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Securitisation and structured finance in Finland and Scandinavia – "Something is rotten in the state of Denmark"

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An overview into the practice, history and regulation of securitisation in Finland, with some comparisons to its neighbouring jurisdictions. This article will also give you high level insights on structuring and documentation. For detailed how-to guidance, please seek professional advice.

The quote in the title is a well-known example of foreshadowing in Shakespeare's Hamlet, hinting at the hidden evils and deceit that will be revealed later. It suggests that things are not as they appear on the surface, and that there are underlying problems that need to be addressed. The phrase is often used today to describe situations where there is a sense of unease or suspicion about something being wrong, even if it's not immediately obvious, according to Dictionary.com[1].

The situation is not so dire as the heading of this editorial suggests, but it is a well-known statistical fact that on a global scale, the European securitisation market is underdeveloped[2]. Out of the European jurisdictions, the Nordics are a market that is the least utilised and that perhaps has the most untapped potential. However, a keen-eyed reader will spot that it would be a misnomer to call the Nordics one market. Perhaps it will be so in the distant future, but for the time being, each of the Nordic jurisdictions has its own distinct market. The countries are joined by geographic closeness, many common cultural traditions and historic ties that link the legal systems and when traveling in the region, you might easily mistake one country for another, but doing deals is another matter.

I may be biased, but of all the Nordic jurisdictions (yes – Finland is part of the Nordics but not Scandinavia), Finland is the best positioned for growth in securitisation and structured finance. We will come to the reason later. Sweden has a robust private securitisation market, but due to certain unfortunate regulatory guidelines[3], public ABS issuance is essentially impossible. Norway, having just ratified the EU Securitisation Regulation, shows plenty of excitement and promise that has already materialised in an

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inaugural synthetic green securitisation by DNB Bank with EIB[4], but there are still some regulatory hurdles to be crossed before a robust cash securitisation market can exist. As for the Danes, there is very little data available about the market and nobody really seems to know what is happening there, except that everyone seems to agree that the Danish regulator is averse to securitisation.

Finland has fertile ground to foster a growing market

So, you might wonder, why is Finland so well placed for securitisation as compared to its peers, even despite the drastic differences in economic growth in the jurisdictions? Firstly, even though the Finnish economy has not grown in nearly two decades while its neighbours are enjoying booming growth[5], the good news for securitisation is that it is cycle agnostic – or even countercyclical – and does not require a growth market[6]. As a member of the Eurozone, Finland's national currency is the euro. Having no need for currency hedging helps execution and keeps transaction costs down. Large Finnish banks are directly supervised by the European Central Bank and closeness of the domestic regulator with the Single Supervisory Mechanism means an open dialogue and less inclination to come up with our own national gold-plating rules (yes, looking at you, Sweden).

In Finland, the legislative basis for securitisation lies in the Promissory Notes Act[7] of 1947, which at the time was considered sufficient and exhaustive regulation of the issue of transferring receivables, and no subsequent legislator has found otherwise[8]. The Finnish Financial Supervisory Authority did have its own guidelines on the capital treatment of securitisations applicable to credit institutions. However, when the EU Securitisation Regulation was introduced, these were promptly repealed and replaced by a straightforward document referring any information seeker to the websites of ESMA, the EU Commission and the EBA containing the wealth of guidance issued by the European authorities[9]. The legislative environment means that deal structures have flexibility as they are not constrained by legislation that imposes strict formats for transactions.

Finally, there is a track record of both public and private Finnish securitisations, the market taking its baby steps all the way back in the early 1990s with the first municipal trade receivables deals and the Fennica social housing mortgage series[10] and growing to today's market that, by our practical experience, varies around €1bn to €2bn per annum and is largely represented by public and private auto ABS and private deals of all kinds of assets, except housing mortgages. It is a fact of dealmaking that being the first at anything is difficult and costs a lot of money whereas being the second is much easier, so it helps to have precedents – which we do have in Finland.

Current Finnish market overview

Leveraged finance and traditional bank finance are more popular than structured finance in Finland and in the Nordics generally due to a combination of market structure, regulatory environment, investor preferences, and cultural factors. Traditional bank loans and leveraged finance (e.g., leveraged loans, investment grade and high-yield bonds) are more straightforward and familiar to Nordic corporates that act as borrowers and financial institutions that invest in fixed income. Structured finance, on the other hand, involves complex, regulated instruments like CDOs, CLOs, and tranched securities, which require specialised expertise and infrastructure. This complexity can be a barrier in markets where simpler financing solutions are sufficient. Nordic banks and investors tend to be risk-averse, favouring instruments with clearer risk profiles and more transparent structures. Borrowers, on the other hand, have a high threshold for doing something complicated – even if doing simpler things costs them more money in the long run.

Nonetheless, as mentioned above, there are both public and private securitisation transactions in the Finnish market, with both regular and new issuers. These deals include, among others, auto loans and leases, consumer loans, SME loans, trade receivables, CMBS, credit card receivables and even bicycle leases and more.

Finland has embraced the European STS[11] gold standard of securitisation in the auto loans space. According to PCS,

there have been 26 Finnish STS deals since 2013[12] and we can confirm that these are all auto loans. You might ask, why so much auto? Let's break it down. There have been other auto deals that are not STS, but it helps transparency that the majority of auto deals in the market are STS and many of them are publicly listed, so there are recent prospectuses readily available for any issuer that wants to hop on the proverbial train. In addition, there is plenty of supply of auto loans. Finland has a large land mass (roughly the size of the state of Montana) and a small population that is notorious for loving its personal space, hence the need for personal vehicles[13].

One asset that is conspicuously missing from the market is residential mortgages. Finland and the other Nordic countries are covered bond jurisdictions, with covered bond legislation passed in the early 2000s setting a simple framework for the issuances. A covered bond is a type of debt security issued by a financial institution, typically a bank, that is backed by a separate pool of mortgages held on the issuer's balance sheet but segregated for insolvency purposes. These bonds are designed to offer strong investor protection and low risk, making them especially popular in countries like those in the Nordics. Due to the low-risk weights for mortgages, it is simply more attractive for many credit institutions to use their mortgage book to issue covered bonds rather than RMBS securitisation transactions.

Shape of things to come

While the market is still in very early stages of development, it is gaining momentum. Deals have become more accessible to potential issuers with the emergence of private credit investors that have more flexibility and a broader spectrum of risk appetite than traditional banks. It is expected that auto loans will continue to be the core asset due to their high-quality collateral, homogenous nature driven by standard form auto loan documentation and term and amortisation profile that are well suited for ABS transactions.

Consumer lending has become more restricted over the past decade and several originators have left the market due to tightened interest rate and cost caps and stringent overall requirements for origination and servicing, but no further tightening of interest rate and cost caps is expected. The remaining lenders that are compliant with applicable consumer protection legislation will find it easier to tap private securitisation funding.

There is an increasing demand for SME lending as small and medium enterprises struggle to obtain debt funding from traditional banks, and SME lenders will be well-placed to fund themselves by asset-based and asset-backed structures. In the EU Commission proposal for securitisation reform, the STS framework is expanded to include pools with up to 70% SME loans, encouraging cross-border deals and SME financing[14].

There is hope that the EU Commission proposal will reduce barriers to market by simplifying regulatory burdens of both investors and issuers. The reforms may further pave the way for securitisation of new asset classes, such as green mortgages, renewable energy loans, and digital infrastructure.[15] Historical performance is no guarantee of future returns, but based on the foregoing, there is good reason to believe that Finland will be one of the markets where the benefits of the reform will be reaped by new issuers and transactions.

Execution of a structured finance transaction

In Finland, a structured finance transaction is typically initiated by the originator appointing relevant financial and legal advisors. These include an arranger, relevant intermediaries (e.g. cash manager, agent, security trustee, note trustee), auditors, legal counsels in each relevant jurisdiction, corporate services providers and rating agencies and verification agencies, as applicable. Although some deals have been done entirely domestically and under Finnish law, the overwhelming majority of transactions involve English law governed liability documents (of which the primary documents are the master framework agreement, loan/note documents and a deed of charge), Finnish law asset documents and additional documents that are required in the SPV's jurisdiction, since

typically the SPVs are incorporated in a jurisdiction like Ireland or Luxembourg that has special securitisation legislation and/or is familiar to investors.

The arranger will typically coordinate the workstreams. Lead legal counsel will lead the documentation workstream. An originator will typically need to invest significant time and effort into setting up its IT and reporting infrastructure and processes and additional time should be reserved for this when embarking on the first transaction. For subsequent transactions, the process will be faster as the infrastructure will already be in place.

Notes

1 SOMETHING IS ROTTEN IN THE STATE OF DENMARK Definition & Meaning | Dictionary.com. [https://www.dictionary.com/browse/something-is-rotten-in-the-state-of-denmark]

2 Microsoft Word - Joint Committee report on the functioning of the securitisation regulation_ 31 March _2025. [https://www.eba.europa.eu/sites/default/files/2025-03/28543668-4cc9-449f-8a66-c95c9b92a44e/Joint%20Committee%20report%20on%20the%20functionning%20of%20the%20securitisation%20regulation.pdf]

3 Remisspromemoria: FI:s kapitalbedömningsmetod vid värdepapperisering inom pelare 2. [https://www.fi.se/contentassets/15612df21ea642f0971ba98055398203/pm-vardepapperisering-2016-11-30ny.pdf]

4 Nordic businesses to get €190 million green-investment boost as EIB Group and Norwegian DNB Bank ASA team up in first-of-its-kind deal for region. [https://www.eif.org/InvestEU/news/2024/nordic-businesses-to-get-eur190-million-green-investment-boost-as-eib-group-and-norwegian-dnb-bank-asa-team-up-in-first-of-its-kind-deal-for-region.htm]

5 Nordic Statistics database. [https://www.nordicstatistics.org/areas/economy/]

6 World Bank Document [https://documents1.worldbank.org/curated/en/325561524050245223/pdf/125342-JRN-PUBLIC-Securitization-and-Economic-Activity.pdf]

7 Promissory Notes Act | 622/1947 | Translations of statutes | Finlex. [https://www.finlex.fi/en/legislation/translations/1947/eng/622]

8 Arvopaperistaminen. [https://publications.bof.fi/bitstream/handle/10024/43608/109763.pdf;jsessionid=03BCA66F79986E9C871F53C33F717B91?sequence=1]

9 Arvopaperistaminen - Sääntelykokonaisuudet - www.finanssivalvonta.fi [https://www.finanssivalvonta.fi/saantely/saantelykokonaisuudet/arvopaperistaminen/]

10 Chapter 9 Securitization in Finland in: International Asset Securitization & Other Financing Tools. [https://brill.com/display/book/9789004480537/B9789004480537_s012.xml]

11 Simple, Transparent and Standardised transactions in accordance with the EU Securitisation Regulation.

12 Transactions - PCS. [https://www.pcsmarket.org/transactions/?_transaction_country=finland]

13 Finland - Wikipedia. [https://en.wikipedia.org/wiki/Finland]

14 Revitalising EU securitisation - European Commission [https://finance.ec.europa.eu/news/revitalising-eu-securitisation-2025-06-27_en]

15 European Union Revisits Securitization Rules to Bolster Capital Markets - CFA Institute Market Integrity Insights [https://blogs.cfainstitute.org/marketintegrity/2025/06/19/european-union-revisits-securitization-rules-to-bolster-capital-markets/]

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