

Impact Economy Digital Edition 2021



Finland

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LEGAL AND POLICY FRAMEWORK

Legislation

- 1 | Has your jurisdiction enacted any primary or secondary legislation addressing environmental, social and governance (ESG) factors in banking, finance and corporate law, or legislation addressing the pursuit of other non-financial objectives by companies and investors?

No primary or secondary legislation has been enacted in Finland that per se addresses environmental, social and governance factors in banking, finance or corporate law, or legislation addressing the pursuit of other non-financial objectives by companies and investors. However, the Finnish Ministry of Economic Affairs and Employment has commissioned a judicial analysis of regulation and legislation on corporate social responsibility. The analysis explores how human rights and environmental due diligence could be incorporated into company legislation and focuses on establishing a method for national implementation of corporate social responsibility legislation based on a due diligence obligation. Within the framework of the national legal system, it would be possible to impose a duty of due diligence on companies regarding the environment and human rights. The Ministry of Economic Affairs and Employment has organised a consultation round on the content of the analysis to hear stakeholders' opinions comprehensively. However, the discussions on a possible act on corporate social responsibility are still in their early stages, and no decisions have been made.

Instead of an overarching act, many different laws pertaining to banking, finance and corporate governance laws contain provisions that require companies to consider social and governance aspects related to their organisation or operations.

Social factors

Finnish laws contain provisions regulating good practices in the financial industry, which act as a foundation for social and governance considerations to a certain extent. For example, the Securities Markets Act (746/2012) requires that an entity marketing or offering financial instruments in Finland shall not act in contravention of good securities markets practice. Good securities market practice refers to the principles and rules whose observance, according to the prevailing opinion of securities market participants, must be considered as a correct and fair course of action for all investors, clients and operators. The application of the provision prescribing for good securities markets practice may, in principle, lead to a situation in which an activity or conduct that is not expressly prohibited by Finnish law is nevertheless unlawful on the ground that it is contrary to good securities markets practice.

Finnish laws pertaining to consumer lending contain several provisions that add a social dimension to how lenders think about customers and their relationships with them. The Consumer Protection Act (38/1978) requires lenders to comply with good credit practices.

Banks and other consumer credit providers must treat their customers in a socially responsible way and take into account their customers' interests. Socially responsible lending is further promoted by the statutory obligation for creditors to assess the borrower's creditworthiness. In addition, the principle of social force majeure prescribed in the Consumer Protection Act also limits the possibilities of lenders to sanction borrowers running into financial difficulties due to a major, unpredictable change in circumstances (eg, illness, unemployment, disability or another reason beyond the consumer's control).

Governance factors

Various Finnish laws prescribe requirements for governance of companies and investors relating to, for example, bonuses and commissions awarded to executives. For example, based on the Capital Requirements Directive IV (2013/36/EU), the Act on Credit Institutions (610/2014) provides that the variable part of the remuneration awarded to the CEO and other senior executives of the credit institution may not exceed 100 per cent of the fixed component of the total remuneration, or 200 per cent if approved by the general meeting of the Finnish credit institution. If the variable remuneration of a recipient of remuneration exceeds €50,000 over a period of one year, a substantial portion, and in any event at least 50 per cent, of any variable remuneration awarded must consist of shares in the Finnish credit institution. Provisions regulating remuneration, fees and incentives have been included in most Finnish laws regulating the conduct of entities providing financial services such as, for example, the Consumer Protection Act, the Investment Services Act (747/2012), the Act on Common Funds (213/2019) and the Act on Alternative Investment Funds Managers (162/2014).

Even though Finland has no separate legislation specifically governing anti-corruption measures, many different acts together build a legislative package that lays down provisions on corruption and its prevention. Bribery offences have been criminalised by the Criminal Code (39/1889) in order to safeguard the trust-based relationship between a company and its employees and to protect public trust in appropriate conduct in business and industry. In addition to the Criminal Code, acts that play a key role in combating corruption in the private sector include the Limited Liability Companies Act (624/2006), the Competition Act (948/2011) and the Act on Public Procurement and Concession Contracts (1397/2016).

Future regulation of ESG factors in Finland

As regards future regulation pertaining to ESG factors in banking, finance and corporate law, the Ministry of Finance has initiated a project to prepare a government proposal to ensure the compatibility of national legislation with EU regulations pertaining to sustainable finance, namely the Low Carbon Benchmarks Regulation (2019/2089), the Disclosure Regulation (2019/2088) and the Taxonomy Regulation (2020/852). As these three are directly applicable EU regulations, changes to national law are expected to be minor. The most significant amendments are

expected to concern the national system of supervision and sanctions for sustainability-related disclosure obligations, which is to be regulated in the Act on the Financial Supervisory Authority (878/2008). The proposed amendments are aimed at preventing green washing and ensuring the effective action of the competent authority in the event of a breach.

Certain regulatory measures to combat the rise of Finnish household debt and further regulate socially responsible lending are expected in the near future. The Ministry of Justice has initiated a project to prepare a government proposal for the establishment of a positive credit register, a database that lenders can use to obtain real-time information about customers' debt burden and income. One of the main goals of establishing the positive credit register is to promote socially responsible lending. Further, the Ministry of Justice is looking to prepare a government proposal that would shorten the retention periods for payment default entries. This could alleviate the negative consequences of the entry and improve the situation of people experiencing financial difficulties.

Policy guidance and development

- 2 | How would you describe the general level of policy guidance and development regarding ESG, impact investing and purpose-driven companies in your jurisdiction?

Although there are no specific provisions per se in Finnish legislation addressing ESG factors or purposeful business, the general mindset within the Finnish corporate and investor community is becoming more and more favourable to these objectives. For example, many leading Finnish listed companies have hired a specific sustainability manager, are publishing extensive ESG reports either separately or as part of their annual reports, and are designing innovative strategies on how to integrate sustainability targets into their core business processes.

In the Finnish investor community, large institutional investors, such as pension insurance companies and asset managers, are leading the way in ESG integration. The variety of impact investment instruments has also started to expand, and the Finnish investor community has already seen the first social impact bonds (SIBs) and been familiarised with the concept of impact investing. In Finland, the question is more about the mindset of investors and the general public than meeting requirements of a specific corporate form. For example, benefit corporations or social enterprises still remain largely unknown in the Finnish corporate landscape, while sustainability as an overarching theme is gaining ground, and responsible investing is mentioned by leading Finnish private equity houses as the 'new normal'.

For many actors, sustainability is seen as supporting the firm's long-term profitability. Naturally, there is a lively debate in Finnish society on what sustainability means for many traditional Finnish industries, such as agriculture, forestry and mining. However, irrespective of the industry, more and more investors are thinking that sustainable investment does not mean giving up good return potential. This mindset is also supported by current transformation efforts of many leading Finnish companies. For example, a well-known Finnish company has transformed itself from a local oil refining company to a global leader in renewable and circular solutions, and in 2020, it was selected as the world's third most sustainable company on the Global 100 list.

Owing to lack of legislative support, institutional investors often analyse companies by investigating their websites, annual reports and other such sources to assess their ESG status. Admittedly, due to the lack of a uniform standard, this requires sophisticated expertise and considerable resources. From the perspective of the general public, assessing a Finnish firm's ESG scorecard remains challenging.

In sum, even though there is not much Finnish legislation in this field (in addition to that adopted at the EU level), the situation in Finland

with respect to ESG integration seems promising: big players in the market are leading the way, and in time, this will have an impact on the mindset of Finnish SMEs and the broader public as well.

INVESTMENT

Regulatory and fiduciary duties

- 3 | Are institutional investors and financial intermediaries legally required to consider ESG factors when making investment decisions? Must any additional non-financial principles and objectives be considered?

Currently, Finnish law does not require institutional investors and financial intermediaries to consider ESG factors when making investment decisions. However, most institutional investors and financial intermediaries have signed the UN Principles for Responsible Investment and are also taking into account the sustainable development goals in their investment decisions.

Voluntary standards and best practices

- 4 | What voluntary standards and best practices are commonly followed in your jurisdiction with regard to integrating ESG factors and other non-financial principles into investment decisions?

Integration of ESG factors and other non-financial principles into investment decisions is a relatively new phenomenon within the Finnish investment landscape, but institutional investors, such as large pension insurance companies, and established asset managers are leading the way. Traditionally, responsible investment strategies employed in the Finnish investment landscape have been focused on exclusion. For example, institutional investors have typically refrained from investing in industries that engage in socially questionable activities (such as tobacco, weapons and alcohol), but lately the Finnish investment market has seen increasing diversification in approaches to responsible investing, and besides positive and negative screening, investors have embraced new methods, such as shareholder engagement, ESG integration and impact investing. Especially for the pension insurance companies, shareholder activism is a big part of sustainable investing, and the largest ones in Finland strive to bring changes in their investees through an active dialogue with the company's management. Considering that Finland is small economy with few large listed companies, institutional investors are also able to achieve good visibility for shareholder activism. Traditionally, the Finnish corporate and investment landscape has been shaped by large players, and it is to be expected that these same players will also assume a leading role in the integration of ESG factors into investment decisions.

Measurement, reporting and disclosure

- 5 | What voluntary and statutory measurement, reporting and disclosure frameworks are followed in your jurisdiction with regard to ESG and other non-financial factors?

Apart from the Non-Financial Reporting Directive 2014/95/EU, there are no statutory measurement, reporting or disclosure frameworks in Finland. However, certain ESG factors have been taken into account in the recommendations of the Finnish Corporate Governance Code 2020, such as the composition of the company's board of directors with relation to gender. The Corporate Governance Code is applicable to all companies listed on Nasdaq Helsinki, and according to the Rules of the Helsinki Stock Exchange, all issuers of shares that are traded on the official list must comply with the Corporate Governance Code in accordance with the 'comply or explain' principle.

Instead of statutory frameworks, there are several voluntary frameworks applied by Finnish companies which address ESG or other non-financial factors. Voluntary frameworks are rapidly growing their significance in the Finnish market, as this type of disclosure provides a good tool for companies aiming at continuous dialogue with all their stakeholders. For example, various large Finnish companies are reporting on their climate exposure in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures, and many are also applying the UN's sustainable development goals in building their disclosures.

Certain Finnish large cap companies have signed the Global Reporting Initiative. There are also a number of Finnish signatories of the UN Global Compact, mostly multinational corporations or large cap companies, which report annually on their sustainability and social responsibility policies. In the Finnish investor community, a significant number of Finnish investment companies and asset managers have signed the UN Principles for Responsible Investment.

Ratings, indices and guidelines

6 | What ratings, indices and guidelines are used to benchmark adherence to ESG principles and other non-financial factors in your jurisdiction?

There are no uniformly approved ratings in Finnish companies to benchmark adherence to ESG principles. The calculation methods differ and, consequently, the results are not comparable. With respect to environmental factors, typical variables subject to assessment include climate change related work and efforts, energy efficiency, biodiversity and the circular economy, while personnel policy, human and labour rights, product liability and consideration for local community are typically assessed as regards social factors. In relation to good governance, the most commonly assessed variables include anti-corruption and anti-bribery activities, independence of the management and tax footprint. Many Finnish companies have also been awarded the Key Flag Symbol, which demonstrates domestic production and the company's positive effects on employment in Finland.

There are also various certificates indicating a company's adherence to ESG factors. With regard to infrastructure and buildings, the Building Research Establishment Environmental Assessment Method classification is the leading sustainability assessment method in Finland. It is based on common European norms and provides independent third-party certification of the assessment of the sustainability performance of individual buildings, communities and infrastructure projects. In addition, the Leadership in Energy and Environmental Design, developed by the US Green Building Council, is applied widely in the Finnish market. It encourages the construction of energy and resource-efficient buildings that are healthy to live in.

As regards guidelines, Nasdaq Helsinki has published a global environmental, social and governance reporting guide for public and private companies, which is largely entrusted by the Finnish companies when navigating with the ESG. In addition to guidelines, there are various associations and organisations that offer counselling and consulting to Finnish companies in ESG matters.

Incentives, benefits and financial support

7 | Are any fiscal incentives or other benefits available in your jurisdiction to encourage institutional investors and financial intermediaries to integrate ESG and other non-financial factors into their investment decision-making?

In Finland, there are no fiscal incentives or other benefits available that would specifically encourage institutional investors and financial intermediaries to integrate ESG factors into their investment

decision-making. However, electricity production has recently been subject to a tax reform, creating a more beneficial environment for the industry and also giving importance to sustainability and environmental factors. Furthermore, certain products, namely cigarettes and other products, considered harmful to people or the environment are subject to higher taxation in Finland.

Similar methods are yet to be implemented with regard to investors' investment decision-making. While ESG factors are currently more of a reputational question, they will likely become more eminent in the future. For instance, some of the leading Finnish pension insurance companies already exclude direct investments into tobacco companies and gun manufacturers producing controversial weapons from their investment portfolios, and in the future, this approach will also be applied to coal and oil drilling.

Impact investing

8 | In addition to ESG factors, what considerations and practices are commonly integrated into impact investment strategies?

Impact investing is a relatively new phenomenon in the Finnish investment landscape. The Finnish public sector is one of the world's largest per capita, and the economic pressure of supporting an aging population is further increasing the need for alternative models of financing. Under these circumstances, impact investing is being looked at as one solution to the challenges of the Finnish welfare policy.

Social impact bonds (SIBs), are a novel form of impact investing, and Finland has already seen a few SIBs being offered to institutional investors. SIBs are a good example of 'new public management', in which innovative solutions to growing public-sector economic challenges are sought in private sector operating models. SIBs bring private-sector efficiency indicators and assessment policies into the public sector, and instead of paying for output, the public sector pays for outcomes and impact. The Finnish municipalities struggling with efficiency and outcome requirements have shown a great deal of interest in testing whether private-sector models could bring the desired added efficiency to the public-sector economy. The investment periods of SIBs are typically long, even up to 10–15 years, so investors need to have a long investment horizon. While impact investments typically seek moderate profits, the relevance and social benefit of the investment is a major factor for many Finnish investors, especially institutions.

At the early stages, Finnish SIBs are directed at professional investors, typically institutions. However, Finnish asset managers have their sights set on one day being able to offer these instruments to the general public in Finland. How well SIBs would work for in the retail universe is certainly a key question. Even if the landscape is truly interesting, it is a fact that a lot of pioneering work is required before SIBs will be ready to be offered for the retail investor.

PURPOSE-DRIVEN COMPANIES

Legal recognition and certification

9 | What legal forms or statuses are used in your jurisdiction to establish purpose-driven companies?

Finnish legislation does not recognise a separate, specific company form for purpose-driven companies carrying out both economic activity and social and environmental purposes. However, in Finland both economic activity and social and environmental purposes may be carried out in almost all legal forms of companies established under Finnish legislation – partnerships, limited partnerships, limited liability companies, cooperatives, associations and foundations.

- Under Finnish legislation, the general purpose of (i) partnerships, (ii) limited partnerships and (iii) limited liability companies is to

generate profit for their partners or shareholders, unless otherwise stated in the memorandum of association of partnerships and limited partnerships or in the articles of association of limited liability companies. Therefore, the above-mentioned companies may also be established for both economic activity and social and environmental purposes.

- Furthermore, the general purpose of (iv) cooperatives incorporated under Finnish legislation is to promote the economic and business interests of its members by its business operations. However, it may be stated in the rules of the cooperative that the main purpose of the cooperative is the common achievement of, for example, an ideological purpose. Thus, cooperatives may carry out both economic activity and pursue social and environmental purposes.
- According to the Associations Act (503/1989) (v) an association may be established only for carrying out a mutual ideological purpose. Such an association may only engage in economic activity if such activity is included in the association's by-laws or if such activity relates directly to the association's purpose or if the activity can be evaluated to be financially insignificant.
- According to the Finnish Foundations Act (487/2015), (vi) foundations should have a beneficial purpose and support or provide activities promoting this purpose. The purpose may not be conducting economic activity nor gaining profits for its related parties. Foundations typically set up a separate company for significant economic activity but some foundations operate as a social enterprises themselves.

The Association for Finnish Work (a politically independent non-profit organisation that is owned by its members) may grant, by application, to a company a Finnish Social Enterprise Mark. The mark is a symbol stating that the company is engaged in responsible business activities and that its primary purpose is to contribute to social good by dedicating most of its profits to such purpose.

The Finnish Ministry of Economic Affairs and Employment conducted recently a survey concentrating on improving the preconditions for social enterprises in Finland. The final report was published in February 2020. The study recognises a total number number of 1,700 social enterprises operating in all of the above-mentioned company forms.

Purpose and mission

10 | What rules and standard practices govern the establishment of companies' social or environmental purposes and mission?

The company's social and environmental purpose or mission should be stated either in the articles of association, memorandum of association or in the rules of such company. The mentioned documents may be amended and modified by the partners, shareholders or members, as applicable with respect to each company form. Companies that have stated the social or environmental purpose in the articles of association may pursue social or environmental purposes even if they are not a direct source of profit. No separate mission statement is required.

Profit distribution, winding up and remuneration

11 | What rules and restrictions govern profit distributions for purpose-driven companies in your jurisdiction?

As a general rule, a company with a hybrid purpose (both an economic purpose as well as a social or environmental purpose) may distribute profits in accordance with the general rules for profit distribution of each company form. However, for example, with respect to limited liability companies with a hybrid purpose, the rules for profit distribution should be stipulated in the articles of association of the company.

12 | What rules and restrictions govern the winding up of purpose-driven companies?

Finnish law does not include specific rules concerning the winding up of purpose-driven companies.

13 | What rules and restrictions govern the remuneration of directors, officers, employees and third parties?

Finnish law does not include specific rules concerning such issues.

Measurement, benchmarking and reporting

14 | Are purpose-driven companies legally required to measure, benchmark and report the social and environmental impact of their business?

There are no legal requirements to measure these impacts.

15 | What statutory and voluntary standards, guidelines and best practices are followed by purpose-driven companies in your jurisdiction with regard to the measurement and reporting of ESG and other non-financial factors?

There is no one standard on reporting. Companies that have been granted the Finnish Social Enterprise Mark shall report annually to the Association of Finnish Work. Key issues to be followed are the primary purpose of the company, limited distribution of profits and transparency of the business.

Director liability and private enforcement

16 | What rules govern the liability of directors of purpose-driven companies for compliance with social and environmental standards and principles? In addition to shareholders, are stakeholders entitled to hold directors accountable through private enforcement action?

The directors' liability in purpose-driven companies does not differ from that applied in regular companies. Pursuant to the Companies Act, the company, its shareholders or third parties may hold the members of the board of directors accountable for certain violations of the directors' duties. Firstly, directors are liable for damages for losses that they have caused to the company, either deliberately or negligently, by a violation of their duty of care while in office. Secondly, directors are liable for damages for losses that they have caused to the company, a shareholder or a third party, either deliberately or negligently, by a violation of other provisions of the Companies Act or the articles of association of the company while in office. Furthermore, if the loss has been caused by a violation of the Companies Act other than a violation of the general principles of Companies Act, such as the equal treatment of shareholders, or if the loss has been caused by a breach of the provisions of the articles of association of the company, the loss shall be deemed to have been caused negligently, in so far as the person liable does not prove that they he has acted with due care. The same applies to losses caused by an act to the benefit of a related party. The Companies Act also contains provisions on company law offence and company law violation which relate to specific violations of the Companies Act, such as unlawful distribution of funds, and are punishable by a fine or, in some cases, by imprisonment.

State supervision

- 17 | Is there any form of state supervision of purpose-driven companies in relation to their social and environmental purposes?

There is no state supervision on such issues.

Incentives and benefits

- 18 | Are any fiscal incentives or other benefits available for purpose-driven companies in your jurisdiction? What is the scope of these benefits and what requirements apply?

There are no tax benefits or incentives that aim to encourage the creation of companies with a social and environmental purpose.

Public procurement

- 19 | Do the public procurement rules and policies in your jurisdiction confer any advantages on companies for pursuing social or environmental purposes? If so, what conditions apply?

Finnish public procurement legislation does not give any privileges to companies with a social or environmental purpose, and there are currently no public policies in this area. However, public procurement rules allow outcomes-based contracting, in which the supplier gets at least part of the remuneration based on the outcomes or impact created through the service. A wider use of social outcomes contracting was also recognised as a desirable development in a recent report of the Ministry of Economic Affairs and Employment. This could improve the position of social enterprises in public procurement procedures.

Economic sustainability and market competition

- 20 | How would you describe the level of economic sustainability and market competition of purpose-driven companies?

Companies that have the Finnish Social Enterprise mark shall use most of their profits for social good either by developing the company's operations or through donations. Such companies may compete on the market with regular profit-making companies. There are currently some challenges especially in the health and social care sector where the trend is towards larger public procurement contracts between public-sector buyers and service providers, and price is often a significant factor in the award decision. Such competitive situations are challenging especially for SMEs with a social purpose.

GOVERNMENT, NGO AND SUPRANATIONAL SUPPORT

Government support

- 21 | Are there any governmental actors in your jurisdiction that are specifically dedicated to promoting and supporting socially and environmentally responsible investment practices, as well as purpose-driven companies? What purposes do they pursue and how do they do so?

The Ministry of Economic Affairs and Employment of Finland founded a Centre of Expertise for Impact Investing in January 2020. The Centre continues the ground-breaking work of the Finnish Innovation Fund Sitra in the field of impact investing, and its key task is to assist public sector actors in outcomes contracting. The Centre also cooperates with other key actors involved in impact investing, such as investors and service providers, to expand the impact investing market.

The Committee on Corporate Social Responsibility, under the Ministry of Economic Affairs and Employment, is a consultative body

that functions in pursuit of a stronger national and international social responsibility policy and acts as the Finnish National Contact Point for the effective implementation of the OECD Guidelines for Multinational Enterprises. The Committee also acts as a consultative body for the judicial analysis of regulation and legislation on corporate social responsibility.

NGO support

- 22 | Are there any non-governmental organisations (NGOs) operating in your jurisdiction that are specifically dedicated to promoting and supporting socially and environmentally responsible investment practices, as well as purpose-driven companies? What purposes do they pursue and how do they do so?

Sitra is a Finnish public fund aimed at building a successful Finland for tomorrow. As a public organisation accountable to the Finnish Parliament, Sitra is a think-tank that anticipates social change and its effect on people. Sitra's activities promote new operating models and stimulate businesses that aim at sustainable well-being. It analyses and assesses the forces of social change and their impacts on Finland. As an independent operator, Sitra carries out practical experiments, compiles cross-boundary networks and develops and finances business operations. Sitra has a strong vision of Finland as a successful pioneer of sustainable well-being. Sitra has developed impact investing in Finland since 2014. Its task has been to construct an impact investing ecosystem in Finland and promote social impact bond (SIB) projects as the first practical pilots, and through its support, a total of six SIB projects have taken shape in Finland.

Finland's Sustainable Investment Forum (Finsif) is a member-based organisation established in 2010 that promotes responsible investment that takes into account factors related to the environment, society and corporate governance when considering investment decisions. Finsif has over 70 members consisting of Finnish asset managers, investors and service providers. Finsif organises events, collaborates with researchers and communicates the agenda for investors and related groups in Finland, encouraging its members to integrate sustainable investment issues as a part of investment decision-making and evaluation processes.

FIBS, Finland's leading not-profit promoter of sustainable business, was established in 2000. FIBS is the largest corporate responsibility network not only in Finland but also in the Nordic countries. Its network includes more than 300 companies and organisations that invest heavily in responsibility. FIBS helps companies to understand the opportunities of sustainable and responsible business better and adds responsibility-related themes to the companies' agenda, such as diversity management, natural capital and human rights. It cooperates actively with CSR Europe, WBCSD and other international operators in the field.

Supranational support

- 23 | Are there any supranational actors operating in your jurisdiction that are specifically dedicated to promoting and supporting socially and environmentally responsible investment practices, as well as purpose-driven companies? What purposes do they pursue and how do they do so?

The UN and the Global Compact initiative have a strong position in the Finnish market, and they play an important role in shaping Finnish ESG practices.

Eurosif is the leading pan-European sustainable and responsible investment membership organisation, whose mission is to promote sustainability through European financial markets. It works as a

partnership of Europe-based national sustainable investment fora, such as Finland's Sustainable Investment Forum (Finsif). Its network spans over 400 Europe-based organisations. Finsif has also strong connections with its counterparts in the Nordic countries (Norsif in Norway, Swesif in Sweden and Dansif in Denmark).

With the support of the government of Finland and the City of Helsinki, the United Nations Office for Project Services opened in 2019 a development office in Helsinki as the base for its Social Impact Investing Initiative. The initiative now manages its growing portfolio of projects from its Helsinki office.

FINANCIAL TOOLS

Equity funds and loans

24 Does your jurisdiction regulate equity funds or other financial tools such as loans designed to scale up companies with social or environmental objectives? Even if not expressly regulated, are there venture funds specifically focused on investing in purpose-driven companies?

In Finland, investment funds and other related investment structures are not regulated on the basis of the social or environmental objectives of the fund – hence, apart from the directly applicable EuVECA Regulation (345/2013) and EuSEF Regulation (346/2013), no special regulation for venture capital, social entrepreneurship or impact funds exists. No significant self-regulation in these areas has emerged either. However, the Finnish Venture Capital Association does provide rules and guidelines for its members, requiring for example responsible investment policies.

Venture capital funds in general are not a new or rare phenomenon in Finland – for well over a decade, Finnish VCs have been fairly active investors compared with the size of the Finnish market. The emergence of purpose-driven equity and venture capital funds has been a more recent trend, one prime example being the recently established OP Fintfund Global Impact Fund I, which will promote the achievement of the UN sustainable development goals in a systematic and measurable way, while also providing attractive return for investors. Further, the VC field has seen multiple new funds and fund managers focusing on investment opportunities in for example, the learning sector or deep tech solutions for societal challenges. The main trend on the Finnish private equity and venture capital market has been a rapid shift towards more sustainable and responsible investing.

Outcomes funds

25 Does your jurisdiction regulate 'pay for success' investing models such as outcomes funds? Apart from specific regulation, are any of these mechanisms in force or in progress in your jurisdiction?

While Finland does not as such regulate 'pay for success' models or outcomes funds, during the last few years there have been a few pioneers in the Finnish investment landscape who have launched social impact bonds (SIBs) to tackle societal challenges in Finland, such as marginalisation of youth and children, long-term unemployment or employment of immigrants. It has been a characteristic of these projects that private actors, such as large banks or asset managers, have cooperated with actors of public sector, such as ministries and municipalities. Funds for these activities are collected from investors who have also bear the economic risk, and the state only pays for the outcome. The Finnish Innovation Fund Sitra introduced the SIB model into Finland as part of its impact investing project, and it has promoted it since 2014.

Social and development impact bonds

26 Does your jurisdiction regulate 'pay for success' investing models such as social impact bonds and development impact bonds? Apart from specific regulation, are any of these mechanisms in force or in progress in your jurisdiction?

As such, SIBs and development impact bonds are not regulated in Finland. Consequently, it has also been a characteristic of the recent SIBs launched on the Finnish market that the form of the instruments has varied considerably. As yet, there is no single instrument known in the Finnish investor universe or covered by Finnish legislation that would be ideal for the purposes of SIBs. However, players in the market are very interested in these kinds of instruments and, in consequence, it is likely that new models arise in the coming years as a result of this development work.

Currently, Finnish SIBs are only available to institutional and professional investors. Understandably, sophisticated institutional investors are an ideal target group for this kind of relatively complicated instrument with a very long-term investment horizon. However, the market actors would be very interested in developing a simpler SIB instrument that would be suitable for retail investors and would only require relatively simple documentation. The Finnish media has been interested in these instruments, and new Finnish investor groups are increasingly interested in investing their assets in ways that also take into account the social dimension. Green bonds have already gained a strong foothold in the Finnish investment landscape, and there is a wide discussion in Finland that instruments tackling the social challenges, such as SIBs, will be the next big thing.

Crowdfunding

27 Does your jurisdiction regulate crowdfunding initiatives aimed at scaling up companies with social or environmental objectives?

The Crowdfunding Act (734/2016) entered into force in 2016, establishing a regulatory regime specifically for equity- and loan-based crowdfunding in Finland. In its current form, donations-based crowdfunding, which often involves financiers that are motivated by social reasons and community-based crowdfunding projects involving collection of funds without countervalue to the financier, can be described as fundraising through a web-based service platform. Therefore, donation-based crowdfunding falls under the scope of the Money Collection Act (863/2019) and requires a money collection permit granted by the police department of the State Local District where the crowdfunding recipient is domiciled. Rewards-based or pre-sales crowdfunding is excluded from the scope of the Crowdfunding Act and, due to involving a countervalue to the financier, the Money Collection Act does not apply in relation to such crowdfunding. The main rules concerning rewards-based or pre-sales crowdfunding are contained in the Consumer Protection Act and the Sale of Goods Act (355/1987).

The Crowdfunding Act does contain a social dimension to the way crowdfunding intermediaries think about customers and their relationship with the Act, requiring, among other things, that crowdfunding intermediaries act honestly, fairly, professionally and in the interests of the customer, and comply with good crowdfunding practices.

Currently, a total of six entities have been registered with the Finnish Financial Supervisory Authority as equity- or loan-based crowdfunding intermediaries, most of which offer or act as intermediaries for loan-based crowdfunding. None of these are specifically focused on arranging crowdfunding rounds for companies with social or environmental objectives. There are also certain entities in Finland who advertise themselves as providing crowdfunding for, for example, realising sustainable projects, but these are not registered as a crowdfunding intermediaries nor do they have a money collection permit.

As money collection may be arranged generally for the purpose of raising funds for non-profit activities only, entities with a money collection permit pursuant to the Money Collection Act are often involved in collecting money for various projects aimed at protecting the environment. The applicability of the Money Collection Act on compensation of carbon emissions has been a hot topic in Finland for the past year, due to the Finnish Gambling Administration, a department of the National Police Board responsible for enforcing the Money Collection Act, interpreting that offering people an opportunity to make compensation payments that are used fully for purchasing emission reductions by an entity may require a money collection permit. This interpretation has sparked a conversation in Finland regarding the need to amend the Money Collection Act to allow for a credible and voluntary compensation for carbon emissions.

challenges in addition to seeking profit. Drawing the line between hybrid companies and regular profit-making companies may become even more difficult in the future if and when promoting sustainable development becomes a part of mainstream business operations for companies and for investors.

It would be important to improve the knowledge of public procurement professionals concerning social enterprises or other hybrid-model companies and their ability to create impact. It would also be important to further create models for social outcomes contracting and get strategic support from the management of the contracting entities in developing such models. From the perspective of the investment community, there is a genuine need to design new financial instruments that are suitable for advancing societal needs and also appeal to the large public, in addition to institutional investors.

UPDATE AND TRENDS

Update and trends

28 | What are the key recent developments, hot topics and future trends in your jurisdiction relating to social finance, purpose-driven companies and the impact economy in general? Are there any recent studies and initiatives to identify or quantify these market sectors? Are there any new or proposed regulations or taxonomies in this regard?

Sustainability as a whole has become a trend that investors and companies can no longer ignore. There is a growing interest in the role of social finance and impact investing in the solution of societal challenges, and a major part of regular profit-making companies are also already integrating sustainable development goals into the company's strategy. In a way, the wide acceptance of sustainability can be seen as a continuation of the strong Nordic welfare state, in which companies and the third sector combine their forces to respond to societal challenges.

One of the objectives of the Finnish Government Programme is to improve the operating environment of social enterprises, especially to find employment for people with impaired capacity to work or who otherwise are in a difficult position. The Government Programme identifies the needs of different kinds of enterprises to facilitate their growth and renewal. See in this regard the the Ministry of the Economy and Employment on Social Enterprises in Finland's Report 2020:10.

Finland aims to become a socially, economically and ecologically sustainable society by 2030. Finland's policies are ambitious, starting with the objective of achieving carbon neutrality by 2035. Finland uses carbon pricing, energy taxation and other similar instruments as needed – both nationally and within an EU context as part of the EU Green Deal. Comprehensive social security, high-quality public health-care and equal opportunities in education are also important objectives of Finnish society. When taking into account these ambitious targets, sustainability and purposeful business are likely to remain key themes within the Finnish corporate and investment landscape.

Recommendations

29 | Do you have any recommendations for legal models, fiscal treatment and public procurement in your jurisdiction in relation to social finance and purpose-driven companies? Do you see a need for regulatory intervention or is the market capable of self-regulation in these sectors?

It is difficult to give recommendations concerning the fiscal treatment of hybrid companies, as there are a growing number of regular profit-making companies that already integrate sustainable development goals into their strategies and aim at providing solutions to global

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