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To: European Banking Authority (EBA)

From: Municipality Finance Plc (MuniFin)

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DRAFT GUIDELINES ON SOUND REMUNERATION POLICIES UNDER ARTICLE 74(3) AND 75(2) OF DIRECTIVE 2013/36/EU AND DISCLOSURES UNDER ARTICLE 450 OF REGULATION (EU) No 575/2013

We would like to thank you the possibility to comment the referred consultation paper and would like to draw the EBA's attention to the following matters:

Company overview

Municipality Finance Plc (hereinafter "MuniFin") is a Finnish credit institution under the supervision of the Finnish the Finnish Financial Supervisory Authority (most likely becoming an ECB supervised entity in 2015).

MuniFin's purpose is to finance Finnish municipalities, municipal federations, entities controlled by municipalities and state-subsidized housing production. All funding acquired by MuniFin is guaranteed by the Municipal Guarantee Board which is an entity established by law. All loans granted by MuniFin enjoy 0% risk weighting due to direct local government risk or central government guarantee.

MuniFin is the only public sector owned credit institution in Finland specializing purely in the Finnish local government sector and central government subsidized housing finance. The company offers no deposits, payment or asset management services and there are no trading operations.

Munifin's total assets on 31 December 2014 were approximately EUR 30 billion. The Munifin Group (including one small subsidiary offering financial advisory services to public sector) has approximately 90 employees. MuniFins ratings from Moody's is Aaa and from S&P AA+. The rating reflects company's very low risk profile and conservative risk policies.

Proportionality

In relation to remuneration we consider our remuneration practices very moderate and transparent which has been the case in general in Finland.

Maximum annual variable remuneration in MuniFin is 6 months fixed salary for the members of Board of Management and the target level is 3 months fixed salary. In other personnel groups the maximum annual variable remuneration varies from 2 to 4 months fixed salary.

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Maximum variable remuneration can be paid only based on very exceptional performance and has not been paid in the past. The average variable remuneration earned is approximately 75 % of maximum level.

MuniFin has CRDIV based deferral systems in place and special synthetic instruments used for remuneration as required by the regulation. These deferral rules and special synthetic instruments are used if the annual variable remuneration exceeds EUR 50,000. The euro based limit has been set by the Finnish Financial Supervisory Authority as an interpretation of the proportionality principle. Despite of the proportionality principle, current regulatory requirements related remuneration has increased heavily administrative work for a small organization with moderate and transparent remuneration. Under the proportionality principle national authorities should have a possibility to set this type of euro dominated thresholds in the future also. However, co-operation between authorities is necessary to increase harmonization of the interpretation of the proportionality principle.

Thus, we strongly feel that the EBA draft guidelines significantly increase remuneration related administrative work and the guidelines do not reflect the proportionality principle clearly and strongly enough with possibility to take into account moderate amounts of variable remuneration. The draft guidelines set several and very detailed administrative requirements that according to our understanding cannot be alleviated based on the interpretation of the proportionality principle but requirements are necessary to comply as such. This type of requirements in the draft guidelines are:

- Involvement of different internal functions (risk management, compliance, HR, internal audit) which does not take into account small organizations. Especially, this is difficult if an institution is a significant one based on the size of its balance sheet but its business model is very simple and low risk and the organization is small.
- Paragraph 74 requires that requirements for significant institutions shall apply to subsidiaries on solo level. From MuniFin's perspective this is an extremely strong requirement. There is only one, very small, subsidiary in the group, offering financial advisory services for public sector entities and the importance of that subsidiary is very low on the consolidated level.
- Annual identification process is very detailed and burdensome and do give enough room for an efficient process of a small organization.
- The requirement to set a bonus pool (paragraph 208) is seen difficult as there are many different kinds of bonus systems that are created from the needs of the institution and based on the structure / business model of the institution. By stating that bonus pool is a necessity the guideline limits the structure of the systems that have been created to meet other regulatory requirements. The constant regulatory changes require institutions to amend remuneration policies which has increased administrative work but has also lead to inconstant HR management causing uncertainty and confusion within personnel. If this bonus pool structure is a requirement in the future that will again require significant changes to the remuneration policies. The CRDIV is not requiring this type of a structure nor should the EBA guidelines. There are already enough mechanism to prevent remuneration that

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could lead to unnecessary risk taking. More important is to focus on supervising current practices and not to create new requirements

- MuniFin is a significant institution just based on the size of its balance sheet, therefore deferral periods of at least five years or longer for senior management is seen unnecessary. From Finnish perspective where remuneration has not created any material problems this is too harsh requirement.
- In a small organization like MuniFin the current requirement for identified staff is already a difficult one. Due to small organization every employee has quite significant role and broad tasks. Definitions of identified staff causes that majority of our personnel can be categorized to that group despite of low level of remuneration and low risk profile and very limited business model. We believe that this has not been the meaning of the regulation.
- Requirement of a retention period of at least one year is too long as the deferral rules already give desired effect.

Sincerely,

Municipality Finance Plc



Pekka Averio

CEO and President



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