



FINANSTILSYNET

THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

STRATEGY

2010-2014

Adopted by the Board of Finanstilsynet on 24 November 2010



CORE VALUES

Finanstilsynet plays an important role for Norwegian industry and consumers by contributing to financial stability and well-functioning markets. Our standing and independence are based on the integrity and high ethical standard of each and every employee. In our work and in our dealings with others we aim to be:

PROFESSIONAL AND FORWARD LOOKING

- With a grasp of complex issues and risk
- Applying high standards to our assessments and decisions
- Ensuring our decisions are technically sound and objectively based

COMMITTED AND COURAGEOUS

- Ready to challenge assessments and standpoints in-house
- Having the courage to take difficult decisions and loyally stand up for them
- Having the will and ability to understand and adapt to change

RELIABLE AND CLEAR

- Making predictable decisions that ensure equality of treatment
- Communicating our assessments and decisions in a clear manner
- Taking responsibility for our decisions and their outcomes

OPEN AND RECEPTIVE

- Maintaining fruitful dialogue with supervised entities, trade associations, government bodies, consumers and other stakeholders
- Ready to meet stakeholders who wish to speak or discuss with us about matters of relevance to our work
- Acting in a way that instils public confidence in our assessments and decisions

FOREWORD

Every four years Finanstilsynet reviews its strategy to ensure that its objectives and instruments are adequately adapted to the challenges faced. In the run-up to the review a broad-based survey has been conducted of changes expected in markets and in the regulatory framework, and the views and experiences of supervised entities and partner bodies have been obtained. The strategy underlies Finanstilsynet's annual business plans, and is implemented by way of these plans.

The statutory basis for Finanstilsynet's activity is laid out in the Financial Supervision Act:

Finanstilsynet shall ensure that the institutions it supervises operate in an appropriate manner in accordance with law and provisions issued pursuant to law and with the intentions underlying the establishment of the institution, its purpose and articles of association.

Finanstilsynet is taking forward its main goals of **financial stability and well-functioning markets**. Main goals, intermediate goals and instruments and measures in various areas must be viewed in conjunction. Finanstilsynet will seek to safeguard the interests of consumers, other actors and society as a whole.

The years ahead will bear the imprint of the severest financial crisis the world has seen since the 1930s. Rules and supervision need much improvement in many countries. New international obligations will make demands on Finanstilsynet in terms of regulatory development, reporting, operational supervision and cooperation with

other countries' supervisory bodies. In addition to complying with its new obligations, Finanstilsynet will need to assure the necessary risk monitoring and risk prevention in markets and individual institutions.

The financial industry's information and advice to consumers on saving, borrowing and investments need close attention to assure a sound basis for well-informed saving and investment decisions. The main responsibility for such decisions rests with the consumers themselves.

Many of Finanstilsynet's new tasks will be resource demanding. However, the Authority cannot expect to continue its recent years' rate of expansion. It will need both to streamline its activities and to accept that not all tasks can be given equally high priority.

Finanstilsynet has developed a supervisory approach involving dialogue and contact with institutions under supervision – through the latter's trade associations and through meetings and other contacts. Finanstilsynet will continue to build on this dialogue model in the years to come. However, to discharge its functions properly it also needs to censure, and enforce sanctions against, irresponsible risk takers and rule breakers. Verifying compliance with, and effectively enforcing, laws and rules are an important task for Finanstilsynet.

Oslo, 24 November 2010



Endre Skjørestad
Board chair



Bjørn Skogstad Aamo
Director General



FINANSTILSYNET'S GOALS

MAIN GOAL

Finanstilsynet's main goal is to promote financial stability and well-functioning markets.

INTERMEDIATE GOALS

1. Financially sound and liquid financial institutions
2. Good monitoring of risk in the economy and markets
3. Consumer protection through good information and advice
4. Fit and proper management and satisfactory governance at institutions
5. Robust infrastructure ensuring satisfactory payments, trade and settlement
6. Adequate and reliable financial information
7. Good market conduct
8. Effective crisis management

MAIN GOAL

Finanstilsynet's main goal is to promote financial stability and well-functioning markets. Behind this goal lie important economic considerations. Financial stability and well-functioning markets are key to assuring confidence in the financial system and stable economic growth and to protecting the users of financial services.

The financial system makes capital from households, firms and states with a savings surplus available to sectors with a savings deficit and investment opportunities. Actors adjust their level of risk to suit their risk-bearing ability and willingness. The financial system promotes efficient distribution of society's resources and contributes to economic growth.

Financial stability enables the financial system to absorb disturbances and unexpected shocks and to discharge its functions, thereby avoiding major, negative consequences for the wider economy. Well-functioning markets promote efficient distribution and pricing of capital and risk. There is a close link between financial stability and well-functioning markets. Without financial stability, markets cannot distribute capital and risk in an efficient manner. If capital is not distributed efficiently, and risk is wrongly priced, the upshot may be financial instability.

The financial crisis brought to light major deficiencies in the regulation and supervision of the financial industry in many countries, and shortcomings in many financial institutions' risk management and business practice. This has weakened faith in markets' self-regulating ability and prompted wide-ranging proposals for legislative and supervisory reforms. In the drafting of legislation the benefits of reduced risk of financial instability are weighed against the higher costs of stricter regulation.

Financial stability

Financial institutions, financial markets and the financial infrastructure together make up the financial system. Stability problems can originate in any one of these, but will often unfold and intensify through an interplay of parts of the system. Problems in individual institutions, especially larger financial institutions, can spark contagion effects to other institutions.

Macroeconomic shocks affect a number of institutions simultaneously, and often originate in imbalances that have built up over time. Too high growth in property and stock prices and too low borrowing costs can lead to high consumption, too high investments and too high borrowings. The build-up of major imbalances and bubbles in financial, commodity and property markets is historically speaking among the greatest threats to financial stability. When bubbles

burst, the effect feeds directly and immediately into the economy, and can in the worst case translate into a self-augmenting negative spiral.

Macroprudential supervision has come more to the fore in international forums. The crisis demonstrated that national authorities were insufficiently aware of systemic risk and of measures able to mitigate such risk. Finanstilsynet has long experience of macroprudential supervision and of dealing with financial stability issues. It is important to coordinate instruments building on macroprudential supervision with instruments used in the supervision of individual institutions. Finanstilsynet is well equipped to further develop macroprudential supervision with a basis in its systematic surveys and its oversight of institutions in the financial markets. All use of instruments to mitigate systemic risk takes place in collaboration with the Ministry of Finance and Norges Bank.

Stability problems often bring a general loss of confidence due to their uncertain nature or magnitude, and because it is difficult to know beforehand which institutions are most at risk. Shortcomings in the financial system infrastructure will also pose a risk of loss of confidence and stability problems.

Given the financial system's large significance for the real economy, institutions are subject to a comprehensive body of rules. Regulation and supervision of institutions' capital adequacy, liquidity, risk management and deposit insurance schemes also give consumers security with regard to their bank deposits, insurance claims and pensions.

Well-functioning markets

Competition and information are basic to markets' efficient functioning. In a well-functioning market, prices and interest rates reflect the underlying economic realities, uncertainties in the economy and market actors' risk tolerance. Excessive price growth can be due to overly optimistic assessments of future economic growth or understatement of risk. Excessive price growth is often followed by large price falls. Irrational pricing and too low or too high risk premiums intensify economic fluctuations and lead to less efficient allocation of capital and risk.

A well-functioning market is predicated on good liquidity, sufficient size and low transaction costs. This is true for the banking, insurance, real estate, securities and commodity markets. In a well-functioning capital market, risk is distributed so that actors best equipped to bear various types of risk do so, while actors not wishing to assume a particular type of risk can hedge against that risk. Access to a broad set of financial instruments and to risk diversification, for example

FINANSTILSYNET'S GOALS

through placements in mutual funds, life insurance companies and pension funds, promotes efficient capital allocation. Market efficiency also depends on properly functioning and secure payment, clearing and depository functions.

Timely and precise information and advice enable actors to make decisions in keeping with their wealth position, employment and income situation, and risk tolerance. Wide-ranging requirements are made of the content of prospectuses, of firms' periodic and ongoing publication of information, and of the auditing of financial information as a means of ensuring confidence in disclosed information and equal access to such information in terms of content, accessibility and simultaneity.

Regulations and supervision are designed to prevent insider trading and other market abuse. Other rules aim to ensure independence

of advice and impose a wide-ranging information requirement on advisers on and vendors of financial products. Important consumer protection considerations underlie the regulation of business conduct in the estate agency and debt collection area. Active inspection of actors' compliance with laws and regulations and effective enforcement of sanctions against rule breakers are important for achieving well-functioning markets.

Consumers such as savers, borrowers and insurance policy holders need protection due to the complexity of the products, and because the financial consequences of their investments may be substantial and difficult to gauge. Incentive systems utilised by providers of financial products may in some cases conflict with customers' interests and premises.

INTERMEDIATE GOALS

1. FINANCIALLY SOUND AND LIQUID FINANCIAL INSTITUTIONS

Finanstilsynet is required to see to it that financial institutions and investment firms have sufficient capital to withstand unforeseen setbacks. Sufficient capital has to be accumulated in good times to absorb losses and value falls in deep economic downturns. This capital must be ample enough to maintain confidence in the institutions, enabling them to raise fresh capital and refinance their operations in a downturn. Finanstilsynet seeks to ensure that

financial institutions have the liquidity and the robust funding needed to maintain normal lending in periods of poorly functioning money and capital markets. In view of the major financial groups' importance to financial stability, particular weight is given to their solidity and liquidity. Finanstilsynet is expected to play an active part in international supervisory cooperation addressed to border-crossing financial institutions of significance for Norwegian financial markets.

2. GOOD MONITORING OF RISK IN THE ECONOMY AND MARKETS

Finanstilsynet analyses and assesses potential stability problems in Norway's financial industry against the background of developments in the Norwegian and international economy, and uses this information in its ongoing oversight of individual institutions. Macroprudential supervision requires alertness to possible imbalances, bubble tendencies and corrections in markets and the economy that may threaten financial stability. Potential stability problems resulting from contagion effects

between institutions and markets are also assessed. Finanstilsynet will combine and utilise information from its supervision of individual institutions with information from its macroprudential supervision. The Authority will further develop and actively use instruments to mitigate systemic risk. As part of its macroprudential supervision Finanstilsynet will exchange information and collaborate with the Ministry of Finance and Norges Bank to find appropriate risk-mitigating measures.

3. CONSUMER PROTECTION THROUGH GOOD INFORMATION AND ADVICE

Through its supervision of advisers and product providers Finanstilsynet will seek to ensure that product sales and advice are sound and suited to the individual customer. Sales and advice must be based on customers' ability to understand what investments, loans, insurance and pension products entail. As part of its consumer

protection effort Finanstilsynet will introduce new European requirements for information on savings and investment options with regard to banking, insurance and securities products. Finanstilsynet's checks on real estate agents' market conduct and their compliance with due care requirements are also important for consumer protection.

4. FIT AND PROPER MANAGEMENT AND SATISFACTORY GOVERNANCE

Finanstilsynet will ensure that entities under supervision have good governance, are properly run and conduct their business in accordance with applicable rules. Finanstilsynet will critically assess whether business activities are based on a sound business model and will see to it that firms actively monitor and control all important risks. It is important for financial stability that firms have in place

good risk management systems as a basis for ensuring sufficient capital and liquidity. Firms' risk management must also be sufficiently robust and sound to deal with operational risk. Fit and proper management, satisfactory risk management and internal control will help to ensure that firms comply with the conduct of business rules, which are important for markets' proper functioning.

5. ROBUST INFRASTRUCTURE ENSURING SECURE PAYMENTS, TRADING AND SETTLEMENT

Finanstilsynet will contribute to a robust infrastructure featuring secure and stable information and communication systems. Finanstilsynet must ensure that payment services systems – including online banking and card facilities – are efficient, effective and secure. It is important that integrated technological systems function satisfactorily and that the risk of criminal acts arising in connection with internet-based solutions is under control.

Finanstilsynet will seek to ensure that marketplaces function in such a way that investors can be certain that prices of securities and other financial instruments are based on updated and relevant information. Finanstilsynet will see to it that settlement systems are secure and efficient, enabling the market to function efficiently and attract investors. Finanstilsynet will work to ensure that settlement and depository functions are organised in accordance with international standards and the objective of an integrated European securities settlement system.

6. SUFFICIENT AND RELIABLE FINANCIAL INFORMATION

Finanstilsynet will ensure that ongoing and periodic information from listed companies is sufficient, reliable and timely. The same applies to the quality of information published by institutions under supervision and their reporting to the authorities. Finanstilsynet will ensure that prospectuses, financial information and other reporting are in

conformity with applicable rules, and that the audit of companies fulfils its purpose and is of satisfactory quality. Through its supervision of external accountants and auditors, Finanstilsynet will help to ensure that annual accounts data from the business sector in general is of satisfactory quality. This is highly important for banks and other lenders.

7. GOOD MARKET CONDUCT

Finanstilsynet will ensure that the markets are characterised by appropriate rules of conduct, effective supervision and general good conduct on the part of the actors. A prerequisite for well-functioning markets and adequate investor and consumer protection is that all actors comply with laws, regulations and good practice. To achieve this, Finanstilsynet will in all areas of supervision contribute

to a high detection rate and a rapid and effective response in the case of rule breaches. Effective and rapid enforcement of the conduct of business rules, which include the prohibition of insider trading and price manipulation, promotes investor and consumer confidence in the markets.

8. EFFECTIVE CRISIS MANAGEMENT

Finanstilsynet will maintain preparedness to deal with critical situations and avoid harmful knock-on effects and lasting problems for the financial sector and financial services users. A preparedness must be in place to meet unforeseen problems in individual institutions, markets and infrastructure, and wider-scale crises in the financial system. The close collaboration with the Norwegian Banks' Guarantee Fund will continue.

collaboration for cross-border institutions. Finanstilsynet will play its part in ensuring that the guarantee schemes, including the deposit guarantee, function as intended and are practised in such a way as to minimise inconveniences to the individual customer. Further, Finanstilsynet will discharge its responsibility related to the Financial Infrastructure Crisis Preparedness Committee so that any crisis in this area can be handled in a satisfactory manner.

Finanstilsynet will hold regular national crisis drills, ensure good collaboration with other affected national authorities, and participate in international crisis exercises and in international supervisory



GENERAL TRENDS, CHALLENGES AND PRIORITIES

REAL ECONOMY AND MARKETS

The world economy has been through the gravest financial crisis since the 1930s. Although the acutest phase is behind us, considerable challenges remain. There is much uncertainty about the future of the real economy, and unemployment has risen steeply in several countries. Government finances in many countries were further exacerbated by the measures put in place to dampen the impact of the financial crisis. Weak economic growth could lead to key interest rates remaining low for some time. Sizeable government debt burdens and global imbalances make for uncertainty and are a treat to future financial stability.

While forecasts for the Norwegian economy suggest a moderate economic upturn in the years immediately ahead, uncertainty, especially as to international growth, is substantial. Low international interest rates limit the scope for rate increases in Norway and could, if long lasting, spur undue credit growth and excessive price inflation in real estate markets. There is a concurrent danger of wage growth rising to the point where industry's competitive position is weakened. The high uncertainty permeating Norwegian securities markets is closely tied to the uncertain outlook for the world economy and international markets. While Norway's banking sector is little

exposed to stock markets, for life insurers and pension funds a fall in stock market values poses a major challenge.

While key interest rates are unlikely to rise significantly in the short term, market turbulence and failing confidence could bring higher risk premiums in the money and bond markets. This would heighten liquidity risk and funding costs for banks and non-financial firms, cause substantial losses on corporate bonds and weaken the financial position of life insurers and pension funds. Low government bond rates pose a challenge to life insurers, making it more difficult to deliver promised pensions.

House prices are primarily influenced by household incomes and the general interest rate level. Norwegian households' debt burden is now unprecedented, and higher home mortgage rates could trigger payment difficulties in many households and a change in attitudes to house purchase. Norwegian households' and non-financial firms' income trend is affected by growth in the international arena and Norwegian industry's competitiveness. An international economic setback leading to rising joblessness could result in payment difficulties in the household sector.

FINANCIAL MARKET STRUCTURE

Further concentration is likely in the banking sector. Moreover, plans are afoot to convert savings banks to limited liability status. Consolidation can be expected in non-life insurance, real estate agency and debt collection. Channelling of home mortgage loans to mortgage companies is likely to fuel further growth of the market for bonds backed by home mortgages (covered bonds).

Foreign actors hold substantial shares of Norway's financial market. Growth in lending by Nordic banks has been strong, fuelling market competition. During the financial crisis, foreign financial institutions' credit growth slowed by a larger margin than growth in credit from Norwegian institutions. Finanstilsynet seeks to promote efficient competition and a level playing field for Norwegian-owned and foreign-owned institutions and market actors, and works for harmonised international supervision of institutions and markets. Foreign financial institutions and investor groups can have looser affiliations to the Norwegian market than their Norwegian counterparts. A stable and long-term behaviour on the part of market actors is especially important in crisis periods. Within the framework set by the EEA agreement, emphasis must be given to assuring the

development of competitive financial institutions with a Norwegian footing with a view to maintaining a stable and cost-effective financial services offering in the Norwegian financial market. Finanstilsynet will work for a larger degree of host country supervision.

The securities market infrastructure will grow in complexity, and competition among actors is expected to intensify. Finanstilsynet will have more marketplaces under its remit ahead. Competition between marketplaces in the securities field makes detection of unlawful market manipulation and insider trading a more demanding task. In the EEA area systems for improved market oversight have been developed, but much further refinement is needed. Internationalisation of settlement and clearing services has been further actualised. Use made of clearing houses, and the number of clearing houses in Norway, appear to be on the increase. Competition in the field of securities clearing and settlement systems and securities depository facilities has thus far been limited, but this will probably change, necessitating extensive coordination with foreign supervisory authorities.



GENERAL TRENDS, CHALLENGES AND PRIORITIES

Much operational risk attends the operation of financial institutions and financial infrastructure undertakings. Their business is complex, their transaction volumes high and their operations are supported by system-demanding ICT platforms. Increased outsourcing of systems and services to low-cost countries poses new challenges in terms of management of institutions' operational risk. The physical

and cultural separation between financial institution and service provider is widening. Management and control of service providers' activities is becoming more difficult. Organised crime, both transnational and national, targeting the financial sector is a growing problem, as is concentration risk resulting from the same provider having many roles, and/or servicing dominant parts of the market.

CHANGING FRAMEWORK CONDITIONS

The authorities and the financial industry will face extensive rule changes in the period ahead. Increased international regulatory harmonisation has brought more and more areas under common regulation, and the regulatory regime is increasingly comprehensive and detailed. Finanstilsynet's task will be to implement the new requirements in Norwegian legislation and to oversee market actors' compliance.

The new capital adequacy framework imposes stricter requirements on the quality and level of capital. Further, capital buffers will be introduced to ensure that capital adequacy does not fall below the statutory minimum in economic downturns, especially after a prior period of strong credit growth. A non-risk-weighted capital charge is also being introduced to prevent debt from becoming excessive in relation to equity capital, and new, detailed rules are being planned in the liquidity area. These requirements impose guides for firms' management of liquidity risk and for supervisory follow-up. Liquidity requirements must be set to ensure that firms can keep their business going for a certain period, even under very difficult market conditions. The requirements are also designed to secure a stable, underlying funding structure. Regulation will be introduced on a gradual basis in this area too.

Tighter requirements on systemically important financial institutions are being discussed in connection with the reform effort in the wake of the financial crisis. Higher capital requirements, intensified supervisory follow-up and mechanisms and rules to enable such institutions to be wound up without significant harmful effects


on the financial system are among the measures being considered. These measures will in the first instance be addressed to cross-border financial institutions of major significance for the stability of global financial markets.

In connection with the initiatives on crisis management and the proposal for bank resolution funds, the EU Commission has proposed wide-ranging changes in the rules governing deposit guarantee schemes.

The International Accounting Standards Board (IASB) has proposed new rules for write-down of losses on financial assets, which also cover traditional lending. An expected-loss model is scheduled for introduction in 2014. The new rules can help to reduce the procyclical behaviour of financial institutions.

A Solvency II framework covering insurance companies' activities, under preparation for some time, will introduce risk-based capital requirements, a requirement for institutions to conduct internal capital adequacy assessments, guidelines for supervisory authorities' capital adequacy reviews and rules regulating institutions' capital adequacy disclosures.

In the securities area the EU Commission is about to put forward proposals for the regulation of derivatives market infrastructure, regulation of short sales and credit default swaps (CDSs) and prohibition of uncovered short sales. A review of the MiFID Directive will also be completed in the course of the strategy period.



Under Norwegian legislation banks and investment firms are subject to the same information requirement and duty of care vis-à-vis customers when advising on and selling financial products. Other types of institutions, such as insurers and insurance intermediaries, are also offering products with much the same characteristics as products covered by MiFID. The EU Commission has asked for rules to be drawn up for packaged retail investment products (PRIIPs) to ensure that the requirements

on advice on and sale of products where the customer bears the investment risk are independent of product design and the sales channel.

Greater attention will be given to the pension legislation in the strategy period, prompted by the EU Commission's invitation to a public debate on future pensions and by legislative amendments proposed in Norway.

INTERNATIONAL COOPERATION

Finanstilsynet's involvement in international bodies is important, both in order to influence regulatory development and to gain the best possible understanding of the basis for international rules. Wide-ranging changes are now being made in institutions' regulatory framework and in the organisation of supervisory regimes and methods in the international arena.

EU is in the process of recasting its supervisory structure. A European Systemic Risk Board (ESRB) is to be set up with responsibility for macroeconomic surveillance and will provide advice and recommendations on monitoring and mitigating systemic risk. Today's European supervisory committees will be replaced by three independent European Supervisory Authorities, empowered to make decisions across national borders. The main responsibility for day-to-day supervision will remain with the national supervisory authorities. New rules to be introduced in almost all areas of supervision will need to be implemented by national supervisors. More and more areas are coming under wide-ranging, common regulation. Supervisory methodology and reporting to authorities will be harmonised on a broad front, and new systems for storage and exchange of market

data will be developed. The introduction and enforcement of international rules and cooperation will accordingly make increased demands of Finanstilsynet's resources and competence.

Further requirements are imposed on the establishment and operation of supervisory colleges for cross-border banks, insurers and investment firms. Cross-border institutions are of much significance in the Nordic financial market as elsewhere. Responsibility for ongoing supervision will remain with the national supervisory authorities. Establishment and management of and participation in supervisory colleges will require a greater resource input from Finanstilsynet.

The new supervisory system will go live on 1 January 2011. Finanstilsynet will retain its permanent observer role on the new supervisory bodies – European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and European Securities and Markets Authority (ESMA) – while Norway's participation as observer in ESRB will be on an ad hoc basis.

CHOICES AND PRIORITIES

Finanstilsynet still faces major tasks. There is significant uncertainty as to economic developments, and the financial industry will see major changes in its regulatory framework. New international rules place greater requirements on supervised entities and Finanstilsynet alike. This will require some increase in resources in the strategy period. Finanstilsynet covers a very broad field of activity, overseeing the entire financial industry as well as firms and actors of major significance for Norwegian industry and the economy as a whole. Finanstilsynet's activity is heavily influenced by external factors over which it has little control. For example legislative provisions, including wide-ranging licensing tasks, need to be complied with. Some areas, such as accounting and auditing, real estate agency and debt collection have adequate supervisory standards requiring little significant strengthening in the period. Where banks, investment firms and securities funds are concerned, ongoing supervisory activity has been stepped up in recent years. Further resource strengthening will need to be considered should the risk picture deteriorate.

Finanstilsynet must be prepared to respond to new challenges and new forms of risk in the strategy period, while at the same time ensuring a satisfactory quality of supervision in all areas and complying with international supervisory standards. In some areas the supervisory standard can in periods be lowered at times should Finanstilsynet's main goal call for a rebalancing of priorities.

Finanstilsynet will prioritise institutions and areas of greatest significance to financial stability and well-functioning markets.

The strategy period will be marked by an unusual level of uncertainty regarding the economy and financial markets in Norway as elsewhere. Monitoring, analysis and assessment of economic developments and financial institutions' position are important in enabling Finanstilsynet and its policy instruments to contribute to a stable, well-functioning financial sector. A good overview of the domestic and international economies and markets is now more important than ever, and is a key basis for risk-based supervision of individual institutions.

Finanstilsynet will attach great importance to macro-economic surveillance and macroprudential supervision in the strategy period.

The rule changes in important supervisory areas, including Basel III, Solvency II and PRIPs, will require a considerable resource input in the strategy period. New, wider-ranging solvency and liquidity requirements on banks and insurers, and new, detailed requirements on supervisory activity and supervisory methods initiated by the EU must be complied with. Regulatory development and licensing will both require resource inputs by Finanstilsynet. Participation in the EU's preparatory work is important for knowledge and understanding of a new regulatory regime. The usefulness of participation must be considered in each individual case. For life insurers the new solvency requirements will necessitate modification of the business rules.

Finanstilsynet will ensure that international requirements on institutions and supervision are implemented and complied with.

Information and advice to consumers on savings, loans and insurance products is important for confidence in the financial system and for markets' proper functioning. The same is true of good market conduct.

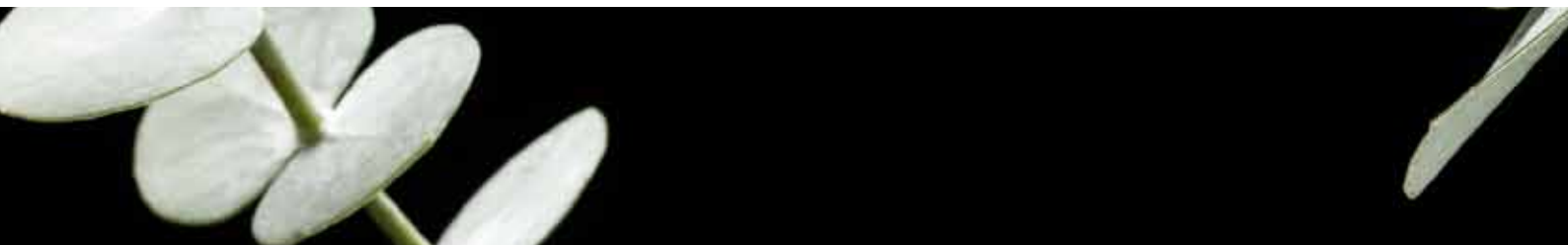
Finanstilsynet will attach great importance to investor and consumer protection and ensure a broad public awareness of its requirements and supervisory activities.

Major changes will be seen in securities market infrastructure and trading patterns ahead. Norwegian securities will be traded on more marketplaces, and a larger proportion of trade will take place in dark pools, i.e. unregulated, non-transparent marketplaces. This poses substantial challenges, and Finanstilsynet will follow developments closely and develop supervisory methods to meet the new challenges. Finanstilsynet has in recent years taken on a substantially wider role in the supervision of listed issuers' information provision.

Finanstilsynet will focus especially on structural changes in the securities field and attach importance to good oversight of information from listed issuers.



CHALLENGES AND RESPONSES IN THE AREAS OF SUPERVISION



BANKS AND OTHER CREDIT INSTITUTIONS

The financial crisis revealed a need for stronger regulation of the financial system, and the EU is amending the capital adequacy directive to this end. In some areas rules and supervisory practice have been more stringent in Norway than the EU: the composition of own funds at Norwegian banks is better than the EU average, and the supervisory effort – inter alia the review of banks' ICAAP processes – has brought capital adequacy levels in Norway above the EU average. It is important to ensure that capital levels and capital quality are maintained at a satisfactory level, particularly in the case of systemically important banks.

Finanstilsynet has prioritised the larger banks for on-site inspection and supervisory review of capital and risk assessments. Some smaller banks are subject to on-site inspection based on reported data or data from other sources. There is normally no annual review of capital and risk assessments made by smaller and well capitalised banks. This prioritisation increases the risk that problems at smaller banks will not be detected quickly enough. However, smaller banks have not experienced problems in recent years, and Finanstilsynet will maintain high preparedness and effective crisis management to minimise harmful effects for society should such problems arise.

The financial crisis led to liquidity problems for Norwegian banks. Compared with their counterparts in other countries, Norwegian banks have a fairly high deposit-to-loan ratio, but are none the less dependent on market financing. Refinancing needs in the next few years will be substantial. The new quantitative liquidity requirements proposed by the Basel Committee are likely to pose a challenge to Norwegian banks, for one thing owing to plans to substantially restrict the deposit base for long-term funding purposes. The requirement for a larger proportion of high-quality liquid assets could also be problematic in view of the relatively small market for long Norwegian government bonds.

Banks' management and control systems in the liquidity area have been improved. Liquidity problems during the financial crisis prompted a closer focus on risk among banks and at Finanstilsynet. Off-site supervision will be based in part on calculation and monitoring of liquidity indicators, and on reporting of compliance with the forthcoming quantitative requirements. This, together with on-site inspections, will encourage institutions to attach due importance to monitoring liquidity risk.

During the financial crisis several international banks, including Icelandic banks, encountered problems due to flawed business models. Finanstilsynet will seek to identify business models which could expose individual institutions and society to particular risk. It will do this when processing licence applications and in the course of routine supervision.

Prioritised tasks in the period

Finanstilsynet will:

- identify trends in the economy, markets and institutions which may threaten financial stability
- implement pan-European capital and liquidity rules, and further develop supervisory methods
- ensure that the level and quality of capital at banks are sufficiently high, especially at systemically important banks
- ensure, through on-site inspections and follow-up of internal models, that institutions adequately manage and control credit risk
- verify, through off-site and on-site supervision, that institutions prioritise management and monitoring of liquidity risk
- head, and/or participate in, supervisory colleges for border-crossing banks of significance to the Norwegian market
- ensure adequate consumer protection through supervisory follow-up of new and complex products
- review institutions' operational risk related to infrastructure and settlement systems and any outsourcing

INSURANCE AND PENSIONS

The Solvency II framework for insurance companies will impose increased requirements on insurers and supervisory authorities alike. A large number of insurers are considering using internal models to calculate parts of the solvency capital requirement, and face challenges related to the development of such models. They also face challenges in terms of the general management-and-control requirements imposed by the Solvency II framework. Stress tests results indicate that life insurers in particular need to increase their capital.

For Finanstilsynet the new solvency framework will require a major resource input both prior to and after 2013. Finanstilsynet will draw up a proposal for a new body of rules. Supervisory activity is already to some extent in line with the new requirements, but further development is needed.

Implementation of Solvency II will bring major changes to the system for calculating solvency at life insurers. The business rules in the life



CHALLENGES AND RESPONSES IN THE AREAS OF SUPERVISION

insurance area impose extra challenges on the companies in some areas. Finanstilsynet will review the business rules in light of the new solvency regime with a view to proposing changes in areas where this is considered appropriate. If the business rules are not revised, insurers may have to resort to changes which substantially curtail the demand for defined benefit pension schemes. A transition from defined benefit to defined contribution schemes will bring an increase in the portfolio of paid-up policies among life insurers, thereby heightening the risk related to the guaranteed return in a low-interest-rate scenario.

Non-life insurers are directly affected by climate changes due to damage caused by extreme weather. While the largest non-life insurers are keenly aware of the climate challenges, some of their smaller counterparts in vulnerable industries may be prone to higher payments of compensatory damages as a result of climate

change. Risk assessment in relation to climate change should be integrated into the supervisory effort.

Prioritised tasks in the period

Finanstilsynet will:

- draw up a proposal for new solvency rules, further develop supervisory methods and approve companies' internal models
- review the business rules in light of the new solvency regime with a view to proposing changes
- integrate risk assessment in relation to climate change into the supervision of non-life insurers
- head, and/or participate in, supervisory colleges for cross-border insurers of significance to the Norwegian market
- ensure proper consumer protection through supervisory follow-up of complex insurance products

SECURITIES AREA

Information to the market

Correct and adequate, as well as timely, information about issuers and securities offered, is a prerequisite for a well-functioning market and a basic obligation for issuers of quoted securities. This applies to periodic reporting as well as ongoing information about events which may influence market actors' assessments. Actors' confidence in information from issuers is of great significance for investment and credit decisions. Finanstilsynet will continue to utilise a risk-based approach in its oversight of this area. Competence on and insight into industries that are heavily represented on Oslo Børs are necessary to this end.

For firms intending to raise capital and/or to apply for stock exchange listing, it is imperative that prospectus information about them and the securities offered is relevant and comprehensive. Reliability, timeliness and access to periodic information are important to investors. Imminent changes in the EU's reporting directive to ensure more coordinated storage and publication

of information from listed companies will need to be implemented in Norwegian law in an appropriate manner.

An important task in the strategy period will be to ensure that prospectuses are approved within applicable time limits. New prospectus requirements will need to be implemented in Norwegian law and practice.

Changes in international accounting standards (IFRS) and discretionary assessments related to valuation of assets and liabilities pose a particular challenge with regard to periodic reporting. Changes in valuation rules are expected in important areas such as pension liabilities, leasing, insurance liabilities and loan write-downs. New rules are a challenge to all actors: firms, auditors, investors and other users of information as well as supervisory authorities. Finanstilsynet will quality assure companies' valuations of assets and liabilities by assessing both the models employed and the assumptions underlying them.



Prioritised tasks in the period

Finanstilsynet will:

- carry out appropriate and effective control of prospectuses
- take forward a risk-based approach to control in the accounting area, with special emphasis on industries weighing heavily on Oslo Børs
- quality assure firms' valuations of assets and liabilities through assessments of models and underlying assumptions
- inspect and impose sanctions against breaches of time limits for publication and storage of periodic reports
- enforce sanctions against breaches of the ongoing information requirement

SECURITIES TRADING

Changes in infrastructure and trading patterns in the strategy period will pose challenges. Above all a new European settlement system (T2S) will entail major changes for securities clearing and settlement systems and the nationally-based securities settlement systems. Affiliation to T2S will require significantly changed framework conditions for the Central Securities Depository (VPS).

European securities markets are becoming fragmented in as much as new marketplaces (multilateral trading facilities) have taken substantial market shares from the traditional exchanges. The market for Norwegian shares is expected to see an increase in this trend in the years ahead. Fragmentation is compounded by the emergence of dark pools where larger actors trade large blocks of shares without disclosing prices to the official market.

Falling transaction costs result in increased numbers of trades. Thanks to the rapid evolution of technology this is reflected in a sharp increase in algorithmic trading. While such trading contributes to increased liquidity, it also increases the risk that this practice, which is confined to a small number of large actors, may result in market manipulation. A further risk is that trading programmes could intensify natural market responses or create unnatural market reactions.

The fragmentation of securities trading, where no marketplace has a full overview, complicates the task of uncovering market abuse. Traditional exchanges' squeezed operating margins mean that market monitoring is not given the same priority as previously, and must increasingly be left to the public authorities. This could entail new tasks for Finanstilsynet in the strategy period.

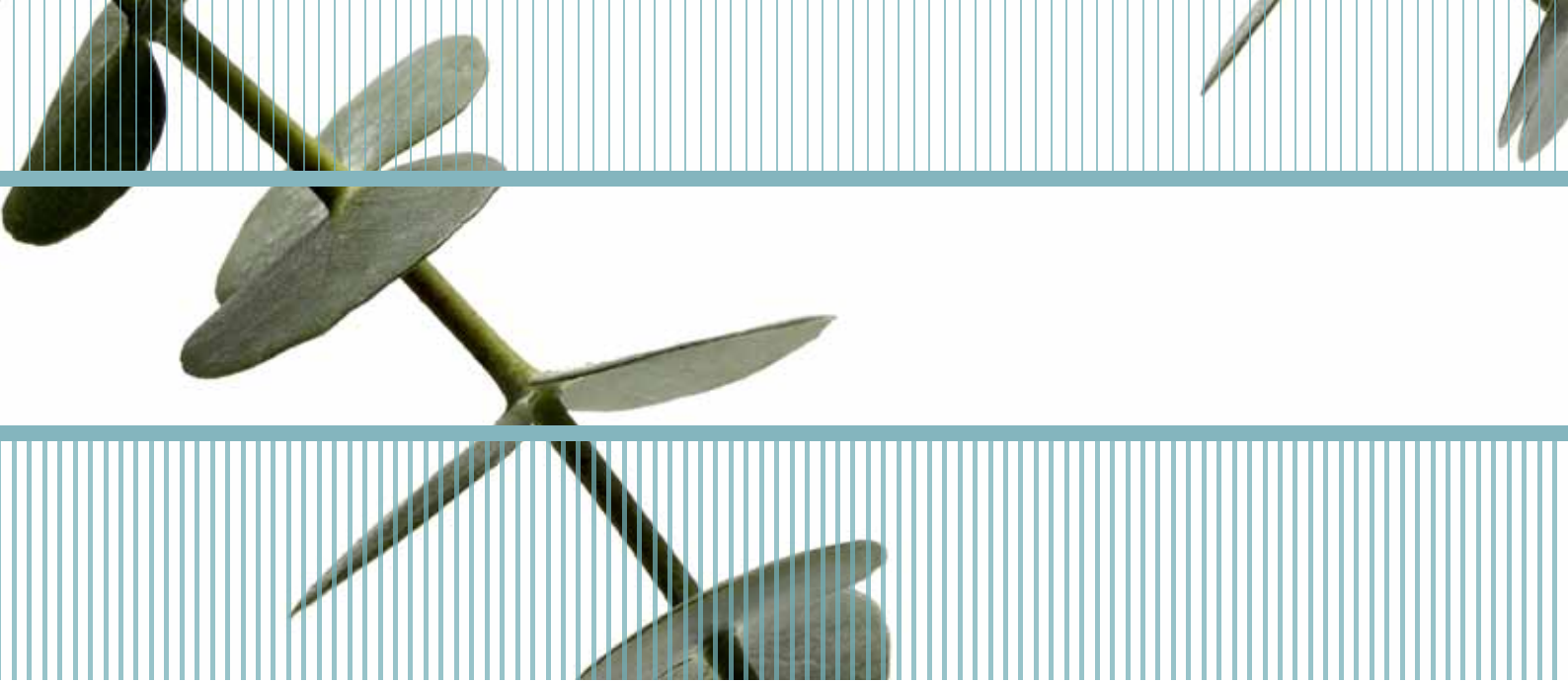
Having prioritised the supervision of investment advice – a consumer-protective measure – since new legislation was introduced in 2007, Finanstilsynet has kept a closer watch on large investment firms via requirements on reporting and market conduct. In order to achieve discipline among firms as a whole, supervisory comments are now broader in scope and more descriptive than previously. This implies a greater degree of public disclosure.

Licensing tasks in the securities sector are growing. New securities funds legislation will enact statutory requirements related to Finanstilsynet's case processing time, e.g. in connection with changes to articles of association. This may require greater processing capacity.

Prioritised tasks in the period

Finanstilsynet will:

- follow up new framework conditions for the security area's infrastructure, inter alia by participating in a new inter-European settlement system (T2S)
- further develop specialist competence in the field of market surveillance and elucidate the need to procure surveillance systems in addition to today's transaction reporting system (TRS)
- inspect firms' sales and advisory activity as part of a pro-active consumer protection regime
- continue the practice of comprehensive and public supervisory comment in the securities area
- strengthen and streamline case-processing capacity in the securities area



CHALLENGES AND RESPONSES IN THE AREAS OF SUPERVISION

AUDITORS AND EXTERNAL ACCOUNTANTS

Special requirements are made of auditors who audit firms of public interest owing to the importance that auditing has for the quality of financial reporting. Finanstilsynet will prioritise supervision of these audit firms. There are only four major international audit networks. The demise of one of these would pose a challenge since even fewer providers would exist for major conglomerates. Auditors' liability for damages has been regarded as an obstacle to the entry of new actors into the market. A review of the merits of restricting liability under Norwegian law can be expected in the strategy period as a result of clear-cut recommendations from the EU.

Wider international integration of the major audit networks must be met through clear enforcement of the rules applying in Norway, and through international cooperation. Other border-crossing audit and accounting activity, including supervision of auditors who audit foreign firms listed in Norway, also necessitates cooperation with other countries' auditor supervisory authorities, including joint inspections.

The challenge posed by the large number of auditors and external accountants needs to be met with appropriate and effective supervisory activities, including thematic inspections, off-site inspections and information. Collaboration with the Norwegian Institute of Public Accountants and the Norwegian Association of Authorised Accountants on periodic quality assurance will continue.

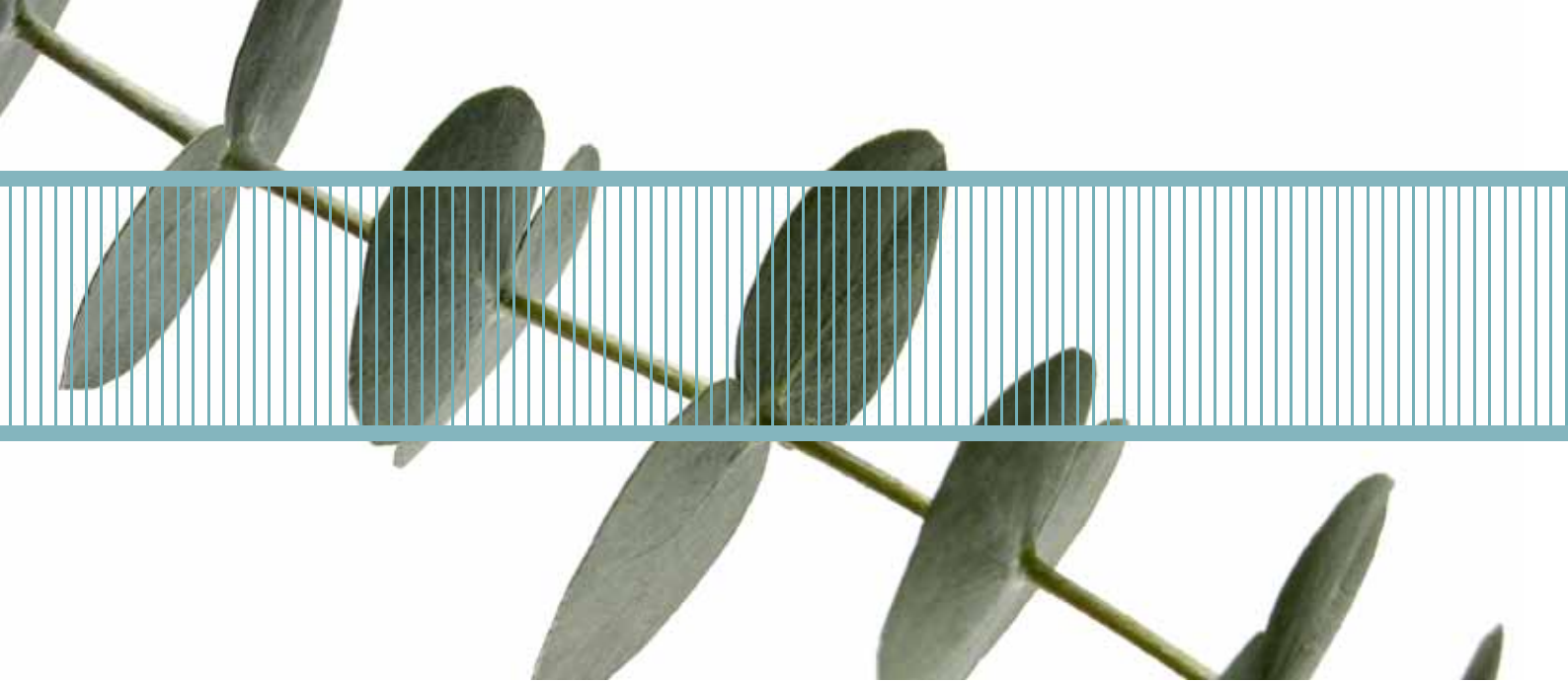
The statutory requirement that assignments be executed in accordance with «good audit practice» will be supplemented mainly by international standards established by the industry. The EU Commission is empowered to establish audit standards. Once implemented as regulations in Norwegian law, these standards are likely to impact on the supervision of small audit firms by reducing the flexibility of rule enforcement.

Oversight of the external accountants' profession is complicated by the actors' varying size and professionalism. Because external accountancy is largely ICT-based, it makes sense for Norwegian external accountancy firms to outsource parts of their production to low-cost countries. Supervisory challenges are likely in such cases.

Prioritised tasks in the period

Finanstilsynet will:

- prioritise supervision of auditors at firms of general interest
- step up collaboration with auditor oversight authorities in other countries
- prioritise supervision of the largest external accounting firms, with a particular focus on outsourcing
- continue the collaboration with trade associations on periodic quality control



REAL ESTATE AGENCY AND DEBT COLLECTION

Real estate agency and debt collection are stringently regulated in Norway. In both areas there is a clear need for consumer protection through detailed regulation of professional practitioners' obligations.

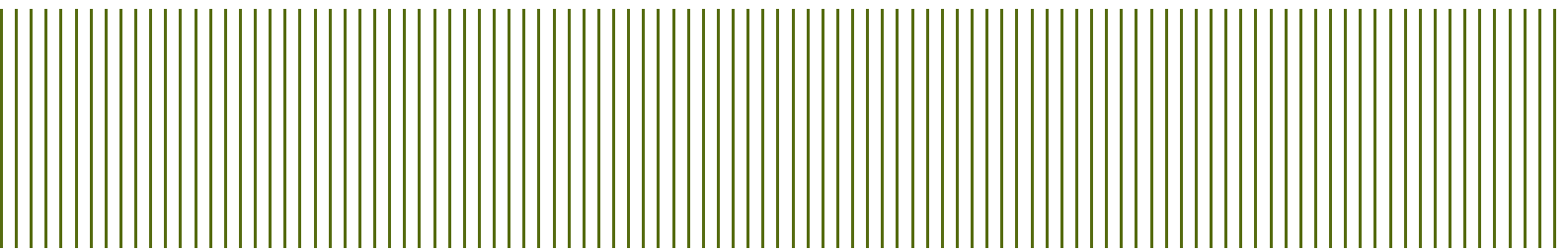
Norway is probably the only country in the world where the financial settlement in connection with property transactions is handled by the estate agent and not by a financial institution or notary public. Real estate agents also play an important role as guarantors for correct registration of collateral provided to finance and mortgage companies for loans to property purchasers and as property valuers. Practitioners need good specialist qualifications and sound procedures for handling client funds. In addition to maintaining stringent control of real estate agents' handling of client funds, it is particularly important to oversee their compliance with the obligation to investigate and inform.

Treatment of client assets is also in focus in the supervision of debt collection agencies, and particular care is taken to ensure that debt collection agencies charge debtors correct fees, and that they proceed correctly when collecting debts.

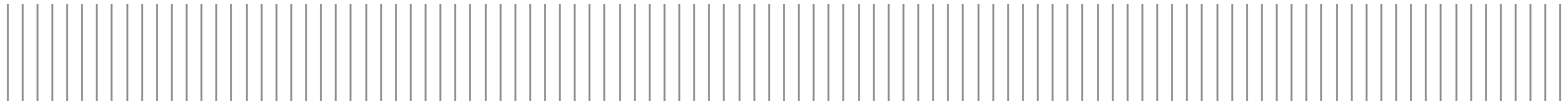
Prioritised tasks in the period

Finanstilsynet will:

- prioritise treatment of client funds
- continue a restrictive practice where persons' fitness and propriety are assessed for licensing purposes
- Check compliance with qualification requirements set in the new real estate agency legislation and establish a clear-cut and predictable licensing practice



FINANSTILSYNET'S ACTIVITY





COMPETENCE AND RESOURCES

Competent, committed staff are Finanstilsynet's most important resource. Sufficient and appropriate resources are important prerequisites for meeting the challenges faced in the years ahead.

Finanstilsynet will recruit, retain and further develop capable staff to meet existing and future challenges and tasks.

Finanstilsynet aspires to be an attractive and inclusive employer, offering a highly competent work environment where importance is attached to competence building and knowledge sharing. Human resources policy will be geared to staff members' life phases and will promote their best interests.

This will be achieved by:

- pursuing a targeted recruitment policy that facilitates the appointment of individuals with industry experience. Recruitment of new staff will secure an appropriate balance in terms of age, ethnicity and gender
- applying a flexible and competence-oriented wage determination combined with individually tailored work arrangements
- facilitating competence development and knowledge sharing on a broad basis. Physical arenas and technological solutions for knowledge sharing will be continued and further developed
- developing and supporting the organisation's managers so that they have the capacity to include, motivate and guide members of staff

EFFICIENCY

Finanstilsynet has a wide-ranging and demanding remit. This requires effective discharge of its functions while at the same time complying with external and internal quality requirements.

A central goal is to reduce case-processing time through systematic improvement of internal work processes in order to improve case-processing efficiency and at the same time assure safe and proper case handling.

Finanstilsynet will adhere to the principles of the government's environmental management arrangement, "Grønn stat". It will do so by implementing measures that reduce the burden on the environment, and that increase the quality of procurement, transportation, energy use and waste management.

This will be done by:

- securing a robust and flexible organisation able to handle reorganisation of tasks rapidly and reallocate resources across departments and sections
- coordinating reporting of information from supervised entities, making it more readily available to the organisation
- further developing document-handling and case-processing solutions to streamline in-house procedures and processes
- seeking greater delegation of authority from the Ministry of Finance

INFORMATION AND COMMUNICATION TECHNOLOGY

Finanstilsynet's ICT strategy will facilitate the realisation of goals and the prioritisation of overarching focal areas. New opportunities to streamline and professionalise supervisory functions will be created through targeted use of secure, modern ICT services.

This will be done by:

- streamlining in-house cooperation through targeted use of existing and new ICT services to process and distribute information
- making use of ICT services to avoid reporting of information that already exists in other public registers
- introducing new ICT solutions that contribute to greater quality and more efficient work processes

COMMUNICATION

Finanstilsynet's communications strategy will support the organisation's main goals. Public knowledge and understanding of Finanstilsynet's role in society will be enhanced by disseminating information.

Finanstilsynet attaches importance to good, open relations with supervised entities and their trade associations.

This will be achieved by:

- raising the profile of and explaining Finanstilsynet's role to consumers, supervised entities and other stakeholders, communicating awareness of our international supervisory cooperation, and raising the profile of activities that contribute to protecting all manner of financial services users
- creating a sound basis for dialogue and collaboration with supervisory target groups and contributing to good relations

by open-mindedness, clarity, consistency and precision in all communication

- communicating information, knowledge and analyses of relevance to our target groups, and preventing detrimental events by spreading information about spurious business activity and risky behaviour among actors in the financial market
- using information as an instrument together with supervision, regulatory development and licensing to induce entities under supervision, investors and other actors in the financial market to comply with the rules
- publishing supervisory comments and other premise-setting documents on Finanstilsynet's website to promote predictability
- handling communication in critical situations in such a way as to minimise harmful effects
- facilitating good internal communication to secure efficient information flow, knowledge sharing and good collaborative relations

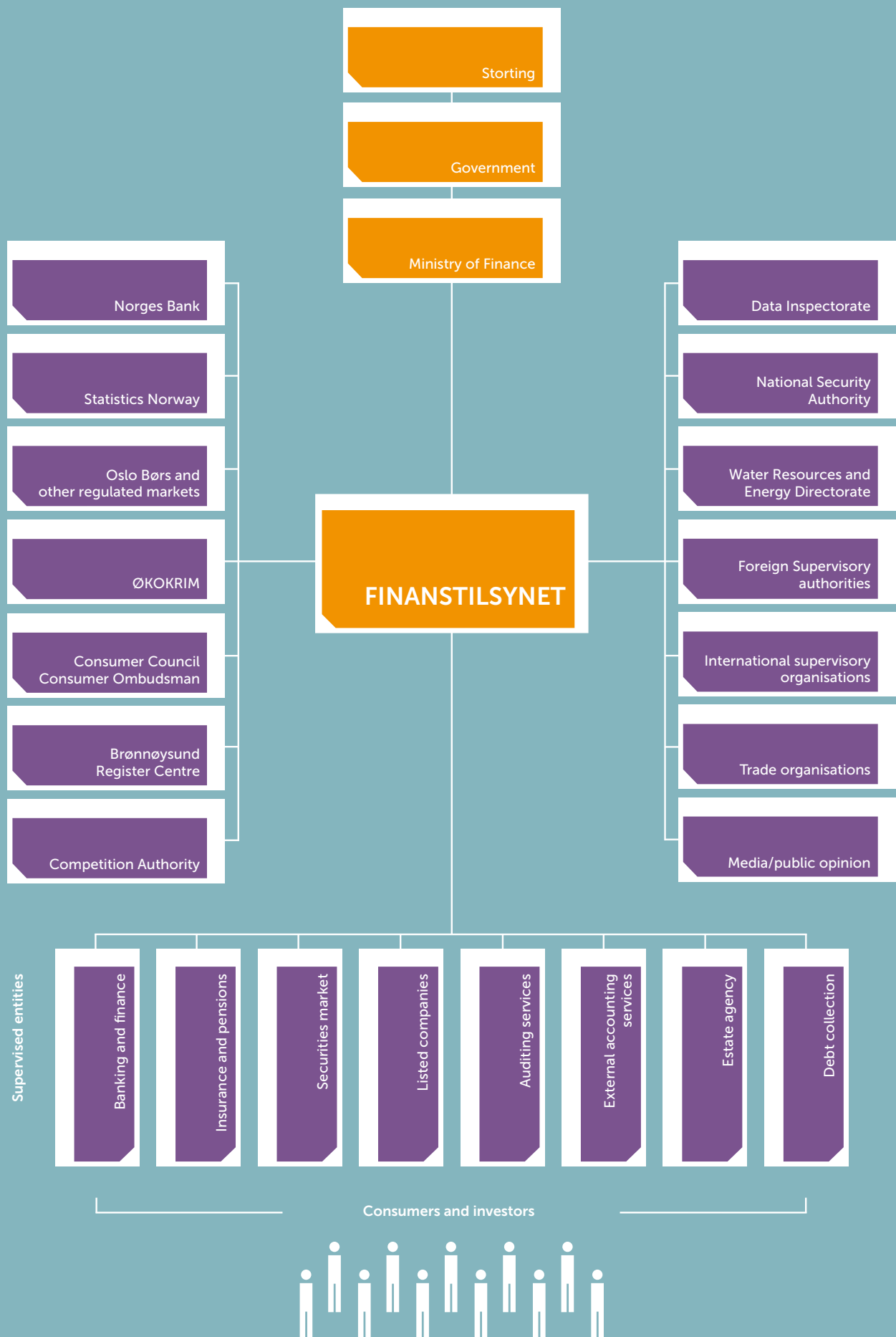
INSTRUMENTS

Finanstilsynet's activity is wide-ranging and requires active use of various instruments, on their own or in combination; in the supervisory effort, risk and materiality are given priority.

To achieve its goals, Finanstilsynet makes use of the following instruments:

- **supervision and monitoring**
- **licensing**
- **regulatory development**
- **information and communication**

FINANSTILSYNET'S KEY RELATIONS





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