 20 March 2007
Valid from 1 July 2007

(10) Information on persons referred to in paragraph (9) is not reported to the FIN-FSA.

Recommendation

Issued on 20 March 2007
Valid from 1 July 2007

(11) The FIN-FSA recommends that information and results of assessments regarding persons referred to in paragraph (9) are kept so that the FIN-FSA has access to them.

6.2.4 Persons responsible for the compliance function and internal audit

Recommendation

Issued on 20 March 2007
Valid from 1 July 2007

(12) The FIN-FSA recommends that supervised entities follow the provisions of this standard when assessing the fitness and propriety of persons responsible for the compliance function and internal audit.

Recommendation

Issued on 20 March 2007
Valid from 1 July 2007

(13) The FIN-FSA recommends that information regarding persons referred to in paragraph (12) is reported to the FIN-FSA in accordance with standard

RA1.4 on the reporting of fitness and propriety to the Financial Supervision Authority.

6.3 Assessment of members of the supervisory board

Recommendation
Issued on 20 March 2007
Valid from 1 July 2007

(14) It is recommended that in those supervised entities that have a supervisory board, the supervisory board itself approves principles according to which it establishes, as appropriate, the fit and proper assessment of its members.

Recommendation
Issued on 20 March 2007
Valid from 1 July 2007

(15) It is recommended that the supervisory board complies with the principles of this standard when deciding on the establishment of the fit and proper assessment of its members.

6.4 Obligation to act

Binding
Issued on 20 March 2007
Valid from 1 July 2007

(16) The management of a supervised entity shall immediately take sufficient action to ensure the soundness of corporate governance and the maintenance of market confidence when the fitness and propriety of a person responsible for management or a key business function is jeopardised.

Binding
Issued on 20 March 2007
Valid from 1 July 2007

(17) Persons responsible for a supervised entity's management shall decide on measures they consider necessary for ensuring sound corporate governance, and make their assessment and the respective measures known to the FIN-FSA in accordance with chapter 5 of standard RA1.4 on the reporting of fitness and propriety to the Financial Supervision Authority.

Recommendation
Issued on 20 March 2007
Valid from 1 July 2007

(18) The FIN-FSA recommends that the management of a supervised entity takes immediately available action to rearrange a person's duties or relieve the person of his duties for the duration of clearing the matter whenever necessary for ensuring the soundness of a supervised entity's corporate governance or maintaining or restoring market confidence.

7

REPORTING TO THE FINANCIAL SUPERVISION AUTHORITY

Binding

*Issued on 20 March 2007
Valid from 1 July 2007*

(1) Persons subject to reporting requirement, the contents of the notifications and the date of notification are defined in the relating standard RA1.4 on the reporting of fitness and propriety to the Financial Supervision Authority.

8

DEFINITIONS

Management of a supervised entity:

- board of directors and managing director

Person responsible for management:

- member and deputy member of the board of directors, managing director and deputy managing director

Person responsible for key business functions:

- manager and deputy manager of a foreign branch of a Finnish credit institution, investment firm or fund management company
- manager and deputy manager of a Finnish branch of a corporation domiciled outside the European Economic Area (EEA)
- other person specified by the supervised entity itself, for example a member and deputy member of a management group, head of a business area or another person comparable to persons mentioned above.

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FURTHER DETAILS

Please find the necessary contact information in the list of [Persons in charge](#) for standards provided on the FSA website. For further information, please contact:

- Institutional Supervision, tel. +358 10 831 5207
- Conduct of Business, tel. +358 10 831 5336

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OBSOLETE GUIDELINES AND STATEMENTS

Issued on 20 March 2007
Valid from 1 July 2007

(1) This standard renders the following guidelines and regulations obsolete:

- Guideline on the contents of fit and proper assessments and on the reporting requirement (101.10)
- Regulation on written reporting on the fitness and propriety of owners, directors and managers in connection with changes (203.17), except for provisions concerning owners. More detailed provisions on owners will be given in the forthcoming standard on owner control.