

GOOD GOVERNANCE *of foundations*



COUNCIL OF FINNISH FOUNDATIONS

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www.saatiopalvelu.fi

ISBN 978-952-68460-2-6 (PDF)

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TO THE READER

Foundations are a significant part of Finnish civil society. Through foundations, citizens can influence causes important for them. Foundations fund e.g. science, art and culture and produce different kinds of well-being services. Functional, open foundations increase knowledge and skills as well as spiritual and material wealth in our society.

The 2nd edition of these *Good Governance of Foundations* guidelines is based on the new Foundations Act which entered into force on 1 December 2015. The guidelines are meant to help and guide people working in foundations: members of the board of directors and the administrative council of the foundations, managing directors, secretaries general, functionaries and those planning to establish a foundation.

Good Governance of Foundations presents the principles for good governance in a concise and practical manner. The guidelines are meant to encourage foundations to prepare and maintain their own operational guidelines in accordance with the best practices in the field. Since the foundations differ from each other based on their operations and size, each foundation should decide on how and to what extent the guidelines shall be applied.

A part of the *Good Governance of Foundations* guidelines are based on mandatory legislation, while a part of them are merely recommended practices. The mandatory legislation has not been presented separately from the rest of the text. *Good Governance of Foundations* guidelines are, to a great extent, recommended practices, but due to readability, this has not been taken into consideration in the manner of presentation, where the indicative form is mostly applied. If these guidelines conflict with the other rules of the foundations, the rules and mandatory regulations in accordance with the new law shall be applied. If there are no regulations in the rules regarding governance or operations, the default regulations in accordance with the law shall apply.

Even though the recommendations in the *Good Governance of Foundations* have been prepared within the circle of foundations that allocate grants, the aim has been that the principles could be applied in foundations' operations in general. The guidelines can also be

"A part of the guidelines in the *Good Governance for Foundations* are based on mandatory legislation, while a part of them are merely recommended practices."

used in associations, where applicable.

Good Governance of Foundations is a wide-spanning view of the Council of Finnish Foundations regarding what kind of governance practices should be observed in the foundations. The guidelines have been prepared in accordance with the international *good governance* practices for self-regulation in the field of foundations. This is not, therefore, a binding document, and its application shall not be supervised. The guidelines are not meant to be used as a basis for liability in criminal or damage compensation matters.

Good Management of Foundations will be updated according to need. The latest version is always available on the website of the Council of Finnish Foundations.

Best Practice for Foundations

Best Practice for Foundations is a document separate from the *Good Governance of Foundations* guidelines. It provides guidance for foundations in accordance with international practices and principles (Code of Conduct). The members of the Council of Finnish Foundations have approved it as a basis for their operations since 2004. The *Good Governance of Foundations* is also based on the principles presented in the *Best Practice for Foundations*. When observed accurately, *Best Practice for Foundations* protects the operational requirements of all foundations in Finland. Committing to the *Best Practice for Foundations* is voluntary and self-regulatory. A member of the Council of Finnish Foundations can diverge from *Best Practice for Foundations* only with justified reasons.

Best Practice for Foundations is available on the website of the Council for Finnish Foundations.

1. WHAT IS A FOUNDATION?

A foundation is a way of permanently allocating funding for a specific purpose. The purpose may be, for example, supporting culture or science, or maintaining a hospital, museum or an educational institution. A foundation generates profit for the purpose determined in its rules. The purpose cannot be business or financial gain for related parties of the foundation. The purpose of the foundation can only be changed within certain limits. The foundation has its own administration, separate from its founders and other donors.

The founder of the foundation prepares the rules for the foundation, which define the purpose, methods for implementing the purpose and the administrative structure of the foundation. The Foundations Act (487/2015) regulates the foundation's operations and supervision. The Foundations Act includes volitional default regulations, which the rules of a particular foundation can deviate from.

The goal of the foundation's operations and careful management of its assets is no other than implementing its purpose. The board of directors and the managing director are responsible for this task.

A foundation has

- a useful purpose defined by the founder.
- funds for implementing its purpose.
- its own administration.
- Rules established by the founder that determine
- the purpose of the foundation,
- methods for implementing the purpose,
- its administrative structure.

Concepts and definitions

A registered foundation is an independent legal person, who has rights and can make commitments, and be party to court proceedings. Each foundation has its own purpose, which determines the reason for why the foundation exists.

One way in which a foundation differs from a limited company is that its purpose is not to carry out business operations or generate profit, and it does not

have owners. A foundation differs from an association in that it has no members and its purpose can only be changed within certain limits. Pension funds are not within the scope of the Foundations Act.

Foundations are generally classified into grant-providing foundations (grant foundation, equity foundation) and operating foundations (institutional foundation, continuously funded foundation). Grant-providing foundations are common in the areas of culture, science and art. They implement their purpose by allocating grants and subsidies from their own capital and profit derived from it. Operating foundations are common in the social and healthcare sector, culture and education sector as well as sports and youth outreach work, and they implement their purpose by producing services.

The recipients of support and the modes of operation of support and family foundations must be defined in the rules. A support foundation supports its founder or another party with decision-making power in the foundation. The tax status of a support foundation must always be determined on a case-by-case basis. A family foundation produces benefits for the members of the founder's family or relatives. Family foundations do not usually meet the requirements for a charitable foundation regulated in the Income Tax Act.

A charitable foundation is a term related to the foundation's taxation, and it is different from the usefulness requirement in the Foundations Act. A useful foundation is not automatically charitable. To be charitable, the foundation's operations must meet the requirements regulated in tax legislation. The charitable nature of foundations will be examined in more detail in the section on taxation.

A foundation has related parties and restrictions regarding related parties. The related parties and applicable restrictions are discussed in their own section on page 18.

A foundation shall form a corporation if it has authority in a company or another foundation. A foundation has a position of a subsidiary in a group where another legal person appoints the majority for its board of directors.

Funds

The foundation may have restricted and free funds. Fixed funds may be self-covered funds (dependent foundation) or other restricted funds. Free funds can be donation funds or memorial funds, for example.

A restricted fund is created from donated funds or funds acquired through a will, when the donor or testator requires that the funds must be used for a specific purpose. Should the donor or testator require, in addition to the purpose of use, that the funds must be kept separate from the other funds of the foundation, the fund is called a self-covered fund. A fixed fund is not established with the decision of the fund's own bodies, but forming them requires always an outside will, such as an order by a donor or testator. Restricted funds are not independent legal persons and they are not regulated in the Foundations Act.

Restricted funds may have their own care committees. The Foundation's board of directors must guide and supervise the board of the restricted funds in their control, and be familiar with related liabilities.

Donation funds or memorial funds are established if the foundation has received funds through a will or as a gift that can be used freely, but the donor or testator has demanded that that the funds shall be formed into a fund named after the donor or testator.

The purpose of all the funds must be within the purpose of the foundation. The foundation shall not accept donations if the purpose of use is foreign to the foundation's purpose.

The Good Governance of Foundations guidelines shall be observed in the management of the funds. The guidelines are also applicable to managing funds that are controlled by associations and other communities.

“The goal of the foundation’s operations
and careful management of its assets
is no other than implementing its purpose.”

2. LIFESPAN OF A FOUNDATION

Even though a foundation is established indefinitely (with the exception of temporary foundations), it may be considered to have a certain lifespan. The foundation should be managed so that the operations to implement its purpose may continue without interference. As social, economic or conditions related to the purpose of the foundation change, the lifespan may end, in which case the foundation must be terminated or merged with another foundation.

Establishing a foundation

Establishing a foundation requires steady will and deliberation. A foundation is established by a deed of foundation or a will. The foundation must be filed to be registered in the Register of Foundations of the Finnish Patent and Registration Office. After registration, the foundation attains legal capacity. If the foundation also engages in business operations, it must also be registered in the Trade Register.

The founder should consider whether the planned purpose requires establishing a foundation. Furthermore, it should be considered whether the funds intended for the foundation are sufficient to establish an independent foundation, or whether it would be better to start a donation fund carrying the donor's name or a dependent foundation annexed to an existing foundation or association. The founder must also consider whether it is more purposeful to establish a permanent or a temporary foundation or fund.

A foundation may be established only for advancing a useful purpose. A foundation supports or practices operations advancing its purpose. The purpose of a foundation may not be conducting business or producing financial profit for related parties.

When establishing a foundation, the founder must carefully evaluate that the purpose of the foundation is sufficiently wide in scope, so that the founder does not need to reserve the possibility for changing the purpose in the rules of the foundation. If the defined purpose is too narrow, this may in time render the foundation unable to operate.

The founder provides sufficient assets to the founda-

tion for implementing its purpose, but no less than the minimum amount stated in the Foundations Act (EUR 50,000). The foundation must be able to operate with the help of the capital, operational profit and other funding. The founder shall prepare an action plan, a budget and a financing plan for the first three years in order to evaluate its ability to operate.

The management elected for the foundation must see to it that the foundation is filed for registration by the deadline. The founder and the executor assigned to take care of the establishing procedures must see to it that the foundation is established according to the founder's orders. The founders may unanimously cancel the order to establish the foundation for as long as the foundation has not been registered.

Purpose of the foundation

The purpose of the foundation, registered in the foundation's rules, must be respected in all operations of the foundation, and it cannot be neglected. The purpose covers the entire lifespan of the foundation.

The purpose of the foundation can only be changed for a justified reason and when the prerequisites stated in the Foundations Act are met. When changing the purpose of the foundation, also the regulations regarding changing the purpose included in the rules must be taken into consideration.

The purpose *must be changed* if using the funds for the foundation's intended purpose is impossible or significantly more difficult due to changed circumstances, or completely or for the most part unnecessary or illegal. The decision to change the purpose can be made if more than half of the members of the operational body support the decision. The rules may require a larger majority.

The purpose *can be changed* if the use of the foundation's funds for the foundation's intended purpose does not serve the purpose due to changed circumstances, and changing the purpose is a prerequisite for efficient and profitable use of the foundation's funds. In this case, the decision to change the purpose can be made if it is supported by three-fourths majority of the mem-

bers of the operational body, unless the rules require a larger majority.

The change of purpose shall come into effect after the Finnish Patent and Registration Office has approved it and registered it in the Register of Foundations.

Rules of the foundation

The Finnish Patent and Registration Office registers the rules of the foundation. In addition to the foundation's purpose, the rules specify the modes of operation, composition and duties of the operational bodies of the foundation. The founder appoints in the deed of foundation or will the first members of the board of directors and auditors, or determines how they are elected.

The foundation's management must see to it that the rules are up-to-date. The rules must be amended if this is seen as necessary. The amendments shall be implemented in the manner mentioned in the rules and the law, and they must be registered in the Register of Foundations of the Finnish Patent and Registration Office. The amended rule shall enter into force when it has been registered. You can apply for a preliminary check on the amendment of the rules at the Finnish Patent and Registration Office. Rules for which a preliminary check has been performed can be observed in the foundation's internal operations, even though the amendment to the rules has not yet been entered in the Register of Foundations.

The rules of the foundation shall be published on the foundation's website.

Merger and termination

In the event that the board of the foundation sees that the foundation can no longer operate in an effective manner in order to implement its purpose, it should consider expanding or downscaling its operations. One alternative is foundation merger, merging with another foundation, or even terminating the foundation. Increasing the impact of the foundation or enhancing its operations and supervision may require foundation merger.

Foundation merger

The foundation may merge with another foundation that has an essentially similar purpose, unless otherwise defined in its rules. Foundations merging together must have similar prerequisites for changing their purpose. The foundations may also merge based on the above-mentioned prerequisites so that two or more foundations agree on transferring their funds and debts to a new foundation to be established.

The merger plan must be reported for registration, and a written notice must be delivered to the known creditors of the merging foundation about the creditors' announcement, and the registration authority must be notified of the implementation of the merger within the deadlines defined in the Foundations Act.

The regulations regarding the foundations' operations that are written in the foundations' rules shall be respected in the merger.

Subsidiary merger

The subsidiary owned by the foundation or the other foundations participating in the merger may be merged with the foundation if the foundations participating in the merger own all the shares and interests and other specific rights entitling to the shares and interests of the company or cooperative. The subsidiary merger may be used to simplify or clarify the corporate structure and administration. The tax impacts of the subsidiary merger must be determined.

Terminating the foundation

A foundation that has been established for a limited time period or on the basis of specific premises may be terminated when the deadline has passed or such premises no longer exist. The same procedures may be used if using the foundation's funds for the intended purpose is impossible or substantially more difficult, completely or partially unnecessary or illegal, and the purpose of the foundation cannot be changed. It is possible to regulate differently about the premises for termination in

the rules of the foundation when it is established. The Finnish Patent and Registration Office checks the existence of the premises in connection with processing the notification for termination.

If the foundation's funds have finished, the board should evaluate whether there are premises for continuing the foundation's operations. If there are no actual premises for continuing the operations within a reasonable time, the foundation must be liquidated and terminated.

If the foundation's operations have constantly and significantly been in breach of the law or regulations,

the district court in the foundation's domicile may order the foundation to be terminated immediately based on the request by the Finnish Patent and Registration Office.

When the foundation is terminated, the board shall use the funds in a manner intended in the termination clause. If there is no such regulation in the rules, the funds must be donated in accordance with the decision regarding liquidation for such use that advances the purpose of the foundation. The funds must not be donated to related parties, such as a private person or company, or to a cooperative.

3. BODIES, TASKS AND RESPONSIBILITIES OF A FOUNDATION

A foundation's management consists of the administrative council, board of directors and managing director.

The foundation must always have a board of directors that manages the foundations' affairs in accordance with the law and the rules of the foundation. The foundation's rules may state that the foundation has or may have a managing director and that the foundation has an administrative council.

The composition of the bodies and the number of their members, term of office and election method are regulated in the rules of the foundation.

The foundation may have other bodies and other functionaries in positions of trust or employment relationship under the board of directors, administrative council or managing director of the foundation. The foundation may also have a manager in an employment relationship, but the management responsibility cannot be transferred to him/her.

Responsibility for managing the foundation's affairs

The foundation's management and employed functionaries must be aware of their responsibilities in managing the foundation's affairs. The responsibility of the management is based on the obligation for diligent management of affairs in the Foundations Act.

The management's responsibility may be liability for damages or subject to criminal law. A member of the management may be liable for damages regarding decisions they make and the foundation's affairs they manage or have neglected to manage. A foundation or a third party may be entitled to the compensation. The members of a body are usually jointly and severally liable for damages caused by a decision made together. The board of directors will not be released of its liability for damages or criminal actions even if the administrative council were to grant the board members release of liability. The Finnish Patent and Registration Office, the founder, a person who has legitimate cause based on the rules and

an external injured party may, despite the release of liability, bring an action for damages against the board.

The manager's liability depends on whether he or she acts as a managing director executive body or an employee. The managing director is liable to the foundation for any damages caused deliberately or through negligence, in the same manner as a member of a body that is a part of the management. An employee is liable to the foundation and any third party for the damages they have caused based on the Employment Contracts Act and Tort Liability Act.

Board of directors

The board of directors of the foundation collectively manages the foundation's affairs. The board must have at least a chairperson and two members.

The board of directors of the foundation is liable for the management of the foundation and for ensuring that the foundation's operations are organised in an appropriate manner to implement its purpose. The only goal of the foundation's operations is to implement its purpose; it is guided by the obligation to diligence and loyalty, i.e. working only in the foundation's interest. Furthermore, The board of directors is responsible for ensuring that the supervision of the foundation's accounts and asset management is appropriately organised.

Electing members for the board of directors

The manner of forming the Board of Directors is determined in the rules of the foundation. It is recommended that an external party or the administrative council appoint at least a part of the board members. If there is no external nominator, a separate nomination committee can be elected that will make a proposal to the board. The matter regarding appointment of the board members shall be carefully prepared before the meeting regarding the election of members. If other than personal deputy members are elected to the board, in elect-

ing them it shall be decided how the deputy members will replace the actual members.

The size and composition of the board must enable efficient and purposeful management of the tasks of the board. In terms of the composition of the board, the needs of the foundation's operations and the turnover and versatility of the board members should be taken into consideration. The members of the board change depending on the year so that the continuity of the expertise and operations is secured. It is recommended that a member operates in the board of the same foundation consecutively for 9-12 years at most. When preparing the rules, it shall be estimated whether it is necessary to pose age or gender restrictions on the board of directors. When electing the members, it is important to ensure that the eligibility criteria for the members in accordance with the law and rules are met.

Those elected as members of the board of directors must have expertise related to the foundation's operations and sector and sufficient time to manage their tasks. A person elected as member commits to serving on the board of directors for the whole term of office. One should only request permission to resign from the board of directors based on serious deliberation. The board and the elector must be notified of the resignation. The resignation will come into force at the earliest when it has been announced to the board of directors.

Discharge of a board member

If the member of the board of directors is elected by someone other than the board, the rules may regulate the elector's right to discharge the member they have appointed. The elector shall use the right to discharge a member of the board during the term of office only if the implementation of the purpose of the foundation or organising the operations in accordance to the law have been compromised.

If the member of the board has lost the eligibility regulated in the law or determined in the rules for at least one year, the elector or – should the elector not be present any longer or they do not immediately make the decision – the board must discharge the member from the board.

The court of law may discharge a member of the board based on a request by the Finnish Patent and Registration Office.

Loyalty obligation of a member of the board of directors

Board members represent only the foundation when operating within the foundation, not their nominator or other party. They must advance the implementation of the purpose of the foundation and the foundation's benefit in the board. This also applies to situations where the person operates in the board of the foundation based on their office, duty or other mandate.

The member of the board shall respect and observe the decisions made in the board, but he/she shall not approve decisions that are in breach of the law or the rules, but aim to prevent these from being implemented or causing further damage.

When the board member accepts their position in the board, they commit to diligent management of affairs, regardless of whether they receive salary or fee for the job.

Obligation to diligence of a member of the board of directors

The board members must actively and diligently familiarise themselves with the foundation's affairs as well as the rules, internal rules of procedure and laws guiding the foundation's operations. The operations of the board of directors shall be organised so that the members will receive a sufficient amount of information to make each decision.

When a new member enters the board of directors, his or her duty is to familiarise him/herself with the foundation's operations. The chairperson of the board makes sure that the member receives sufficient information about the foundation's background and operations, legislation guiding its operations as well as the foundation's rules and internal rules of procedure.

Tasks of the board of directors

The board of directors manages the administration of the foundation as well as the appropriate organisation of the foundation's operations in order to implement its purpose (general competence of the Board).

The board of directors manages, guides and supervises the foundation's operations. Its task is to prepare

and approve the foundation's operating principles and plans as well as the principles of risk management and supervise their realisation.

Together with the managing director, the board is responsible for ensuring that the foundation's organisation, personnel and personnel's work tasks are purposeful in terms of obtaining the foundation's goals and that the foundation has a functional management and supervision system. The board may delegate preparation and implementation tasks for the foundation's affairs to other bodies and functionaries. Responsibility for organising and monitoring the operations remains with the board, and it cannot be transferred to outside of the foundation. Regardless of the possible division of labour, the board makes the decisions and has overall responsibility for them, unless the tasks are the responsibility and to be decided by the elected managing director.

If the foundation does not have a managing director or secretary general or other personnel, the board of directors shall also be responsible for the operative activity. In this event, the board of directors must agree on a clear division of labour and decide on the authorisation of a board member for managing the tasks.

Together with the elected managing director, the board of directors is responsible for ensuring that the asset management of the foundation is systematic. The board of directors confirms the principles of the asset management and supervises their implementation and timeliness regularly.

Together with the managing director, the board of directors is responsible for preparing the financial statement of the foundation as well as amending the possible errors detected in the auditing. If a managing director has been elected for the foundation, the board of directors is responsible for ensuring that the foundation's accounting and supervision of asset management are appropriately organised. If a managing director has not been elected for the foundation, the board of directors is also responsible for ensuring that the foundation's accounting abides with the law and that asset management is organised in a reliable manner.

Together with the managing director, the board of directors is responsible for ensuring that the foundation actively and efficiently implements its purpose through procedures in accordance with the rules. The founda-

tion's administration costs must be reasonable in comparison with the quality and extent of the operations. The appropriateness of the foundation's operating expenditure is monitored regularly.

The board of directors must see to it that the foundation's rules are amended if changed circumstances or other factors should so require. If the foundation's operating ability has terminated, the board of directors shall oversee the foundation's termination, merger with another foundation or declaration of bankruptcy.

Rules of procedure of the board of directors

The board of directors shall prepare rules of procedure for itself, because well-prepared rules of procedure make the board's operations more efficient. The timeliness and implementation of the rules of procedure is evaluated annually. The rules of procedure may include e.g.

- central tasks of the board of directors and its chairperson, rapporteur and secretary
- division of labour in the board of directors
- division of labour between the board of directors and the managing director
- division of labour between the board of directors and the administrative council
- principles for meeting activities for the board of directors
- content and distribution of the meeting material
- annual calendar and thematic meetings
- guidelines for other work of the board of directors
- guidelines for communication with operative management
- guidelines for related parties and measures concerning them
- guidelines for the confidentiality obligation of a board member
- principles and methods of evaluating the board of directors' operations

In addition to the rules of procedure, the foundation may also have other by-laws, such as investment, grant and personnel by-laws, depending on the nature and extent of the foundation's operations.

In addition to the foundation's rules and the rules of procedure of the board of directors, the administration may also use the following documents:

- guidelines and principles guiding the foundation's administration
- rules of procedure for the administrative council
- rules of procedure for the nomination committee
- principles of asset management (includes investment policy and asset management guidelines)
- financial by-law
- principles for risk management and monitoring
- guidelines on fees and related parties
- personnel by-law
- corporate strategy
- operative activity guided by guidelines and principles
- operating strategy
- grant by-law
- communication principles
- operating guidelines and principles concerning other operative activity
- a final accounts meeting, where the previous year's financial statement and activity report as well as the realisation of the previous year's budget and action plan will be dealt with
- a strategy meeting where the short-term and long-term operating strategies for the foundation shall be updated and the foundation's efficiency in implementing its purpose is evaluated
- a budget meeting, dealing with the following year's action plan and budget
- evaluation meeting for the board's operations, where the results and impact of the board's work for the past year shall be evaluated, as well as the timeliness and efficiency of the rules of procedure and guidelines
- updating risk mapping and risk management, principles for the supervision systems, such as approval rights for expenses and contracts

The right to information

The board of directors and administrative council members have the right of access to information that is necessary for conducting their tasks. The board of directors and administrative council agree on how the information will be requested from the operative management and auditor.

Board of directors meetings

The board of directors shall convene regularly and with sufficient frequency for implementing the foundation's purpose and asset management. The board members must participate in meetings after having thoroughly familiarised themselves with the affairs.

The meeting procedures are recorded in the rules of procedure of the board of directors. Consecutively numbered minutes of the meeting shall be kept for the board meetings, and permanently and reliably stored with annexes. The decisions of the board must be clear and understandable and carefully justified.

The board of directors may hold different thematic meetings. The themes may include, for example

- a planning meeting for the operational year, where the goals and meeting schedules for the following year shall be decided

Summoning of the foundation's board meeting and preparation of the meeting agenda are the responsibility of the chairperson of the board, but the practical arrangements can be agreed on in the rules of procedure.

Disqualification in decision-making

A board member or functionary of the foundation shall not participate in preparation, processing or decision-making for a matter if it concerns a contract or legal issue between the foundation and the abovementioned person, or if the person otherwise anticipates essential benefit that may be in conflict with the foundation's benefit.

The board member or functionary shall not participate in processing a matter concerning a grant or other gratuitous benefit if the person themselves or their family member, other close relative or a community or foundation under their control is the beneficiary.

Board members shall always announce any commitments or conflicts of interest that may affect decision-making before making preparations for the matter. Furthermore, a disqualified person cannot participate in implementing the decision unless absolutely necessary.

What is stated above regarding a board member shall also apply to a member of the administrative council and managing director.

Board committees and commissions

Management of the board of director's tasks in an efficient and purposeful manner may require establishing committees and commissions. Committees or commissions are established to prepare for investment operations, property development, grant allocation, large projects or fundraising.

The board of directors shall elect the members of the committees or commissions amongst themselves, the foundation's employees or, when needed, outside the foundation. The committees may prepare matters within the foundation's sphere of operations and familiarise themselves with these matters more comprehensively and deeply than the whole board of directors. The committees and commissions shall report regularly to the board regarding their work. They do not have independent decision-making power in matters concerning the foundation, even though during the old law, the foundation's rules delegated independent decision-making power to the body. The board of directors oversees the amendment of the rules to conform to the new law in terms of committees and commissions without delay when the new law enters into force.

Administrative council

If the foundation has an administrative council, its composition, term of office and election method of its members shall be determined in the rules of the foundation. The members and possible deputy members of the administrative council are elected, according to the rules, by either a party outside the foundation or by the administrative council itself. The foundation aims for a party outside the foundation to appoint at least a part of the administrative council's members. Members of the board of directors, managing director or functionaries shall not be elected for the administrative council.

The administrative council supervises the foundation's administration that is the responsibility of the board of directors and the managing director. In addition to the above-mentioned, the tasks of the administrative council may include e.g. appointing members of the board, determining fees and verifying the foundation's financial statement, activity report, action plan and budget. The statutory tasks of the board of direc-

tors cannot be transferred to the administrative council.

The mission of the administrative council is to advance the foundation's benefit. The benefit of the foundation's background community or a member's personal benefit may never surpass the foundation's benefit in the operations of the administrative council.

The administrative council may release the board of directors and the managing director from liability, which means that the administrative council cannot afterwards file an action for damages against those released from liability if the factor that the liability is based on has been known and discussed when granting the release from liability. Regardless of the release from liability granted by the administrative council, the Finnish Patent and Registration Office, another party determined in the rules and an injured party outside of the foundation may file an action for damages against those released from liability. The founder has the same right, unless such right has been restricted in the rules.

The administrative council may have their own written rules of procedure.

After the new law has entered into force, the foundation decides whether the operational body that is superior to the board of directors shall be changed to an administrative council in accordance with the new law, or not. If the operational body is changed to an administrative council, the foundation shall see to changing the name and tasks of the operational body equivalent to the administrative council, as well as the registration of the members of the administrative council in accordance with the new law immediately after the new law has entered into force.

Delegation

Instead of an administrative council, the foundation may have a delegation, whose role is mainly advisory. The delegation is not an operational body belonging to the foundation's management.

The delegation's tasks and meeting procedures are determined in the foundation's rules. The tasks of the delegation may be, for example, appointing and discharging board members as well as appointing auditors. In addition, the delegation's tasks may include e.g. providing statements on matters related to the foundation's operations and changes in the rules as well as processing

the financial statement and activity report. The delegation may have a significant task e.g. in creating a co-operation network related to the foundation's operating environment, fundraising related to the foundation's operation, or structuring the principles related to implementing the foundation's purpose.

The liability regulations regarding management responsibility are not applied to the members of the delegation. The liability for damages of a delegation member may be agreed on between the members of the foundation and the delegation. The delegation members may have to be liable for damages also in accordance with the Tort Liability Act.

Managing director and other director

The foundation's rules regulate on the managing director and secretary general and their tasks, if the foundation has or may have a managing director or secretary general. The managing director is an operational body belonging to the foundation's management. The secretary general is a director in a position of trust or in an employment relationship. The title managing director must not be used for the secretary general.

The director of operational bodies in the foundation shall be referred to as managing director. The board of directors of the foundation shall elect the managing director. The managing director cannot be the chairperson or a member of the foundation or a member of the administrative council, because these bodies constantly supervise the foundation's administration, which is the responsibility of the managing director.

The managing director supervises the implementation of the foundation's purpose and manages other daily administrative tasks in compliance with the guidelines and orders given by the board of directors (general competence of the managing director). The managing director is responsible for ensuring that the foundation's accounting abides with the law and asset management is organised in a reliable manner. The managing director must provide the board of directors and its member information that is necessary for the management of the board's tasks.

The managing director may undertake unusual or extensive measures, with respect to the scope and quality of the foundation's operations, only if the board of

directors has authorised him/her to do so or the board's decision cannot be expected without causing substantial problems to the foundation's operations. In the latter case, the board must be notified of these measures as soon as possible.

The titles executive vice president or executive director, for example, can be used for the secretary general. Unlike the managing director, the secretary general is not an operational body defined in the law, even though there are rules regarding the secretary general. The board of directors of the foundation guides and supervises the operations of the secretary general and shall decide in writing who shall act as the secretary general's supervisor. The managing director of the foundation cannot be elected as a secretary general in an employment relationship, or vice versa.

The secretary general's tasks are defined in the foundation's internal guidelines and in the (employment) contract made with the secretary general and approved by the board of directors. The secretary general may undertake substantial or extensive measures in terms of the foundation's operations only if authorised by the board of directors. Without the authorisation of the board, the secretary general may not donate, lend, sell, exchange or pawn the property of the foundation or take a loan. The secretary general is not allowed to decide on essential measures related to implementing the foundation's purpose, such as allocating significant grants or establishing, expanding or terminating an institution maintained by the foundation. In relation with the board of directors, the secretary general has a preparatory and executive role.

Other management and personnel

In addition to the managing director or secretary general, the organisation, tasks, responsibilities and supervision of the rest of the operative management and other necessary bodies are described in the foundation's rules of protocol.

A foundation may have functionaries in positions of trust or in employment relationships, as well as other employees. They must be sufficiently qualified and experienced for their tasks. The employees' tasks shall be defined in the internal rules of protocol and employment contracts.

Related parties and contractual commitment to the foundation

The purpose of the foundation cannot be producing financial benefit for a related party. Measures with related parties are not forbidden if the following conditions are met:

- 1) Measures with related parties must be justifiable through the foundation's purpose and modes of operation.
- 2) Measures with related parties must be reported in the activity report.

Forbidden financial benefit means a benefit that cannot be justified by the foundation's purpose or operations. Related parties may gain financial benefit only based on the same conditions as the rest of the target group that meets the foundation's purpose. Any financial measures with close related parties must be reported in the activity report. See more information in the section "activity report" on page 26.

The board of directors and managing director of the foundation are responsible for ensuring that the regulations regarding related parties are known in the foundations' operations.

Extended related parties include:

1. the founder of the foundation and a person, community or foundation with authority in the foundation, or subsidiary community or foundation of such parties or the foundation
2. a member of the foundation and community referred to in paragraph 1, a member or deputy member of the foundation's board of directors or administrative council, managing director or his/her deputy, a liable partner and auditor
3. a secretary general of the foundation or other person who takes part in the foundation's management
4. a family member of a person referred to in paragraphs 1–3
5. other close relative of a person referred to in paragraphs 1–3
6. a community or foundation under the authority of a person or a group of people working together referred to in paragraphs 1–5.

A family member refers to a spouse or unmarried partner, one's own or a partner's child and their spouse and offspring as well as one's own and a spouse's parent, grandparent and their parent.

Other close relatives refer to the sibling and step-sister or stepbrother and their spouse and partner of a person referred to above in paragraphs 1–3 and the paragraphs regarding a family member, as well as the child and grandchild, parent or grandparent of the person referred to in this paragraph.

The concepts subsidiary community and subsidiary foundation as well as authority are defined in the Accounting Act.

Close related parties include the persons, communities and foundations mentioned above in paragraphs 1–4 and 6. However, close related parties do not include communities or foundations under the authority of the close relatives of people referred to in paragraphs 1–3.

The foundation shall prepare guidelines on related parties, which are applicable to their own foundation's operations. Risks related to forbidden measures with related parties are easiest to minimise with good guidelines on related parties. What is essential is that the related parties are not favoured in a manner in breach of the law and that the correct information on measures with related parties are compiled for the activity report (see model table on p. 27). The guidelines on related parties shall define:

1. who are related parties,
2. what the foundation's usual measures regarding related parties are (such as fees and services purchased from related parties),
3. grant allocation process with disqualification rules,
4. how the measures with related parties are reported in the foundation and subsidiary communities as well as in the foundation's activity report,
5. the process regarding handling and decision-making related to commercial and other contracts for related parties,
6. how to ensure the market conformity of measures with related parties,
7. how the board of directors shall supervise measures with related parties,
8. communication of the guidelines on related parties and management commitment to these guidelines.

The foundation shall make sure that any member of the administrative council and the board of directors, managing director, secretary general, another person who takes part in the foundation's management and auditor have familiarised themselves with the guidelines on related parties and committed to observing them. The guidelines on related parties shall also be distributed to the foundation's founders and those using authority in the foundation as well as to boards of directors of the foundation's subsidiaries.

Should the foundation have a related party registry, the foundation shall make sure that the registry is used and maintained with respect to the privacy of the people in the registry, and only used for performing the duties set in the Foundations Act.

The foundation's related parties shall avoid contractual commitments with the foundation. Such commitments include e.g. contract assignments between the foundation and a related party, asset or service donation agreements, loans, investment of assets, lease or user agreements and cooperation agreements. Should the benefit of the foundation require such agreements, the board of directors must demonstrate that they serve the foundation's benefit. The agreements are handled and decided upon by the board of directors of the foundation if they deviate from the foundation's usual operations. Contracts and business transactions with related parties are mainly made based on market prices.

In some cases, measures with related parties may involve implementing the foundation's purpose. In this event, the contract may be made with a related party on the same terms as with others belonging in the target group of the foundation's purpose. For example, a foundation supporting housing for disabled people may rent an apartment to a disabled member of the board of directors, as long as the selection is made and the rental contract prepared on the same terms as for others who receive the support.

In terms of exceptional and substantial measures, the board of directors of the foundation aims to clarify with due diligence whether the party to the agreement can be considered as a related party.

Such persons who are considered as related parties of the foundation are not granted loans unless these are a part of the implementation of the foundation's pur-

pose. Fees paid to related parties must be customary and based on necessary work performed for the benefit of the foundation.

Fees

Fees may be paid to the members of operational bodies if this is not forbidden in the rules of the foundation. The fees for members of operational bodies are reported in a manner provided by the Foundations Act.

The board of directors decides about the fees. If the foundation has an administrative council, it shall decide on the fees paid to the board of directors. The salaries and fees for the managing director, secretary general, or other operative management shall be decided upon by the board of directors. The administrative council shall decide upon its own fees.

A person is disqualified from participating in handling and decision-making for a matter related to his or her own fee. If it is stated in the rules that the board of directors or the administrative council shall decide upon their own meeting fees, a member of these bodies is not disqualified from participating in handling and decision-making regarding the matter. Should the fee be decided upon in the same meeting where new members are elected, the decision regarding the fee shall be made before election of the new members.

The fees paid by the foundation must be customary in relation with the quality and extent of its operations. Fees refer to meeting fees, other fees, salaries, remunerations, compensations and other benefits that a member of an operational body receives from the foundation. The same applies to a fee or other compensation paid to a person in the foundation's management from a corporation or consolidated foundation.

The conventionality of the fees shall be supervised regularly and continuously by the internal supervision systems of the foundation. The auditor inspects annually whether the fees and compensations paid to the members of the foundation's operational bodies and those paid by its subsidiary communities and foundations can be considered customary.

It is important to remember that the purpose of the foundation is not financial gain for the founder, member of an operational body or other functionary.

4. OPERATIONS OF THE FOUNDATION

Implementing the foundation's purpose

The foundation's rules determine the purpose and the methods for implementing the purpose. The board of directors and the managing director are responsible for organising the foundation's operations in such a manner that the foundation's purpose is implemented in the best possible way. Effective and successful implementation of the foundation's purpose requires a different strategy in different phases of the foundation's lifespan and the changing circumstances of the operating environment.

The task of the foundation's board of directors is to form the foundation's strategy based on the purpose and its implementation methods determined in the rules. With the help of a well-prepared and implemented strategy, the foundation's operations are logical and efficient, and it is easy for the foundation to communicate its operations to interest groups. The time span for the foundation's strategy may be from three to five years. In addition to the strategy, it is useful to plan long-term objectives, even as far as ten years into the future.

The following shall be justified and defined in the strategy:

- goal of the operations
- modes of operation and methods for reaching the goal
- priorities or choices in allocating grants, for example, and
- resources and expertise required for the operations.

The foundation may increase the impact of its operations by implementing temporary projects and engaging in cooperation with NGOs, companies, institutions and authorities. The foundation may, within the limits of its rules, also try new modes of operation and decide on how to continue based on the experiment.

The strategy must be updated as the society and the operating environment change. The board of directors shall regularly examine the relevance and impact as well as the efficiency of the strategy and evaluate whether the

foundation's operations create the added value that fulfil its purpose. In this event, the board of directors shall examine the achievement of short-term and long-term goals in relation with the purpose of the foundation and the funds available. An essential part of the evaluation is assessing the board's own operations.

It is also good to take a stand on the preparations for decision-making in the strategy, such as whether it is purposeful to establish a separate committee or council for a project or for handling grants or investments.

Grants and subsidies

An essential part of the operations for a grant foundation is the allocation of grants, scholarships, support and subsidies (hereafter the term "grant" is used to refer to all of these). The board of directors ensures that the grant by-law or other written guidelines guide the allocation of the grants in line with the purpose of the foundation and possible funds. In addition, the board of directors defines the principles and practices observed in allocating the grants. These include e.g. determining the total sum allocated for grants, making the decision regarding the matter as well as regarding the principles for determining individual grants.

In grant allocation, the needs of the society and the supported fields should be taken into consideration. The foundation regularly evaluates the impact of its grant operations and the possibility for cooperation with other actors.

If the foundation implements its purpose mainly by allocating grants, the foundation shall use a significant part of its profit for the grants. When allocating grants, the foundation shall pay attention to their impact and efficiency as well as that the grants are used for the purpose for which they were given. For further information, please refer to *Sustainable Use of Funds for Foundations* guide by the Council of Finnish Foundations.

The foundation prepares operating guidelines for processing the applications in order to advance purposeful and expertise-based decision-making. The guidelines also include regulations regarding disqualification in handling and decision-making. Expert proce-

dures have been written in the grant by-law.

It is recommended that the foundation does not allocate grants or equivalent benefits to members of its board of directors, members of its operational bodies, experts or other trustees or related parties.

For foundations operating in limited areas of science or art, it may be difficult or even impossible to find non-disqualified experts. In such situations it is particularly important to agree on disqualification principles and record them in the grant by-law or similar document. This also applies to handling grant applications for people working as subordinates of the trustees or experts or in working groups.

The foundation makes sure that the information regarding grants applied for and allocated reaches the groups of applicants. The application forms and instructions for filling them out must be clear and available on the website of the foundation. The grants that have been allocated shall be announced without delay and clear instructions given at the same time for how to act in order to collect the grant and how the progress of the work must be reported. In the event that the payment of the grant may be suspended or the paid grant may be recovered, this should be clearly announced at the latest in the notification on the reception of the grant. At the same time, the grounds based on which the suspension or recovery of the grant is possible must be announced. The grant recipients shall be notified also about grant taxation and pension and accident insurance rules and regulations. The Farmers' Social Insurance Institution Mela advises grant recipients with insurance questions.

When allocating individual scholarships, the foundation takes into consideration living costs, general development of the earnings level as well as sector-specific salaries. A tax-free grant alone does not necessarily guarantee sufficient livelihood for its recipient.

It is good to examine the application deadlines for the grants from the point of view of flexibility and purposefulness. For example, for grants allocated for travel and conference costs, a continuous or biannual application period may be well justified.

Awards

A foundation may, within the scope of its rules, allocate awards based on the same principles as grants. An award is an acknowledgement of work already performed, which distinguishes it from grants that are used to fund future work.

The foundation's other operations and own projects

If the rules allow, a grant foundation may implement its purpose by implementing its own projects. These include e.g. publishing activity and organising scientific events or maintaining a research institution, artist residency, archive, art collection, museum or another facility. If the foundation implements its purpose through its own projects, regular evaluation of the purposefulness and efficiency of the operations must be particularly emphasised.

Implementing the purpose as business operations

A foundation cannot be established for the purpose of doing business. However, the foundation may implement its purpose also through business operations mentioned in its rules; for example, many foundations in the social sector do so by providing care and housing services. In this event, the foundation must make sure that the purpose of the foundation will be taken into consideration in the business strategy.

Foundation in a corporation

In terms of a foundation's operations, it may be purposeful to transfer a part of the operations (such as business operations) to a subsidiary, if the purpose of the foundation and its rules allow for such transfer. In this event, the foundation and subsidiary form a corporation where the foundation is the parent company.

The foundation is the parent company of the corporation when it has authority in the subsidiary company or foundation, in other words

- more than half of the voting stock, or
- the right to appoint or discharge the majority of the members in the board of directors of the company or foundation, or
- the right to appoint or discharge the majority of the members in another operational body of the company or foundation, which has the right to appoint or discharge the majority of the company's or foundation's board of directors, or
- the right to use other means of de facto authority.

When the foundation's assets are transferred to a subsidiary, business risks must be identified so that the business operations do not risk the implementation of the foundation's purpose. The board of directors of the foundation is responsible for ensuring that the whole foundation group advances the implementation of the foundation's purpose.

The foundation may also be in the position of a subsidiary in the corporation from the point of view of accounting. The foundation, which belongs in the corporation as a subsidiary, operates independently and implements only its own purpose. It becomes a subsidiary when some legal person has the right to appoint the majority of the foundation's members or the members of such operational body that has this right.

The party with the right to appoint the members may decide only about the appointment of the mem-

bers of the foundation's operational bodies and auditors, no other affairs concerning the foundation. The members of the foundation's operational body have a loyalty obligation only towards the foundation. The subsidiaries and their boards and managing directors are related parties of the foundation, as well as the parent company or foundation and its management. It is recommended that the business operations within the corporation will be made at fair market prices.

Impact and its evaluation

Impact evaluation is a tool for the foundations to develop and improve their own operations. It is not an external obligation, but a possibility to evaluate what works in the foundation and what could work better. The impact evaluation of a foundation measures how well the operations of the foundation correspond with the purpose defined in its rules or its strategic focuses. Impact evaluation is not to be confused with evaluating the foundation's operations.

Monitoring and evaluating the foundation's impact shall be established as part of the development of the foundation's operations. With the help of the impact evaluations, the role and meaning of the foundations in the society become clearer. Further information is available in the Council of Finnish Foundations' guidebook *A Foundation with Impact! Principles and Practices of Evaluating the Impact of Foundations*.

“With the help of a well-prepared and implemented strategy, the foundation's operations are logical and efficient, and it is easy for the foundation to communicate its operations to interest groups.”

5. FINANCES OF THE FOUNDATION

The goal of the foundation's financial management is the uninterrupted implementation of the foundation's purpose now and in the future. The foundation's board of directors (and managing director) are responsible for the assets confided to them. There are written principles for financial management, and they are updated and their implementation is monitored regularly.

Asset management

The foundation's asset management includes, in addition to managing the assets used for the foundation's operations, investment operations and possible business operations. The asset management must be systematic. The asset management plan includes plans for investment operations, business operations as well as for the foundation's capital assets. The management's general obligation to diligence shall apply to all asset management of the foundation.

Management of assets used for operations

The board of directors and the managing director of the foundation manage and supervise the foundation's capital and liquid assets carefully and make sure that there are funds available for the implementation of the foundation's purpose.

The board of directors and the managing director ensure that replacement and additional investments of the capital assets can be carried out when needed and on time. For real estate, the board of directors confirms the maintenance plan, in which the repair needs are defined in terms of parts of buildings, amounts in euro and timing of the implementation. The liquid assets must secure the liquidity and the uninterrupted operations of the foundation, regardless of the economic fluctuations.

Investment operations

Investment assets refer to assets that are not in immediate use of the actual operations, but the profit from which is used for funding the actual operations.

The board of directors and managing director are responsible for ensuring that the foundation's assets have been systematically invested. Short-term liquidity and long-term impacts on the funding shall be taken into account in the investment operations. More detailed principles for investing and planning the use of assets are available in the Council of Finnish Foundation's guidebook *A Sustainable Use of Funds for Foundations*.

The board of directors defines the principles of the investment operations and monitors that they are observed. The foundation's investment policy shall define

- the goals of the investment operations
- the permitted asset types
- investment allocation and margin within the allocation
- risks, and
- monitoring and reporting.

In addition, the principles of responsible investment may be defined. The board of directors defines the authority of the operational bodies, functionaries and external asset managers related to investment operations.

In practice, another party than the board of directors may be responsible for investment of assets. However, together with the managing director, the board of directors shall have the responsibility for the foundation's asset management. In the rules of the foundation, asset investment may be assigned as a task to an operational body or a functionary of the foundation, such as an asset management committee, managing director or another body, functionary or secretary general. The board of directors may also authorise the foundation's managing director or another body, functionary or an external party to execute the board's decisions. A written asset management agreement must be prepared for an assignment given to an external party, clearly defining the authorities and responsibilities of the asset manager. The board of the foundation must carefully supervise that the internal guidelines and the asset management agreement are observed.

The results of the investment operations, the implemented allocation and development of market values shall be regularly reported to the board of directors.

The board analyses the results, looks after the assets and takes up measures necessary at each time.

The foundation or a person in its management must not act in the foundation's interest using inside information of a listed company. Therefore, if the foundation or a person in its management has confidential information in accordance with the Securities Market Act, it must not be used for securities trading or disclosed to another person. All those handling such information in the foundation are considered as insiders in this sense, and a registry of these persons specific to the listed company shall be prepared in the foundation if necessary. The insiders and close related parties intended in the Securities Market Act differ from the related parties of the foundation intended in the Foundations Act. Further information is available from the Securities Market Act, Finnish Chamber of Commerce and the company-specific guidelines regarding related parties.

In the overall evaluation of the matter and in terms of closely associated persons, the EU regulation regarding market abuse (Regulation EU No 596/2014, Article 19) that will enter into force on 3 July 2016 must be taken into consideration.

Business operations for acquiring funds

The foundation may also acquire funds through business operations, if this is mentioned in the rules.

The diligence obligation of the board of directors and managing director concerns the entire corporation and thereby covers also business operations. The board of directors and managing director must monitor the result and risks of the business operations. If the business operations for acquiring funds are unprofitable or the risks are too high, the business operations should be denounced. What is essential is to carefully evaluate future prospects and possibilities for amending the development. When selling business operations, it is important to remember the foundation's benefit, which means that the sale should be made at a fair market price.

Other fundraising measures

The foundation may also raise funds through other means to fund its actual operations. The board defines

the goals, methods and the practices and ethical principles to be observed in fundraising.

Donations and wills

The board ensures that the funds received by donations and wills will be used for implementing the foundation's purpose in compliance with the donor's or testator's will.

The foundation shall not accept donations or wills that are not in the interest of the foundation or that are not allocated for operations that are in line with the foundation's purpose, or that have conditions that the foundation is not able to or does not wish to fulfil. The foundation must verify the legal capacity of the donor as well as the fact that the will has been made and the donation given voluntarily without constricting the rights and operations of the donor.

After being informed of the will, the foundation shall make sure that the estate has been appropriately settled. When operating with an estate, the foundation preserves the donor's privacy, operates with secured procedures and manages the realisation of the property in a tactful manner. The foundation documents the property, particularly the valuables, for example by taking photographs.

The foundation shall make public the donations that it receives. In special cases, the foundation may refrain from making the donor's name public at the donor's request.

Money collection

The foundation shall acquire appropriate licences for implementing money collection and raffles and abides with the legislation related to them. In marketing money collection activities and raffles, fair practices and ethically sound principles shall be observed. In marketing, the foundation's background, the manner of collecting and the use of the money will be clarified. The profit, costs and use of net profit from the money collection shall be reported in the foundation's activity report as well as on their website.

Public subsidies

If the foundation receives subsidy from public sources, the appropriate notifications of the use of the subsidy shall be made to the funding provider. The unused funds shall be returned to the funding provider in accordance with the terms of the subsidy. Public subsidy shall be reported in the action and annual plan as well as on the website.

Debt financing

The foundation may take debt for its actual operations, for example in order to build or repair a property or facility related to its operations. Funding investment operations with debt financing may increase the risks of investment operations and jeopardise the tax exemption of the investment operations as well as the charitable quality of the foundation.

The board of directors of the foundation shall decide upon debt financing, its terms and securities. Before taking the debt, a financing plan shall be prepared to ensure that the foundation will be able to pay the debt and its interest within the agreed schedule.

Financial administration

The board of directors and the managing director are responsible for ensuring that the financial administration of the foundation is organised in an appropriate manner. Clear and functional financial administration will support the implementation of the foundation's purpose as well as monitoring and supervision. Financial administration must produce reliable and up-to-date reports regarding the foundation's financial situation, profit and operations for the foundation's management and supervision. The foundation shall submit all necessary information to the authorities in due time.

The foundation may organise implementation of financial administration itself or use outsourced services. If the foundation does not have the necessary competence or resources for managing financial administration, outsourcing the service from an external accounting company is sensible.

Appropriate handling of grants and other expenses requires that the practices for their approval, documen-

tation and payment are clear. So-called risky work combinations, e.g. use of the foundation's funds without sufficient surveillance, should be avoided.

As an employer, the foundation shall manage payment of salaries to the employees, legislated costs related to the salaries and reports to be made to the tax authority and insurance companies.

Outsourcing

The foundation may outsource operations related to operative activities and administration that support the implementation of its purpose. However, responsibility cannot be transferred or externalised, but the responsibility for the purposefulness of the administration, asset management, organisation and operations always belongs to the board of directors and the managing director.

Outsourcing may help the foundation focus on implementing its purpose when functions requiring special competence or routine functions are given to a professional specialised in their management. Outsourcing must not obscure the management or structures of responsibility in the foundation, or who makes the decisions regarding the foundation's affairs.

Outsourcing may also be helpful with preventing so-called risky work combinations. Risky work combinations refer to situations where only one or a few persons manage the financial administration tasks without sufficient supervision. For example, no one should approve their own costs or payments, and a subordinate should not approve the expenses or payments of their supervisor.

Operations that can be outsourced may include portfolio management, property maintenance and management, leasing operations, information technology, accounting, payroll and fundraising activity.

Separate contracts shall be prepared for outsourcing, and they will be closely monitored. The contracts must also take into consideration that this is a matter of implementation of a decision by the board of directors or managing director, not transferring decision-making power to a party outside the foundation.

The usefulness and purposefulness of outsourcing should always be weighed in relation with the foundation's expenses and efficiency of the operations.

Procurements

The foundation may procure services and commodities that are related to the implementation of its purpose, development of its operations, administration or asset management.

The board of directors, managing director and functionaries may make customary procurements for the foundation. Procurements that deviate from the customary require a decision by the board of directors. Procurement authorities are recorded, for example, in the foundation's rules of procedure.

The foundation may grant customary acknowledgements to the personnel and interest groups. These include anniversary presents, for example. Moderation is observed in representing the foundation. Events intended for interest groups are a part of the foundation's justified public relations operations.

Accounting, financial statement and activity report

A foundation is always obligated to keep accounts, and it must abide with sound accounting procedure. The foundation shall prepare a financial statement and activity report for each fiscal year. The practices related to this are guided by the general guidelines, statements and other opinions of the Finnish Accounting Board.

The board of directors and managing director are responsible for ensuring that the financial statement and activity report present accurate and sufficient information regarding the financial situation, profit and operations of the foundation and the foundation group. The requirement for accurate and sufficient information also concerns the dependent foundations (self-covered funds) and other restricted funds.

The board of directors and managing director sign the financial statement and activity report. If the foundation has an administrative council, it will confirm the financial statement and activity report.

It is recommended that the financial statement and activity report be as open as possible and that they exceed the statutory minimum requirements.

Financial statement

The financial statement contains the balance sheet, income statement and explanatory notes. The parent company of the corporation must always prepare a consolidated financial statement that is included in the financial statement. A cash flow statement shall be attached to the financial statement, if this is necessary in order to describe the foundation's cash flow.

The financial statement for the subsidiary need not be combined in the consolidated financial statement if combining them is unnecessary in order to provide accurate and sufficient information regarding the foundation's operations and financial position. The board of directors evaluates when the consolidated financial statement shall be prepared and which subsidiaries shall be combined with it. The profit and financial position of the subsidiaries that have not been combined and the internal transactions of the foundation and its subsidiary shall be explained as openly as necessary in the financial statement.

The documents that are a part of the financial statement or attached with it must be clear, and they must form a coherent whole. The board of directors of the foundation shall confirm the principles of preparing the financial statement, such as asset valuation principles and depreciation periods.

Activity report

The activity report shall report in what manner and how profitably the foundation has operated in order to implement its purpose. In addition, all grant recipients, the purpose of the grant and the allocated sums shall be recorded. An exception is such grant recipients for whom the publication of their names would reveal sensitive information about their social position or state of health, for example, or pose a danger to the recipient. The foundation may also alternatively report in the activity report where the publically available information of the grant recipients can be found.

The activity report shall present information about essential events during the fiscal year and after it has ended, as well as a forecast of plausible future developments. In the event that the foundation's business operations include research and development activities, their extent must be reported. The activity report information

may also be provided as annexes to the financial statement, should this be allowed in the Accounting Act.

The market value for the foundation's assets shall be presented in the activity report or in the annexes to the financial statement for the part that the market value is known. The activity report shall report the maintenance need and plan of the foundation's property. The activity report shall provide an explanation regarding structural changes that have happened in the foundation group as well as changes in the foundation's rules.

The activity report shall provide information regarding subsidies allocated to related parties and other financial measures conducted with related parties. The information must show the nature of the relationship with the related party, description of the measures or fi-

nancial benefits and the monetary value of said measure or benefit in accordance with the table next page.

The basis for the trustees' fees shall also be reported: meeting and/or annual fee or other basis.

Business operations conducted with the foundation's subsidiary company or foundation, such as service contracting, as well as loans granted, securities, contingent liabilities and mortgages shall be mentioned separately.

The annual report and activity report differ from each other. The content of the activity report is restricted to the statutory information requirements. The annual report is a more extensive report about the implemented operations, operating principles and objectives and, for example, its societal significance. See more on page 31.

TABLE OF RELATED PARTIES

MEASURES OR FINANCIAL BENEFITS IN EUR		NATURE OF THE RELATIONSHIP WITH RELATED PARTIES				
		1	2	3	4	5
A	MANAGEMENT SALARIES, FEES AND PENSION COMMITMENTS	-	€	€	-	-
B	CONTRACTS	€	€	€	€	€
C	ALLOCATED SUPPORT	€	€	€	€	€
D	LOANS GRANTED, SECURITIES AND CONTINGENT LIABILITIES	€	€	€	€	€
E	A VERBAL DESCRIPTION OF MEASURES AND FINANCIAL BENEFITS					

NATURE OF THE RELATIONSHIP WITH RELATED PARTIES

- 1 Founder of the foundation and other party with authority in the foundation or their subsidiary community or foundation.
- 2 A member of the foundation and community referred to in section 1 and a member or deputy member of the foundation's board of directors or administrative council, managing director or his/her deputy, a liable partner and auditor.
- 3 A secretary general of the foundation or other person who takes part in the foundation's management. If only one manager is included in group 3, such as secretary general, the information in this section can be combined with section 2.
- 4 A family member of a person referred to in sections 1-3.
- 5 A community or foundation under the authority of a person or a group of people working together referred to in sections 1-4.

* a spouse or unmarried partner, one's own or a partner's child and their spouse and offspring as well as one's own and a spouse's parent, grandparent and their parent.

EXPLANATIONS FOR MEASURES AND FINANCIAL BENEFITS

- A For the part of the board of directors, administrative council and deputy members, managing director and his or her substitute, secretary general and other person who takes part in the foundation's management, salaries and fees and pension commitments for these tasks shall be reported. In this section, such fees as meeting fees, annual fees, salaries, pension commitments, consulting fees and other monetary compensations that are granted to such persons who are a part of the management of the foundation or participate in the management must be reported.
- B In terms of contracts, leasing, consulting and sales contracts shall be reported. All contracts for commercial operations made between the foundation and its related parties must be reported in this section, unless reported in another section. If the commercial operations include reductions for the related party, the contract price is lower than the market price, the value of the benefit is described in section E.
- C The allocated support may be e.g. a grant, subsidy, award and other partially or completely gratuitous financial benefit, such as partially or completely gratuitous user benefits obtained from a foundation owned by a related party.
- D In addition to the amount in EUR, the notification must explain how the loans, securities and contingent liabilities are related to implementing the foundation's purpose, modes of operation and financial management, as well as their primary terms.
- E Here the nature of the financial measures may be described in more detail (e.g. "C2 allocated grant EUR x. B4 consulting contract made with the child of the secretary general EUR x"). In the event that this main group does not provide accurate and sufficient description of the nature of the performed measure, more information shall be provided in the activity report or the table in the annexed information.

What should be included in the activity report

The statutory information shall be reported in the foundation's activity report. Supplementary information can also be presented in the annex to the activity report or the annual report.

The activity report shall always include the following:

1. What is the purpose of the foundation and how the foundation has operated in order to fulfil its purpose.
2. Information regarding essential events during the fiscal year and after it has finished.
3. Forecast of plausible future development and factors influencing it.
4. Clarification on the extent of the research and development operations.
5. Information about the fees for the members of the board of directors and administrative council as well as the managing director.
6. Information regarding grants allocated to close related parties, other partially or completely gratuitous financial benefits granted to them as well as other financial measures conducted with related parties. The information must show
 - a. the nature of the relationship with the related party
 - b. a description of the measures or financial benefits, and
 - c. the monetary values of abovementioned measures or benefits in accordance with the table below.
7. Information about loans, liabilities and contingent liabilities granted to close related persons. The information must show
 - a. the nature of the relationship with the related party
 - b. a description of the measures or financial benefits
 - c. the monetary values of said measures or benefits
 - d. primary terms of the loans, liabilities or contingent liabilities
 - e. how they are related to implementing the pur-

pose, modes of operation and asset management.

8. A clarification if the foundation has acquired its authority over another organisation with an accounting obligation
9. A clarification, if the foundation has been part of a merger during the fiscal year.
10. An explanation, if the rules of the foundation have been amended during the fiscal year.

A large organisation with accounting obligation (Accounting Act 3:9.2) shall present in the activity report in addition:

1. Forecast on the financial situation and profit of the foundation, including all key figures and other information on
 - a. personnel
 - b. environmental factors
 - c. other possibly significant factors in the foundation's operations.
2. Most significant risks and uncertainty factors in terms of the extent and structure of the operations in an equal and comprehensive manner.

The following can be presented in the annex of the activity report or in the annual report as supplementary information:

1. all grant recipients, purpose of the grant and allocated amounts.
2. the property market value, as far as the market value is known.
3. the maintenance need and maintenance plan for the foundation's property.
4. possible group structure and the structural changes that have taken place.
5. general principles on
 - a. the basis for forming management's fees.
 - b. how a related party can receive grants and benefits from the foundation.
 - c. defining the market value of measures with related parties.

6. COMMUNICATION, OPENNESS AND INFORMATION MANAGEMENT

Transparency and clarity are the cornerstones for the foundation's communication, as well as taking different target groups into account. Through successful communication, the foundations may tell about their operations and social impact, and thereby implement their purpose and their donors' will.

The foundation has many connections on different levels with the surrounding society. The communication is regulated by laws, regulations, good practice, moral obligations and the expectations that foundations face. A significant law in terms of the foundations' operations is the Personal Data Act. For the most part, the Act on the Openness of Government Activities does not concern foundations.

The guidelines published by the Council of Finnish Foundations for its members, *Communication of Foundations*, examines the foundation's communication extensively from different perspectives from practical communication to crisis situations.

Openness

Foundations have a significant societal meaning. Grant foundations allocate support for science, art, education work and other useful purposes based on discretion and within the scope of their own purpose.

The position of a foundation as a revered institution is due to its good reputation, which is based on irreproachable operations in order to implement the foundation's purpose. A good reputation is a central success factor for the foundation, and cherishing it is particularly important. For this reason, the guidelines for the foundation's communication are openness and transparency. In terms of openness, it is important to disseminate information about the operations and their results in many different ways.

The foundation shall compile statistics on how its support is distributed between different fields. The information that the foundation collects about allocating its support to different fields is useful in order to evalu-

ate the operations and increase the impact. In addition, openly published statistical information enhance general understanding of the funding in a certain field.

The best method of sharing information is a good website with structured and sufficient information about the foundation and its operations. A good way to increase openness is an annual report that the foundation may prepare for its interest groups, describing the operations in a versatile manner.

The foundation's interest groups

The foundation has many interest groups that should be taken into consideration in planning and directing communication activities. The foundation's interest groups are, on one hand, all the parties that are impacted by the foundation's operations, and on the other hand parties that have the biggest impact on the foundations when they so wish. The foundation shall be in constant and sufficiently close cooperation with its most significant interest groups in order to know what kind of expectations they have for the foundation. It is good to provide additional information to the interest groups about the foundation's operations according to their interests.

Central interest groups for grant foundations, to whom communication about the foundation's operations and implementing the foundation's purpose should be directed, are grant applicants and recipients, representatives of the founders as well as previous and current donors.

Interest groups interested in the foundations' operations are also the so-called general public and public authorities, who require information as a basis for decision-making, for example. It is also important for the foundations to provide information to each other and the Council of Finnish Foundations, in addition to increasing information about foundations on a general level.

Online communication

The foundation must have its own, regularly updated and clear website because the internet is the most important source for those interested in the foundations. An up-to-date website with high-quality visuals and content that openly introduce the foundation's operations reinforces the foundation's good reputation.

The foundation shall publish on its website at minimum:

- contact information for the foundation and the head of the foundation
- composition of the board of directors and administrative council
- its rules
- its financial statement and activity report
- calls for applications and application instructions
- allocation decisions for grants
- current newsletters
- corporate structure
- information regarding fundraising and received donations

Including the foundation's trustees contact information, such as phone number or e-mail address, on the website requires their consent.

The website may also discuss the foundation's history, founder and future goals. If the foundation is committed to abiding with the *Best Practice for Foundations* and a member of the Council of Finnish Foundations, it is good to mention it.

The visual look and usability of the foundation's website are important. The up-to-date quality of the information must be looked after. In the 2010s, good online communication requires continuous development and ensuring that the content is up-to-date and interesting. Social media communication methods, such as blogs, Twitter and Facebook, may help the foundation communicate openly about their operations and effectively reach grant applicants.

Annual report and reporting

The annual report and activity report differ from each other. The content of the activity report is restricted to the statutory information requirements. The annual re-

port is a more extensive report about the implemented operations, operating principles, objectives and impact, in other words societal significance. The annual report may also describe the foundation's strategic aims and future plans, which, at best, guide both operations as well as reporting.

The principles for allocating grants, all grant recipients and allocated sums shall also be published in the annual report, similarly to the activity report. In addition, a statistical explanation shall be provided for the distribution of the foundation's grants between different fields, target groups or other categorisation that best describes the foundation's operations. In connection with the annual report, the foundation shall also explain the other ways in which the foundation has implemented its purpose and publish the financial statement and activity report information that have been audited.

Openness shall be applied in the annual report. Reporting must be clear and sufficient so that the reader will have a good picture of the foundation, its operations, funding, results and financial status. It is good to illustrate the text with pictures and graphic presentations. The target group for the annual report may be – in addition to close interest groups – the media, public authorities and the general public. The needs of the target group should also be taken into consideration in the description of the operations.

It is recommended to use the information for internal reporting openly also in external communication. If there is a piece of information that is important in guiding or managing a foundation, it can also be made public. The foundation develops its reporting in an innovative manner when its operations and operating environment changes.

The annual report shall be available on the foundation's website, and its content is the same in electronic form as it is in print.

The foundation's information management

The foundation operates in accordance with good information management practice and good practice in management of personal data. The "customers" are the grant applicants. The foundation has the right to process the applicants' information in accordance with the

data protection requirements set in the Personal Data Act. The data protection concerns all personal data that the foundation has collected, saved, used, processed or disclosed.

The personal data processing chain thereby ensures that only those entitled to the data can use and process the data. As a registry keeper, the foundation must implement all necessary measures for protecting personal data. The foundation prepares registry descriptions and a data protection policy for all the generated personal registries, and these are published on the foundation website. If the grant application will be done online, the data protection policy must be published in connection with the call for applications. Due to data protection reasons, grant applications do not obligate applicants to give their social security numbers or account information; these shall be requested primarily only from those who receive a positive decision.

It is good for the foundation to plan the practices, processes and rights to use the information related to applying and allocating grants from the point of view of good practice in information management. The foundations abide with the evaluation criteria they have de-

finied and make them openly known to the applicants and other parties.

A person managing the foundation's affairs shall keep secret the information it has found out regarding another party's business or professional secrets, financial status or personal circumstances. The foundation ensures that the documents and files to be kept secret are marked as confidential, encrypted, filed or destroyed as appropriate.

In terms of negative grant decisions, the foundation must consider whether the applications should be saved due to reasons of historical information or supervision. In terms of the allocated grants, the foundation must be able to check the information in the application of the funded project until the project has finished and it has been reported. Furthermore, authorities' control may require availability of information, and due to this reason applications that lead to positive decisions are kept for at least ten years after receiving the report regarding the use of the grant.

The Office of the Data Protection Ombudsman provides further information regarding data protection and good practice in data processing.

“Transparency and clarity are the cornerstones
for the foundation's communication,
as well as taking different target groups into account.”

7. SUPERVISION

The foundation's supervision is divided into internal and external supervision. Internal supervision covers all the foundation's processes and systems that ensure that the foundation implements its purpose and that its asset management is systematic. External supervision refers to auditing and supervision by authorities and other external parties, which ensures that the foundation operates in accordance with its rules and the law.

Internal supervision

The aim of internal supervision and risk management is to ensure that the foundation's operations are in accordance with the law, the foundation's rules and the principles in use in the foundation, and that the information is reliable.

The task of the foundation's board of directors is to supervise the administration that is the responsibility of the managing director. The board of directors shall also ensure that the supervision of the foundation's accounting and asset management is appropriately organised.

The task of the administrative council is to supervise the administration that is the responsibility of the board of directors and the managing director.

The managing director shall provide the board of directors and administrative council with the information necessary for managing their tasks.

The managing director or other person responsible for operative activities manages the daily administration of the foundation in accordance with the guidelines and orders of the board of directors. The task of the managing director is also to supervise that the operational bodies under his/her control have been organised in accordance with the law, rules and the decisions and instructions of the board and the managing director.

The supervision task covers the entire foundation group. The board of directors must supervise that the foundation's purpose, ethical principles and strategy are observed in the whole group. The supervision can be managed in such a manner that, for example, all or some of the board members in the group's companies are the same as in the board of the foundation, or so that the boards of the subsidiary companies report to the parent company's board of directors.

Internal supervision systems

An operational supervision system shall be created for supervision purposes. In supervising, it is important to create clear roles and responsibilities in the organisation, as well as sufficient supervision processes. The tasks, authority, responsibilities and duties of the board of directors, chairperson of the board and managing director or other person responsible for operative activity, as well as the principles for reporting, are defined in the rules of procedure of the board of directors. Even in smaller foundations, these factors are recorded in the board meetings and kept up to date.

The supervision system helps to ensure, for example, that all the revenue is recognised as income in the foundation's accounting in the correct amounts, that the foundation pays only expenses within its own sphere of operations which have been appropriately approved, and that its assets are safe.

The board of directors and managing director shall supervise that all measures with related parties are registered and reported appropriately.

Internal reporting

The board of directors determines internal reporting procedures that are sufficient in terms of the quality and extent of the operations. Internal reporting is an important part of the foundation's management and internal supervision. Reporting shall be made in writing and it must be clear and open.

Reporting also includes a clarification on the foundation's profit, financial position, funding and operations as well as how these have changed and deviate from what was planned. This may also include information about personnel and other important affairs in terms of management.

Risk management

The board of directors defines and records the essential risks of the foundation's operations as well as risk management procedures that are sufficient in terms of the quality and scope. The board of directors and the man-

aging director monitor the risks involved in the operations of the foundation and its subsidiary companies. The most significant risks and uncertainty factors shall be reported in the activity report or annual report.

One of the essential risks of the foundation is losing its reputation. A good reputation advances the foundation's possibilities to have competent experts and members of the operational bodies within its sphere of operations, as well as skilled personnel. Also private donations and wills are directed to reputable foundations.

Preventing criminal activity

The foundation shall find out the origin of the donations it receives. The foundation shall observe legislation for preventing and investigating terrorism financing and money laundering. The foundation shall report to the Financial Intelligence Unit in Finland about any suspicious business transactions and suspicions about terrorism financing.

External supervision

External supervision for the foundation is performed by auditors, the Finnish Patent and Registration Office and possible external parties mentioned in the foundation's rules. The changes required by the Auditing Act that will enter into force on 1 January 2016 must be taken into consideration by the foundations, as well as the requirements of the Accounting Act that will change accordingly. This guide is based on regulations that are in force on 1 November 2015 and the regulations of the Foundations Act that came into force on 1 December 2015.

Audit

The audit is a statutory duty for all foundations. The auditor investigates the foundation's accounting, financial statement, activity report and administration and prepares the auditor's report. The foundation's auditor's report must include, in addition to the information required by the Auditing Act, a statement regarding whether the foundation's financial statement and activity report provide information about the foundation's operations that are essential for evaluating the regula-

tions concerning the foundation's purpose and modes of operation. The auditor gives a statement on the conventionality of the fees and compensations provided within the foundation group.

Auditing is an investigation on statutory requirements, not an investigation on purposeful operations, and therefore the audit does not comment on the purposefulness of decision-making. An audit does not replace the supervision responsibility of the board of directors.

Organising an audit

The board of directors and other management of the foundation must reserve the auditor an opportunity to conduct the audit to the extent that they consider necessary, and to provide the auditor with further clarifications and assistance if requested.

The terms of the auditing assignment shall be agreed upon in advance. The terms shall be recorded in the letter of assignment or other equivalent contract. The document generated in this manner shall verify the acceptance of the assignment and define the objectives and scope of the audit, the duties of the board of directors and the auditor as well as the form and manner of reporting. The focus points of the audit can be agreed upon with the auditor.

The auditor has the right to be present and speak at a meeting of an operational body where matters regarding the auditor's tasks are handled. The auditor has a duty to be present in a meeting where the matters handled are such that his/her presence is necessary.

Choosing an auditor

The foundation must have at least one auditor. The auditor must be independent of the foundation. Should the foundation have an administrative council or delegation, it shall choose the auditor. The auditor may be a KHT or a HT(M) auditor or firm. If the foundation is controlled by a municipality or a joint municipal authority, a JHT(T) auditor or firm may be selected in addition.

The total duration of the auditor's subsequent terms of office may be at most seven years. After this time period, the auditor may participate in the foundation's au-

dit again no earlier than four years after the completion of the auditing duties. If an auditing firm has been selected as the auditor, the obligation to change the auditor does not concern the firm but only the main auditor as a natural person.

The board of directors must ensure that the parties choosing the auditor have sufficient information regarding the auditor candidates. When choosing the auditor, the auditor's expertise and experience with auditing foundations must be taken into consideration. The auditor's consent to the task must be verified before the selection. At least one of the foundation's auditors must be selected as the auditor for its subsidiary company.

Notifications and reports to authorities

The foundation shall deliver, within the deadline, statutory documents and reports regarding its operations and finances and information regarding the implementation of its purpose. Information regarding paid grants and received donations shall be submitted to the tax authorities. The grants shall also be reported to the Farmers' Social Insurance Institution Mela, which manages the grant recipients' pension and social insurances.

Official requests for clarification shall be returned immediately by providing the necessary information

regarding the auditing and supervision of the foundation in a truthful and unchanged form. The information required by supervision shall not be encrypted or destroyed.

The foundation's auditor must, if requested by the Finnish Patent and Registration Office, disclose the information regarding the foundation that is necessary for the performance of its supervisory task. The same applies to the foundation's parent community and subsidiary communities.

The foundation's auditor may also voluntarily notify the registering authority about a matter or decision that they have discovered when performing their duty. The auditor shall discuss the matter with the board of directors before making the notification, if possible.

Other external supervision

The foundation's founder and other party mentioned in the rules of the foundation has a right of appeal regarding the foundation's decisions, as well as the right to file an action for damages against the members of an operational body of the foundation for damages incurred to the foundation. However, this does not give the founder or other external parties the right to make decisions about matters concerning the foundation.

“Internal reporting is an important part of the foundation's management and internal supervision.”

8. TAXATION

Taxation shall only be briefly examined in the following, and all the factors affecting taxation cannot be specified here. Further information regarding the taxation of foundations is available from the Finnish Tax Administration.

New Foundations Act and taxation

The reform of the Foundations Act did not change the taxation of foundations as such. The tax liability of foundations shall still be determined based on tax legislation. The reform of the Foundations Act may, however, in some situations indirectly affect the tax evaluation or tax supervision of the foundations.

Charitable foundation

The foundation's charitable quality in terms of taxation is regulated in tax legislation. A foundation is charitable in the event that it simultaneously meets the following criteria:

- it operates exclusively and immediately for the common good in a material, spiritual, moral or social sense
- the foundation's operations are not focused on restricted circles of people
- With its operations, the foundation does not produce financial benefit to its members as dividend or profit share or as unreasonably high salary or other compensation

A foundation must annually use its income for implementing its charitable purpose. A charitable foundation cannot transfer funds to reserves to a disproportionate extent, unless implementing the foundation's purpose specifically requires transferring funds to reserves.

The charitable nature of the operations are not decided by the amount of euros or ratios, but the Finnish Tax Administration evaluates the impact of the investment operations or transfer of funds to reserves on a case-by-case basis, based on total deliberation. Long-term allocation policy shall be taken into consideration

in the evaluation. It should also be noted that the evaluation is conducted based on tax legislation. Simply the fact that the foundation operates in accordance with the requirements of the legislation regarding foundations does not necessarily make the foundation charitable. For example, a family foundation must operate for the common good and its operations cannot be restricted to a certain restricted circle of people, such as the members of one family, in order for the foundation to be charitable from the perspective of taxation. Similarly, the immediate focus of the foundation's operations for the common good is evaluated based on taxation and legal procedures.

Tax liability in terms of income tax and value added tax

A charitable foundation is liable to pay income tax for business income and real estate income when the real estate is not used for a common or charitable purpose. Liability for value added tax is related to income tax: the foundation is liable to pay value added tax mainly only for business income. Therefore the foundation's value added taxation only actualises when some income is considered as business revenue in income taxation.

However, a foundation may voluntarily apply for value added tax liability for operations in leasing properties and apartments, based on the conditions regulated in the Value Added Tax Act. In this event, the foundation may deduct the value added tax included in repair and management costs from the value added tax added to the leasing prices.

Business income

A list of such operations that are not considered as business operations can be found in the Income Tax Act. For example, the income received from fundraising performed in the form of collecting petitions, cards, banners or other such commodities is not considered as taxable business revenue. If the foundation practises (business) operations that are not mentioned in the Income Tax Act, it shall be evaluated on a case-by-case

basis whether the operations are considered as taxable business operations.

When evaluating whether an activity is to be considered as business operations, such factors that refer to business operations are operating under competitive circumstances, focusing operations to a non-restricted circle, conducting operations for the purpose of earning money, repetitiveness, stability, risky operations, operations that generate a large portion of the organisation's fundraising, hired personnel, large turnover, transferring funds to reserves and focusing operations on customary merchandise or deliverables. The opposite criteria refer to a charitable foundation. Another mitigating factor is support received for the operations from public assets, or the fact that the operations are related to the foundation's charitable operations. The guidelines of the Finnish Tax Administration describe the difference between business operations and tax-exempt operations with examples.

Tax treatment of investment operations

Even extensive and active investment operations are not, in principle, considered as business operations for a charitable organisation. Investment operations have generally been considered as tax-exempt operations in tax and legal practices when the foundation only uses their own assets for the investment operations, and when a significant part of the annual dividend, interest and other such profit has been used to implement the foundation's charitable purpose.

Taxation for donations

Based on certain conditions, companies can deduct the donations they give to charitable foundations in their taxation.

The right to deduction concerns donations made for science, art or Finnish cultural heritage. The lower limit of a deductible donation is EUR 850 and the upper limit is EUR 50,000. The recipient of the donation must be a foundation, association or a fund in connection with these, appointed by the Tax Administration and located in Finland or in the EEA area. The Finnish Tax Administration publishes a list of the appointed foundations and associations on its website.

In order for a donation made to a foundation to be deductible, the foundation must apply for an appointment decision from the Finnish Tax Administration, in accordance to Section 57 in the Income Tax Act. The decision can be obtained for five years at a time at most. A foundation that has received the appointment decision must report all the deductible donations that are deductible for the company and their use to the Finnish Tax Administration. The Tax Administration shall provide further instructions on the matter.

All donations received by a charitable foundation are free of gift and inheritance tax.

Taxation of grants and awards

With certain conditions, grants are tax-exempt income to their recipients. The grant-provider does not pay tax or employer payments for the grants.

In the taxation of a grant recipient, it is significant whether the grant has been received from a public entity or a private party, such as a foundation. A grant received from a public entity for studying, scientific research or artistic activity, as well as an award for scientific, artistic or charitable activities are completely tax-exempt income.

Grants received from foundations and other private parties, as well as acknowledgement awards, are taxable income for such part that they and the grants and awards received from public entities in total exceed the annual amount of the state artist grant. In 2015, the tax-exempt amount is EUR 20,070.64. The information about the amount of the artist grant can be found on the website of the Arts Promotion Centre Finland.

The taxability of awards is determined in the same manner as for other grants. However, the Ministry of Finance may decide based on application that an award granted for scientific, artistic or charitable activity is completely tax-exempt income. The application is free in form and it should include the justifications for the tax exemption.

When allocating grants, the foundation shall not only examine the tax-exempt amount of the grant, but also living costs and general development in the earning level. A person living on a tax-exempt grant alone is not eligible for tax deductions that often increase the realistic standard of living.

9. THE COUNCIL OF FINNISH FOUNDATIONS

The Council of Finnish Foundations is an association for Finnish grant providers, the only benefit and support organisation for foundations in Finland. The significance of charitable foundations in our society is notable: in 2014, the 160 member foundations of the Council alone supported Finnish art, science and culture with more than EUR 415 million.

The Council of Finnish Foundations was established in 1970, when thirty Finnish grant-providing founda-

tions and associations started keeping contact regularly. The Council, which has operated as a registered association since 2003, is known as the voice of the Finnish foundation field. The Council of Finnish Foundations operates together with other social, scientific, artistic and cultural actors as well as grant-recipients and the media. International interaction and cooperation are an integral part of all its operations.

SERVICES FOR MEMBERS

The Council of Finnish Foundations provides advice with issues related to foundations and provides its members and others interested in foundations with versatile information.

FOUNDATION TRAINING: Training session intended for the members' functionaries and trustees are organised regarding topical themes, from the foundation's administration to the use of social media. The training sessions are organised with cost price, which means that they are significantly more affordable than the training offered by commercial providers.

SEMINARS AND OTHER EVENTS: The Council organises annually two topical seminars in the foundation field, with the best experts in the field as speakers. Other seminars and events are also organised according to need.

DISCUSSIONS AND MEETINGS: At the Council's events, you can meet colleagues and exchange opinions and new ideas. Active and free discussion is an important part of the members' meetings.

REPORTS AND MEMBERS SURVEYS: The Council of Finnish Foundations prepares reports for the members' use regarding the operations, administration and public image of foundations, and performs surveys regarding different kinds of governing procedures, such as basis and level of fees.

PUBLISHING ACTIVITIES: The Council of Finnish Foundations publishes regularly different guidelines and recommendations. All the publications are free for members also in print: *Best Practices for Foundations*, *Good Governance of Foundations*, *Sustainable Use of Funds for Foundations*, *A Foundation with Impact*, *Improving the Position of a Grant Researcher and Communication of Foundations*.

REGULATIONS CONCERNING FOUNDATIONS

A selected list of regulations that specifically mention foundations.
The updated regulations are available in Finlex, www.finlex.fi.

Regulations concerning foundations

Foundations Act (24.4.2015/487)	Act on Tax Relief for Certain Non-Profit Organisations 13.8.1976/680
Act on Enforcement of the Foundations Act (24.4.2015/ 488)	Act on Slot Machine Funding 23.11.2001/1056
Act on Supervision Fee for Foundations 20.12.2013/1048	Act on Taxation of Income and Wealth of a Person with Limited Tax Liability 11.8.1978/627
Decree on the Registry of Foundations 30.4.2015/553	Inheritance and Gift Tax Act 12.7.1940/378
Lotteries Act 23.11.2001/1047	Government Decree on Money Collections 15.8.1980/ 609
Lottery Taxation Act 26.6.1992/552	Money Collection Act 31.3.2006/255
Value Added Tax Act 30.12.1993/1501	Auditing Act 13.4.2007/459
Decree on Tax Relief for Certain Non-Profit Organisa- tions 16.12.1994/1230	Income Tax Act 30.12.1992/1535
Personal Data Act 22.4.1999/523	Employment Contracts Act 26.1.2001/55
Trade Register Decree 23.2.1979/208	Tort Liability Act 31.5.1974/412
Trade Register Act 2.2.1979/129	Act on Discretionary Government Transfers 27.7.2001/ 688
Accounting Decree 30.12.1997/1339	Business Information Act 16.3.2001/244
Accounting Act 30.12.1997/1336	
Business Income Tax Act 24.6.1968/360	



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