# Financial Integration of the Baltic Sea Region

## Benefits and Barriers

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## 1. INTRODUCTION

The purpose of this report is to initiate a discussion on the creation of a single financial market in Northern Europe. The desire is to draw legislators' and regulators' attention to the Baltic Sea Region's potential and to barriers within the financial market that could restrict its future growth. From a market user perspective, it is a wish to address the impression that domestic and international market actors have of this market.

The contributors to this report, represented by Swedbank, Kromann Reumert and Baltic Development Forum, are practitioners in the field of international financial markets located and based both within and outside of the region. Much of the discussion laid out in this report is based on opinion and anecdotal evidence rather than empirical research. This method is chosen as it is primarily the impression of how markets operate that is the imperative for interest and, ultimately, investment is based upon. Moreover, the collective impression of some of the worlds leading financial institutions as well as some of the region's leading banks should not be dismissed lightly.

The report consists of two sections; the first addressing the role and importance of the financial market, and the second consideration of basic, but major obstacles cross-national nature that hamper the creation of such a market in the Baltic Sea Region.

There are a significant number of other important areas but the intention is to present a brief indicator of the most significant issues to be addressed. The aim is that the report will serve as a basis for further discussion and investigation by the relevant market players and governmental institutions. By necessity, therefore, the focus has been limited to ensure that the task was achievable in the given time frame – for the discussion at the Baltic Development Summit in Tallinn 2007.

Moreover, the report does not seek to identify all the solutions to the issues we have raised. It is recommended that this task will be the focus for a further and more detailed review by the cross-governmental institutions and market participants.

Finally, it is recognised that the integration of the financial markets in the Baltic Sea Region should be viewed not in isolation, but rather as an add-on process to the general harmonisation and integration in the European single market. Concentrated efforts to integrate the markets in the Baltic Sea Region's facilitates the region's participation in the European integrative efforts, as a strong and integrated Baltic region will become a more attractive and competitive part of the European single market.

## 2. SECTION I – INTEGRATION OF FINANCIAL MARKETS

This section contains a brief account of

the economic theory on the function of financial markets and the case for financial integration, followed by a short discussion on the potential benefits of an integrated financial market in the Baltic Sea Region.

### 2.1. The Core Functions of the Financial Market

The core function of the financial system can be described as managing the needs of the real economy to overcome distance in time and space between savers and borrowers and buyers and sellers, and to manage the insecurity and risk related to every large transaction in the real economy.

The financial market matches savers, borrowers and investment through the investment chain. An efficient investment chain facilitates the matching of time preferences of borrowers and savers and the efficient allocation of capital in the economy.

The financial market pools and manages risk, allocating it to those best able to manage and price it. The financial sector provides instruments for risk reduction to the individual, the firm and on the level of a country or region. Efficient risk pooling is vital for the realisation of high-risk investments in innovative activities and for the efficient allocation of capital in the economy.

The financial sector develops payment and money management systems that facilitate international flows of trade, investments and financial flows in the global economy.

The financial services sector also makes a significant direct contribution to the modern economy in terms of value creation and employment. The direct contribution of the financial services sector to GDP in developed countries is typically between three to five percent. A sophisticated financial sector is also conducive to creating advanced employment opportunities in sectors such as legal services, accounting, IT etc.

Whereas a positive financial system development can spur growth through the above mechanisms, an insufficient financial system can prevent the realisation of growth opportunities.

### 2.2. Financial Integration: The Globalisation of Financial Markets

As managing the needs of the real economy, especially in relation to trade, is a key function of the financial system, it is intuitive that international financial flows have soared with the integration of world markets for goods and services.

Since the 1980's, international trade has expanded at roughly twice the rate of GDP growth, international direct investment at three times that rate, and international equity investments at more than ten times that rate.

This surge in international financial integration, or "financial globalisation", was fuelled by the liberalisation of financial markets in Europe and North

America during the 1980's and 90's and to an increasing extent in Asia, and by a sharp reduction in trading and transaction costs due to international competition in financial services and advances in information technology.

## 2.3. Defining Financial Integration

Assessments of financial integration can be carried out quantitatively – by observation of indicators such as the prices of financial services and interest rates across countries – or qualitatively.

The ECB has advocated a qualitative definition where the market for a given set of financial instruments and/or services is said to be fully integrated if all potential market participants with the same relevant characteristics:

(i) face a single set of rules when they decide to deal with those financial instruments and/or services;
(ii) have equal access to the above-mentioned set of financial instruments and/or services, and
(iii) are treated equally

The ECB definition does not imply a convergence of market structures in all regions, but rather that the market is characterised by non-discrimination.

Even though financial integration is an incremental and gradual process rather than a move from a non-integrated to an integrated state, the above definition provides a useful benchmark for measuring financial integration and for assessing policies aimed to promote integration.

## 2.4. Benefits of financial integration

The benefits of the integration of markets for financial services are in part similar to those of trade and openness in any market; the realisation of benefits related to comparative advantages and the spread of successful technologies and practices. There are however also a number of specific effects from financial integration that have positive potential implications for economic growth and welfare as well as for financial stability.

The removal of obstacles to cross-border financial services, improves capital allocation in the economy as more and better investment opportunities are available to investors.

Integration can expand risk-sharing opportunities through increased scope for portfolio diversification. The increased cross-ownership of assets across regions facilitates regional specialisation in the physical economy's production of goods and services. Through these mechanisms, and through the development of better and less costly financial services, financial integration has the potential to foster economic growth and welfare.

Integration can increase financial stability through risk diversification and improved shock resilience resulting

from increased liquidity. Market entry by foreign investors could improve the pricing of financial instruments, enhance competition and in a longer perspective favour the development of sound institutions contributing to the stability of the financial system.

Suggesting that financial integration presents the possibility of realising growth opportunities is not to imply that these benefits will be reaped in full automatically, and that there are no risks associated with financial openness.

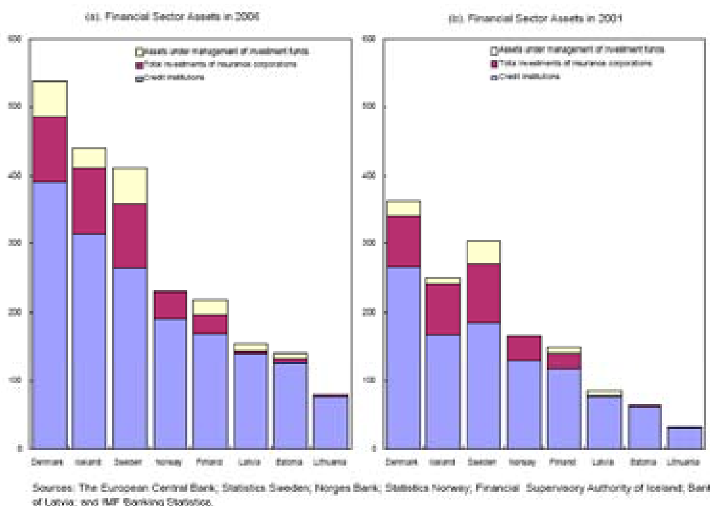
Financial integration need to be accompanied by the development of a solid financial infrastructure and sound financial institutions that safeguard transparent information on risks and capital buffers to market actors. The contribution of the region's political leadership is critical in ensuring harmonisation of the countries' institutional and judicial environments.

The aggregate message from the empirical literature and from economic history is clear: Financial integration offers considerable scope for welfare gains, but in order to maximise these benefits, market integration must be coupled with regulatory and supervisory dialogue and integration.

### 2.5. Financial Markets in the Baltic Sea Region[1]

The financial system in the Baltic Sea Region has gone through major changes during the last two decades, with the Nordic countries and Germany libera-

**Financial Intermediation in the Nordic-Baltic Region**
**(In percent of GDP)**




[1] This section, including tables and figures, is based on the IMF report Financial-Integration in the Nordic-Baltic Region (2007).

lising previously controlled national financial markets and the former planned economies experiencing a dramatic and swift move from planned to market economy, and to taking part in the financial integration within the EU framework.

Financial intermediation in the region has expanded and diversified in recent years. Total financial assets nearly doubled over the last decade in some countries in the region, with demand for financial services spurred by economic growth and relatively low interest rates. Growing interest in equity markets and other investments contributed to increased diversification of financial assets.

Increasing financial integration within the Nordic-Baltic region has gone hand in hand with the emergence of major cross-border financial groups.

At the same time, financial structures differ between the Nordic and Baltic countries, reflecting their different evolution. Financial systems in the Nordic countries have matured over a long period, bank intermediation levels are high, and nonblank activities are well developed. The Baltic systems are relatively less advanced and concentrated in conventional banking, reflecting their recent transition to market economies. Nonetheless, concentration, conglomeration, cross border linkages, and capital market integration are key features of financial systems and capital markets throughout the region – features that are also evident to varying degrees in Europe more generally.

**Concentration:** The banking systems in the region are generally dominated by few large banks. Concentration ratios are generally higher than EU averages. This reflects the consolidation of the industry and the drive for economies of scale.

**Conglomeration:** Financial liberalization and increased demand for long-term savings in the Nordic countries encouraged the expansion of banks into insurance, pension, asset management and mortgage segments. This trend is less pronounced in the Baltic states.

**Cross-border linkages:** Limited opportunities for organic growth domestically have encouraged cross-border expansion by Nordic financial institutions in the Nordic countries, the Baltic's, and the rest of Europe.

**Capital market integration:** Capital markets in the region are becoming increasingly integrated, although this has progressed more in the Nordic countries. Integration efforts have been directed primarily toward exchange –traded cash equity, and equity and fixed-income derivative products.

Financial systems in the Nordic-Baltic countries have undergone major changes over last decade. In addition to longstanding economic and cultural links, this reflects financial liberalization across the region and initiatives toward a single market for financial services in Europe more broadly.

The Nordic countries are characterized by high levels of bank intermediation and developed nonbank sectors. Levels of financial intermediation are particularly high relative to GDP in Iceland, Denmark and Sweden, with insurance, pension and securities products now representing an important part of total financial assets in these countries.

Financial systems in the Baltic countries are centered on conventional banking activates and non banking financial products accounts for only a small share of total financial sector assets. They have relatively lower, albeit rapidly increasing, levels of financial intermediation. In recent years, the Baltic countries have experienced above-average growth in credit, driven by high consumer demand. Estonia and Latvia, in particular, have rapidly narrowed the difference with the Nordic countries regarding levels of bank intermediation. Insurance and pension assets have also grown rapidly, but from very low base and their levels relative to GDP are still modest.

Nordic-Baltic Countries: Levels of Financial Intermediation, 2001 and 2006

| | Credit Institutions Assets | | Investments of Insurance Corporations and Assets Under Management by Pension | | Assets Under Management by Investment Funds | |
|---|---|---|---|---|---|---|
| | (In percent of GDP) | | | | | |
| | 2001 | 2006 | 2001 | 2005 | 2001 | 2005 |
| Denmark | 265.0 | 391.6 | 77.2 | 94.9 | 21.2 | 51.1 |
| Estonia | 62.2 | 125.2 | 2.3 | 7.4 | 0.9 | 8.0 |
| Finland | 117.2 | 169.6 | 23.1 | 28.0 | 8.8 | 21.2 |
| Iceland | 169.3 | 315.4 | 71.1 | 97.6 | 11.7 | 33.3 |
| Latvia | 76.8 | 141.2 | 2.2 | 2.5 | 5.6 | 10.6 |
| Lithuania | 31.6 | 76.7 | 1.6 | 3.2 | ... | 0.5 |
| Norway | 129.8 | 191.6 | 37.0 | 39.0 | ... | ... |
| Sweden | 185.1 | 264.5 | 84.3 | 95.6 | 35.3 | 50.5 |

Sources: The European Central Bank; Statistics Sweden; Norges Bank and Statistics Norway; Financial Supervisory Authority of Iceland; and Bank of Latvia.

The structural differences in the Nordic-Baltic financial sectors can be discerned from the credit institutions balance sheet composition. In the Baltic countries, credit institutions asset composition has shifted toward a larger share of loans to households in total bank assets. Household lending now accounts for 25-30 percent of total assets, dramatic increase from 4-5 percent in 1995. Household lending – mortgages and consumer loans – is relatively new in these countries. By comparison, household lending accounts for a larger share of total bank assets than lending to corporates in the Nordic countries.

Capital markets in the Nordic-Baltic region differ widely in terms of size. For example, bond and equity markets appear considerably deeper in the Nordic countries, especially in the case of equity markets in Sweden and Finland, and mortgage bond dominated bond market in Denmark.

Equity markets across the region reflect the diversity of economic activity. The Norwegian, Lithuanian, and Latvian stock market are dominated by energy-sector. In Finland more than 40 percent of market capitalization is concentrated

in the information technology (IT) and telecom sectors. In Denmark and Sweden industrial and financial firms still accounts for more than 50 percent of market capitalization.

### Nordic-Baltic Capital Markets: Relative Size, End-2006

| | Bond Markets | | | Stock Markets | | |
|---|---|---|---|---|---|---|
| | Outstanding Stock in Millions of € | In Percent of Total | In Percent of GDP | Capitalization in Millions of € | In Percent of Total | In Percent of GDP |
| Sweden | 207,631 | 26.6 | 67.7 | 467,072.0 | 40.3 | 152.3 |
| Norway | 89,053 | 11.4 | 33.4 | 232,556.4 | 20.1 | 87.1 |
| Denmark | 413,202 | 52.9 | 188.3 | 181,606.3 | 15.7 | 82.8 |
| Finland | 55,864 | 7.1 | 33.3 | 234,690.7 | 20.3 | 139.8 |
| Lithuania | 1,170 | 0.1 | 4.9 | 7,724.4 | 0.7 | 32.5 |
| Iceland | 13,371 | 1.7 | 106.9 | 27,374.5 | 2.4 | 218.8 |
| Latvia | 649 | 0.1 | 4.0 | 2,038.5 | 0.2 | 12.6 |
| Estonia | 392 | 0.05 | 3.0 | 4,520.9 | 0.4 | 34.6 |
| **Total** | **781,333** | **100.0** | **76.6** | **1,157,583.7** | **100.0** | **112.8** |

Sources: European Federation of Stock exchanges; Eurostat; Norex Statistics; and IMF staff estimates.

### Norex Markets: Sector Repartition in Percent of Market Capitalization, 2006

| | Sweden | Norway | Denmark | Finland | Iceland | Lithuania | Latvia | Estonia | Norex |
|---|---|---|---|---|---|---|---|---|---|
| Energy | 1.5 | 53.4 | 1.0 | 2.5 | 0.3 | 35.1 | 61.33 | – | 12.8 |
| Materials | 5.8 | 3.9 | 2.5 | 15.4 | – | 2.1 | 2.93 | – | 6.8 |
| Industrials | 25.9 | 9.3 | 30.9 | 13.5 | 12.2 | 4.2 | 4.98 | 31.9 | 21.1 |
| Consumer discretionary | 11.3 | 2.5 | 2.4 | 4.9 | 1.7 | 3.7 | – | 32.5 | 6.9 |
| Consumer staples | 2.3 | 2.5 | 6.1 | 2.2 | 7.5 | 5.5 | 2.34 | 3.2 | 3.2 |
| Health care | 5.5 | 0.3 | 20.6 | 1.2 | 10.1 | 1.6 | 7.13 | 0.1 | 6.3 |
| Financials | 27.3 | 9.8 | 32.4 | 9.5 | 66.9 | 12.8 | – | – | 21.5 |
| Information technology | 12.7 | 5.8 | 0.9 | 29.2 | 0.2 | 0.2 | 2.56 | – | 12.6 |
| Telecom. services | 7.7 | 10.3 | 3.1 | 13.5 | 1.2 | 8.4 | – | 25.6 | 6.4 |
| Utilities | – | 1.4 | 0.1 | 8.2 | – | 26.3 | – | 6.6 | 2.2 |
| Not sectorized | – | 0.9 | – | – | – | – | 18.73 | – | 0.2 |

Source: Norex Statistics.

## 2.6. Potential Benefits of Financial Integration in the Baltic Sea Region

When assessing the importance of regional financial integration it is important to consider in which areas regional integration can add value in a way that goes beyond what can be achieved by integration at a European or global level.

Proximity in terms of cultural values and a tradition of close cooperation in the Nordic region constitute an institutional basis for a deepened regional cooperation between regulators and supervisory authorities.

Another incentive to pursue regional integration is the limited market-size of the individual financial markets in the Baltic Sea Region. If each country is treated as a separate financial market, each with a distinct institutional setting, they are likely to be assigned relatively low importance by international investors due to limited markets and economies-of-scale. Regional integration can potentially mitigate the limitations associated with small domestic markets as it increases the fixed costs of investing in the region relative to the market size.

Inability to enhance the attractiveness of the region in the eyes of international financial sector investors also implies foregone opportunities to develop the B2B-financial services sector. These services, such as investment banking, private equity, wealth management etc are generally characterised by a relatively high degree of sophistication and innovation as skilled professional buyers increase the demands put on the provider of B2B-services. If the Baltic Sea Region moves towards deepened financial integration and is viewed as a consolidated market, the region will increase its ability to attract investments in the B2B-segment.

An integrated financial market with a strong B2B-sector with considerable international presence will in turn make it easier to attract, and to keep, “the best and the brightest” employees in the financial sector in the region.

As described above, failed integration within the Baltic Sea Region might impair the integration of the markets in the individual national financial markets in the region with the pan-European market and the world market. An integrated financial market in the region will be more likely to attract inward investments, to develop competitive financial services and to promote integration with the international financial markets.

Another area where regional integration is of particular interest is in fields where there is an empirical proximity bias, such as venture capital and the investments by private investors.

As mentioned in the previous section, the financial systems in the Baltic countries and in Poland are dominated by conventional banking. Investment

funds, venture capital funds and other nonbank investors hold an asset share which is growing but still at a very moderate level. Regional efforts to facilitate cross-border investments by actors in these categories could provide an important source of financing for small- and medium-sized businesses in the Baltic and Polish markets.

In fields where there is an empirical proximity bias and where EU harmonisation is less developed than in the banking sector, regional cooperation to remove barriers could potentially be modelled on previous and ongoing Nordic projects, for example in removing obstacles to cross border venture capital financing.

### 2.7. Conclusions

A further integration of the financial markets of the Baltic Sea Region can have a number of positive effects for the macroeconomic environment, for the competitiveness of the financial sector and for the development of businesses in other sectors.

Integration of the financial market in the Baltic Sea Region is driven by the market and in some extent by the politicians. During the latest decade the internal trade in the region is growing and the possibilities are still large for a rising trade for goods and services. Geographic location and a stronger purchasing power in the region will increase the demand for financial services.

To be a competitive and attractive region in the world the political decision makers in the Baltic Sea Region must prioritize an attractive business climate that facilitates cross border activity. This is also necessary for a well advanced financial market. The removal of barriers like divergence in regulation, tax laws etc could potentially improve the integration of the financial market. This is particularly important in order to improve the financing options for small and medium sized companies, which do not have the same possibilities as larger companies to finance investments on the international financial markets.

## 3. SECTION II - BARRIERS TO THE CREATION OF A SINGLE FINANCIAL MARKET IN THE BALTIC SEA REGION

The purpose of this section is to consider some of the barriers to the creation of a single financial market in the Baltic Sea Region.  This section presupposes that the importance of having a financial market has been established and is accepted.

In some parts of this section, the geo-political influences which may limit or restrict the freedom with which solutions can be found have been acknowledged.  However, this only heightens the importance of dealing with those impediments which can be dealt with.

### 3.1. Currency and Liquidity

There are eleven sovereign states that make up the Baltic Sea Region of

which eight are members of the European Union. Two of those states have adopted the Euro as its currency, whilst six have not. Accordingly, as a starting point, the region has effectively nine different currencies. From a micro-market perspective, this creates a "grass roots" problem.  Smaller borrowers are tied to local currency at best or at worst to any multiples of the differing currencies that make up the region. They must borrow in the currencies which are of greatest use to them. Financial institutions which wish to serve these borrowers, must have access to each of these currencies and must have the ability of to hedge against the risk of currency fluctuations or movements.

The bottom line of such issues is two fold:  first, up to a certain level of borrowing, differing currencies means that the borrowers will only have access to domestic bankers who will be prepared to lend in local currency. This is certainly restrictive of cross border activity and this barrier to cross border competition should, ipso facto, increase borrowing costs.

Secondly, the need for both the financial institutions and the borrowers to protect themselves against fluctuation risk requires them to enter into financial derivative contracts (for example, simple currency hedges) to limit their exposure. Such devices whilst common place in modern financial markets again add to the financial burden of market participants creating an inefficient system for financing.

Both of these factors increase the costs of borrowing. Those borrowers most highly affected are the smaller borrowers. Given the corporate demographics of the region, its heavy reliance on small and medium sized enterprises and the importance of growth in the dynamic technology and internet sector – which is commonly heavily reliant on smaller entrepreneurs – this issue should be and is of great importance to the governments in the region.

In particular though, these issues do not act as incentives for a single financial market in the region. Regional financial institutions who are prepared to undertake cross-regional financings will find the cost of lending increasing and the marginal return on lending diminishing.  In turn, this will make result in them becoming less competitive on transactions involving larger corporate borrowers once again penalising them for undertaking cross regional work.

There are many who will argue that in respect of this issue, there are political and geo-national issues which go well beyond the financial markets and which limit the ability to deal with this problem. Such arguments are fully accepted and understood but what then assumes even greater importance is the need to deal with those issues which are more easily able to be remedied or dealt with – some of which is discussed below.

### 3.2. Regulation

It is believed that inconsistency in the regulation of financial markets in the Baltic Sea Region represents one of the more serious impediments to the creation of a financial market in the region.

International financial institutions are required to consult individual regulators in each of the countries in the region on any action to be taken in the region. This immediately disarms the benefit of treating the markets in the region as one – particularly in instances where the financial institution involved wishes to introduce a single product across the region. This contrasts with the approaches that are available in say, the United Kingdom or Germany where only one regulator needs to be approached.

Having to approach individual regulators in each jurisdiction imposes additional costs which are ultimately passed on to consumers. Furthermore, such additional costs may act as a disincentive to introducing certain financial products and services in the region thereby placing investors in the region at a disadvantage to their competitors outside of the region.

These concerns are amplified when the response from regulators is inconsistent. The market is aware of numerous occasions when services or acts permitted in one jurisdiction are considered illegal in another.

Examples of such inconsistency also include the approach in interpreting European Directives. In one instance, a submission was made for a ruling in respect of the treatment of a European Union treaty to a regional regulatory authority. The submission was supported by evidence of the approach taken by regulators in five other European Union jurisdictions including three in the Baltic region.

The relevant regulatory chose not to accept the approach taken by the other regulators despite that its approach was inconsistent with that in the other jurisdictions. Such type of inconsistency, often justified on the basis of national independence, is a further significant disincentive to international and regional financial institutions from participating in our market.

Moreover, the problem is compounded by the current resources issues in relation to financial markets generally. As regional markets have become more buoyant so have pressures risen on markets to provide adequately trained and experienced staff. Public sector organisations and government regulators, in particular, are susceptible to having senior staff headhunted by market participants in many cases due to the differential in salary expectations between the public and private sector employees.

A loss of experienced staff can result in significant delays in handling applications which is a significant impediment in attracting a financial market to the

region. Anecdotal evidence has been offered as an example of this problem. In one situation, a request by a market participant as to whether an offer in relation to a specified number of investors constituted an offer to the public was submitted in October 2006. To date the request remains unanswered.

The United Kingdom's Financial Supervisory Authority has been put forward as an example of a model which should be used for developing our regional regulatory capabilities both in terms of its capacity and experience in working with the financial markets but also its ability to self fund itself.

Moreover, National Governments are encouraged to put in place real mechanisms which enable consistent interpretation and application of regulatory issues - it being considered that this issue is one of the more easily resolvable of those facing the Baltic Sea market. For example, one would have thought that it was relatively easy to agree general guidelines and principles in respect of certain common EU Directives.

Furthermore, a mechanism ought to be put in place where, on a regional basis, interaction with financial institutions, the market and regulators could take place on a regular basis, where the development of a common approach to such issues could be examined and its implementation, audited. This would be, for example, a useful forum for discussion of the suggestion set out above.

### 3.3. Language

The importance of the lack of a single common language to the region cannot be underestimated. Once again, this issue increases the cost of carrying on financial business within the region. The issue is further complicated when added to the issues of differing regulation, inconsistent interpretation and application of regulation, taxation and other issues considered in this report.

It is recommended that thought should be given by the relevant regulators of financial markets in the region to the establishment of a common second language applicable to all regional financial markets.

In particular, publishing of relevant financial laws, regulations, rulings and guidelines ought to take place simultaneously or almost simultaneously with the publication of the relevant document in the home language. There are obviously cost issues involved in such a suggestion and the level of these costs will vary from country to country. In addition, there is always the issue of whether there is sufficient expertise to produce meaningful and helpful documents. Nonetheless, the clear benefit from undertaking this exercise warrants its consideration.

This is another issue which could be dealt with at the meeting of market participants and regulators suggested in section 3.2 above.

### 3.4. Taxation

Differences in taxation and taxation treatment of participants and products in the regions financial markets have an obvious impact on the ability to operate as an efficient single market. An easy comparison is with that of the United Kingdom where one set of taxation laws governs all transactions in that market.

The difficulty of resolving such an issue without imposing upon significant national concerns is acknowledged. However, it is appropriate to identify this issue - if only to place additional emphasis on steps being taken to remedy and resolve the other issues identified above.

### 3.5. Differences in the legal basis for financial transactions

We have noted that, in addition to regulatory issues, the need for consultation of separate legal advisers in each jurisdiction adds a further layer of complication to the process. If the region truly wishes to develop a harmonised financial system, then efforts ought to be made to harmonise a number of legal structures and processes. The complications that lie in such a suggestion is recognised, but once again draw comparison to the absence of such impediments in countries such as the United Kingdom, France and Germany.

There are a number of ways in which this situation can be improved. For example, one suggestion that has been made is that thought could be given to the creation of a central regional registration system for business entities, which could be both accessed and updated through the internet.

Such an idea would enable corporate due diligence to be undertaken on a regional basis without the need to consult individual corporate registers. Notwithstanding the cost of such a suggestion, it would further enhance the competitiveness of the region's financial markets.

Whilst it is believed the concept of a central regional registry is not controversial, it would also greatly benefit the region if it was possible to, for example, access a central registry of security granted and provided by corporations established in the region. Such a suggestion in the present environment would not be possible given the position taken by relevant governments on forms of granting of security.

In the discussions, specific reference has been made to the Danish law relating to floating charges (a concept very common under the Anglo American legal system and a frequently used tool in international financial transactions). Whilst such a charge incurs only a nominal administrative fee in the United Kingdom, in Denmark, the registration fee is 1.4% of the amount secured.

This effectively adds a huge financial cost to any transaction but also would make the use of a central registration

of security system far more difficult to implement as measures would need to be taken to prevent circumvention of the Danish fees through registration in respect of a holding company located in another jurisdiction in the region.

It is recommended that this, like some of the other suggestions mentioned above, should be dealt with in depth by meeting of market participants and actors at a cross-national basis.

### 3.6. Conclusions

By highlighting a few basic cross-national barriers to the creation of a single financial market in the Baltic Sea Region, a first step has been taken to push for solutions to barriers in the financial markets in our region.

Creating opportunities to discuss and analyse further financial market integration are vital to the future development of the Baltic Sea Region. It is believed that, at the very least, the relevant governments, regulators and market participants meet on a regular basis to discuss the progress in this sector from regional perspective.

In this regard, the national and regional studies carried out are of great importance to get the ball rolling quickly. To mention a few, comprehensive work carried out under the auspices of the Council of the Baltic Sea States on defining barriers to financial market integration in the Baltic Sea Region and the Swedish study by the Financial Market Council should be highlighted. Together with this report, this should serve as an impetus for further concrete action in this field.