



## NORDISKA FINANSANSTÄLLDAS UNION

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### NFU Response to the Consultation on the future of financial services supervision in the EU

#### About NFU

The Confederation of the Nordic Bank, Finance and Insurance Unions (NFU) is an organisation for co-operation between trade unions that organise employees in the banking, finance and insurance sectors in the five Nordic countries. At present, eight trade unions are affiliated to the NFU; two in Denmark, two in Finland, two in Sweden, and one in each Iceland and Norway. Through these trade unions, NFU represents 160 000 employees in the Nordic financial market.

#### General remarks

NFU welcomes the European Commission's initiative to reform the financial regulatory and supervisory system in Europe, and supports also the recommendations made by the de Larosière group as the basic principles for this work. As the consultation material outlines general proposals without asking any specific questions, the following reply will be of the same general nature.

The overarching principles of European as well as global financial markets should comprise a long-term and risk-conscious business model, as well as operating practices that ensure the sustainability and profitability of both companies and the finance industry as a whole. The global financial crisis has shown that there is a need for all financial markets, products and market participants to be regulated in a fair and thorough fashion. A reformed financial supervisory system in the EU must guarantee that all companies are supervised according to the same criteria, wherever they are based, to ensure a level playing field and sound competition.

At the centre of the financial markets in Europe stand the employees. There is a prevailing tendency in the reform proposals to look at the financial system from a top-down perspective, without taking internal everyday practices in the companies into account. The employee perspective is a crucial component in any reform of the regulatory and supervisory systems in Europe, as well as in rebuilding consumer

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confidence for the sector as a whole. Europe must move away from the short-termism that has caused the crisis, and acknowledge that giving good advice and having excellent customer service is a precondition for the sustainable and long-term success of any financial institution. The essential asset to achieve this is the employees, since they are the face of the company. This aspect was also emphasised in the conclusions from the ILO tripartite Global Dialogue Forum on the Impact of the Financial Crisis that was held in Geneva last month.

### **Macro-level supervision**

NFU welcomes the idea of a new European body for macro-prudential supervision to oversee the overall stability of the European financial system by gathering and analysing information relevant to financial market stability. According to the proposal, the new supervisory body is to be put under the auspices of the European Central Bank.

It is important, however, to take into account the risks of enjoining the ECB with supervisory tasks. If, for some reason, the ECB would fail in any way in its supervisory role, there is a risk for this to backlash on the ECB's credibility and autonomy. This could have negative consequences for EU level supervisory work as well as for the finance sector as a whole. NFU calls on the Commission to acknowledge this possibility when designing the final arrangements around the new supervisory body, in order to minimise the risk of a harmful backlash.

Furthermore, this European supervisory body should incorporate as a central element the views and experiences of employees in the finance sector. As a general principle, stakeholders, including trade unions from the finance sector and consumer associations, should be involved in financial oversight mechanisms at national, regional and international level. A structured dialogue must be in place to ensure systematic gathering of information from all relevant parties. It is important to see the perspectives of employees, consumers and the financial industry as integrated, not separated, as all stakeholders have input and insights that can contribute to better supervision in conjunction with each other. Insofar outside actors are represented on the boards of financial supervisory and regulatory agencies, trade unions from the sector should be among them.

### **Micro-level supervision**

NFU welcomes the idea of establishing a European System of Financial Supervision, with the aim of strengthening the coordination between Committees of European Supervisors as well as national supervisors. In the long run, it is desirable to achieve an even closer cooperation between the national supervisors, with the aim of establishing a European body for micro-level supervision (with due respect to the mandate of national authorities).

The Commission further states that there are merits in a system which combines certain centralised responsibilities at European level with maintaining a clear role for national supervisors who are closest to the day-to-day operation of companies. NFU agrees with this.

It is surprising, however, that the employee dimension is not mentioned in this context. To harvest the full benefits of subsidiarity in such a combination of supervisory mechanisms, the employees must be part of the arrangement. To this end, supervisors should systematically include into their risk assessments experiences and information gathered by workers in finance institutions on the negative and positive impact of internal operating procedures and actual practices in companies. Financial supervisors and companies must ensure that these factors promote rather than hinder regulatory

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objectives and excellent customer service. Key factors to consider are employees' motivations and constraints regarding remuneration, incentives, skills, working conditions, etc.

Workers' experiences can also play a vital part of a toolbox for early warning and intervention. Employees' assessments of everyday operating procedures and practices in the companies provide an indispensable opportunity for early information on unsustainable and systematically dangerous practices. Finance sector workers can have a crucial part to play as whistleblowers. NFU urges the Commission to take the employee perspective into account in its forthcoming White Paper on early intervention.

To enable the inclusion of workers' assessments in supervision, a structured dialogue should be put in place between workers' representative structures and a) colleges of supervisors of multi-nationals, b) management in each multi-national company.

### **Regulatory measures**

A reformed financial supervisory system in the EU must guarantee that all companies are supervised according to the same criteria, wherever they are based, to ensure a level playing field and sound competition. In this context, the planned legislative instrument establishing regulatory and supervisory standards for hedge funds, private equity and other systemically important market players is much welcomed. Hedge funds, sovereign wealth funds and private equity companies must be subject to the same rules on transparency as banks and insurance companies. In connection to this, NFU welcomes the Commission's idea to make proposals on information exchange and transparency on taxation matters within the EU and with third countries. Complete transparency for all market players is a prerequisite for regulators, supervisors and other stakeholders to keep up with the swift changes in financial market products and operations.

The Commission should also consider including credit rating agencies within the scope of the new European supervision – rating agencies should be obliged to publish all their assessments, in order to prevent financial institutions from “agency-shopping”, i.e. choosing the agency with the most positive assessment.

Another aspect that needs to be high-lighted when discussing both regulation and supervision is the issue of pension schemes. Pension funds and life assurance companies have become a major part of people's pension provision, and acts of regulation on financial investment for these entities must prohibit high risk investments since any failure would negatively affect the pension entitlements of the pension schemes' members. Considering the scale and market power of pension funds, it is of paramount importance that the Commission ensures that employees or staff representatives gain insight into the way in which their pensions are invested and the associated risks. This will also help to serve in favour of prudence and long-termism on the financial markets.

NFU also welcomes the Commission proposals for measures aiming to ensure that European investors, consumers and SMEs can be confident about their savings, access to credit and their rights as concerns financial products. When it comes to retail banking, which is at the core of rebuilding consumer confidence in the finance industry, this is an area that must be shielded from speculative practices and models. Training and education of both employees and customers serve as an important part in reducing opacity and speculation in the industry. Increased financial literacy and risk-consciousness among consumers is naturally best provided for by the employees in the finance sector, who must be given the time and opportunity to both educate themselves and transfer this knowledge to

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customers accordingly. Aggressive sales targets and merit rating systems can be counter-productive to customer protection and qualified financial advice. This aspect should be taken into account in the proposals for future measures on the EU level.

Regarding remuneration schemes, NFU supports the initiative to strengthen the existing Recommendation on remuneration of directors and to bring forward a new Recommendation on remuneration in financial services. In this context NFU would like to point out that remuneration schemes in general should encourage responsible advice, not aggressive sales. As the complexity of financial products is constantly increasing, remuneration systems should encourage finance sector employees sufficient time to explain the meaning of the different products on offer. The fixed part of the salary should always be the main part of the wage, and performance-related pay should be based on fair and sound criteria. In cases where sale incentives constitute an important part of the wages, these schemes should always be negotiated with trade union representatives; a principle that applies to pay policy and all parts of the pay in general as well. Remuneration is an area where initiatives might collide with the mandate of national collective agreements, which are sovereign and must be respected. The mandate of national collective agreements must be taken into account when designing recommendations and policy proposals.

Yours faithfully

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