



FINANSTILSYNET

THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

ANNUAL REPORT

2015



Finanstilsynet is responsible for the supervision of banks, finance companies, mortgage companies, e-money institutions, payment institutions, insurance companies, pension funds, insurance intermediaries, investment firms, securities fund management companies, regulated markets (incl. stock exchanges), clearing houses and securities depositories, real estate agencies, debt collection firms, external accountants and auditors. Finanstilsynet is also responsible for prospectus control and it oversees the financial reporting of listed companies and the conduct of securities market participants.

Financial Supervision Act section 3

"Finanstilsynet shall ensure that the institutions it supervises operate in an appropriate and proper 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 shall ensure that the institution it supervises attend to consumer interests and rights in their activities."

Risk Outlook 2016

The report *Risk Outlook 2016* presents analyses of financial market trends and developments.

CONTENTS

	PREFACE	4
1	FINANSTILSYNET'S GOALS – STRATEGY 2015–2018	6
	GOAL ATTAINMENT	6
2	ASSESSMENT OF FUTURE PROSPECTS	8
3	IMPORTANT EVENTS IN 2015	11
4	ORGANISATIONAL SET-UP, RESOURCE USE AND ACCOUNTS	15
	KEY FIGURES ON SUPERVISORY ACTIVITIES	29
	INFORMATION AND COMMUNICATION	31
	FINANSTILSYNET'S KEY RELATIONS	33
5	CONSUMER PROTECTION	34
6	MONEY LAUNDERING	36
7	REPORTS FROM THE SUPERVISED SECTORS:	
	BANKING AND FINANCE	39
	PAYMENT SYSTEMS	49
	INSURANCE AND PENSIONS	51
	THE SECURITIES AREA	56
	Investment firms	59
	Mutual funds and collective investment schemes	61
	Market infrastructure	63
	Market conduct rules	64
	Prospectus control – transferable securities	66
	Financial reporting enforcement – listed companies	68
	AUDITING	71
8	INTERNATIONAL COOPERATION	75
	ORGANISATION CHART	80

The chapters on external accounting services, estate agency and debt collection are not included in the English annual report. For analyses of financial market trends, see the report *Risk Outlook 2016: The Financial Market in Norway*.

PREFACE

The oil price fell further over the course of 2015. The low oil price has brought substantially lower levels of activity and profitability in oil-related industries. The ripple effects to Norway's wider economy have thus far been limited, although those parts of the country where deliveries to petroleum sector figure prominently are now seeing a significantly weaker trend. A substantial depreciation of the Norwegian krone has stimulated other industries exposed to foreign competition, and low interest rates and an expansionary fiscal policy have helped to maintain domestic demand.

Although most forecasters expect growth in the Norwegian economy to gradually pick up, much uncertainty attends economic developments ahead. High property prices and high household debt render the Norwegian economy vulnerable. A sharp turnaround in the debt and property markets could hit the Norwegian economy hard. The likely path of the international economy is uncertain, partly in view of the risk that imbalances in China's debt and property markets will lead to an economic setback. Growth in the euro area remains weak despite extraordinary stimulatory measures taken in monetary policy.

Despite rising unemployment, lower growth and increased uncertainty in the Norwegian economy, growth in house prices and household debt continued to outstrip growth in household incomes in 2015. Apart from in the Stavanger region, where house prices fell last year, the temperature in the housing market is still running high. The same is true of the market for commercial property. Record low interest rates, and expectations that rates will remain low for a long time, are an important driver. Even with a weaker trend in the Norwegian economy, the high growth in debt and house prices could persist for some time. If it does, the risk of a subsequent sharp setback will increase.

With a view to contributing to a better balance in the housing and credit markets, the Ministry of Finance adopted on 1 July, based on a proposal from Finanstilsynet, regulations governing banks' residential mortgage lending practices. The regulations give the banks a continued large measure of flexibility. Should the high growth in house prices and debt continue, the advisability of tightening the requirements on mortgage lending practices should be considered.

Household debt is dominated by mortgage loans secured on residential property. Although consumer loans represent a small share of households' overall debt, this debt is growing strongly, and the market is characterised by very active marketing. Consumer loans carry high interest, and poor servicing capacity can impose heavy burdens on many individuals. Losses on such loans could rise substantially in a downturn. Credit institutions' reputation may also be impaired. Institutions should therefore acknowledge a particular responsibility for safeguarding their customers' long-term interests when offering such loans.

The Norwegian bond market has grown strongly in recent years, and investors' search for yield has increased the volume of investments in high risk bonds. Weaker earnings and increased write-downs among bond issuers, in particular related to the oil and offshore industry, will inflict losses on bondholders. Weakened finances among bond issuers may also subject other lenders to losses.

Continued low loan losses enabled Norwegian banks to post good results in 2015 as previously. Norwegian banks' direct exposures to oil-related industries account for a relatively small portion of their overall exposures. Given a continued weak trend in the oil sector, increased loan losses must be expected in this segment. Should we experience a setback that affects the Norwegian economy on a broad front, banks could suffer substantial losses across additional parts of their loan book.

It is important that banks maintain sufficient strength to be able to handle increased loan losses while simultaneously retaining the ability to serve creditworthy borrowers. If they do not, a setback may be intensified by credit drought. Good earnings and increased equity capital in recent years provide the banks with a sound basis on which to handle increased losses.

The increased capital requirements introduced for Norwegian banks as from 2013 will be fully phased in over the course of 2016. The banks will retain the bulk of their 2015 net profits, increasing their capital adequacy. Although loan losses may increase in 2016, the banks are well placed to further strengthen their financial position through profit retention and to maintain their ability to make loans available to creditworthy customers. The growth in household debt should gradually decrease, and loan demand from business and industry after the oil price fall can be expected to be moderate.

New European solvency requirements for insurance companies, Solvency II, apply as from 1 January 2016. The new requirements better reflect the real risk inherent in the insurance business. Norwegian non-life insurers in general meet the new solvency requirements by an ample margin. However, Solvency II exposes a considerable need for capital among life insurers in the pension insurance context. Since the liabilities involved are long-term, Norwegian authorities, in keeping with EU rules, have adopted wide-ranging transitional rules to allow insurers a period in which to strengthen their solvency capital. Transitional arrangements have also been granted to enable insurers to meet the increased provisioning requirements brought by the rise in longevity.

All in all, Norwegian life insurers have significantly improved their solvency position in recent years, and have already met much of their need for provisioning for rising longevity. However, in view of the record-low interest rates and the large and growing portfolio of paid-up policies, the interest guarantees offered under pension insurances require much capital. Norwegian life insurers accordingly need to further improve their solvency position. In order to make pension claims on pension funds just as safe as those on life insurance companies, Finanstilsynet has proposed new solvency requirements for pension funds based on the principles of Solvency II.

Finanstilsynet's tasks are growing apace, mainly as a result of new Europe-wide legislation and participation in the European supervisory collaboration. 2015 saw inter alia the introduction of a licensing requirement for managers of alternative investment funds. Finanstilsynet has accordingly devoted substantial resources to processing a large number of licence applications and to enforcing new supervisory and reporting requirements related to such funds. It has also devoted substantial resources to implementing new, wide-ranging requirements on reporting to European supervisory authorities for banks and insurance companies. The volume of new tasks will increase further in the period ahead.

In order to manage new tasks within budget, Finanstilsynet is seeking to improve the efficiency of its operations through digitalised reporting solutions and standardised work processes. However, the most important contribution to efficiency improvement is to further develop a risk-based supervisory regime. When prioritising the resources available to it, Finanstilsynet must give due weight to the various operations' contribution to attaining the Authority's main objective, which is financial stability and well-functioning markets.

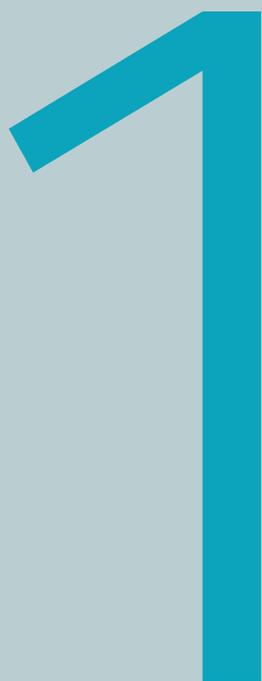
Oslo, 16 February 2016



Endre Skjørestad
Board Chair



Morten Baltzersen
Director General



FINANSTILSYNET'S GOALS – STRATEGY 2015–2018

GOAL ATTAINMENT

Every four years Finanstilsynet reviews the strategy underlying its activities. The strategy is an important basis for ongoing prioritisation and management of the Authority's activities, including the priorities assigned in annual activity plans. The strategy for 2015–2018 was established by Finanstilsynet's board of directors on 14 December 2014.

Main goal

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

Operational goals 2015–2018

In order to facilitate the operationalisation of the main goals and evaluation of activities, five operational goals have been formulated:

1. Financially sound and well-capitalised financial institutions

Finanstilsynet shall:

- assess the risk of instability in the financial system and make active use of instruments to reduce systemic risk
- combine and make use of information gained from supervision of individual institutions and from macroeconomic surveillance
- ensure by means of authorisation requirements and ongoing supervision that institutions under supervision have fit and proper management and satisfactory governance. Institutions must have sound systems for monitoring and controlling credit, liquidity and market risk, as well as operational risk.
- help to ensure that financial institutions have adequate equity capital, robust financing and enjoy the necessary confidence in the capital markets. Banks must be capable of maintaining normal lending during periods of volatile money and capital markets.

2. Robust infrastructure

Finanstilsynet shall contribute to:

- a robust financial infrastructure that ensures satisfactory payments systems, trading, pricing and settlement
- ensuring that risk and vulnerability associated with the systems are properly handled through requirements on the institutions' governance and control

3. Investor protection

Finanstilsynet shall contribute to:

- ensuring that current and periodic information from listed companies is adequate, reliable and timely
- ensuring that auditing of annual accounts is of satisfactory quality

- good market discipline and confidence among investors and issuers through effective, swift enforcement of codes of conduct

4. Consumer protection

Finanstilsynet shall:

- contribute through targeted information and monitoring of product suppliers and financial advisors to ensuring that the sale and brokerage of financial products and property proceed in an acceptable manner and with due heed to clients' ability to understand risk and other product characteristics

5. Effective crisis management

Finanstilsynet shall maintain preparedness to:

- deal with critical situations so as to prevent harmful knock-on effects and lasting problems for the financial sector and users of financial services
- meet unforeseen problems in individual institutions, markets and infrastructure as well as wider-reaching crises in the financial system

Goal attainment

Finanstilsynet oversees a large number of institutions and markets. Resource use in the respective areas of supervision varies with market developments and the national and international regulatory framework in which institutions operate. Each year Finanstilsynet prepares a plan of operations setting out measures and tasks to support each intermediate goal in the strategy. The Ministry of Finance's tasks are also covered by these measures and tasks.

Finanstilsynet's strategy for 2015–2018 contains main goals and intermediate goals. Further goals for Finanstilsynet's activity in the particular year are set out in the Ministry of Finance's letter of allocation. They are mainly qualitative outcome goals for institutions and markets under supervision. Their attainment will depend on decision takers and factors additional to the instruments that are available to Finanstilsynet.

Implementing the various measures and tasks that are described in the plan of operations provides an important basis for gauging goal attainment. This is the subject of a separate report to the Ministry of Finance. Finanstilsynet has in the main implemented the measures and tasks that were planned for 2015.

2

ASSESSMENT OF FUTURE PROSPECTS

Recent years have shown that pre-empting financial crises is not simply a matter of maintaining effective supervision of the individual institution. Macroeconomic stability and a well-thought-through regulatory framework are important for maintaining confidence in financial institutions and well-functioning markets for financial services. A good supervisory regime must take account of the mutual influence between the macroeconomy and financial markets.

Given this starting point, an ongoing assessment of possible consequences for key financial institutions and the Norwegian real economy of changes in important macroeconomic factors is imperative. In particular, a protracted low oil price will impact on domestic activity levels. There is a risk that the households' high indebtedness and Norway's high house prices could trigger or intensify a setback in the economy.

Continued low economic growth in important international economies could spark renewed turbulence in financial markets. Norwegian financial institutions that obtain their funding or that invest in the international markets therefore need to be sufficiently robust to withstand higher capital costs or falling investment portfolio values.

Addressing the complexity of processes both among supervised entities and in the financial infrastructure is part of the challenge faced in the ongoing work of supervision. Complexity and vulnerability increase in step with developments in the ICT field and are further influenced by services outsourcing. Since ICT development and operations as well as pure production tasks are likely to be outsourced, overseeing institutions' risk assessments and governance processes in the outsourcing context will remain a challenge for Finanstilsynet.

The pace of development imposes stern requirements on Finanstilsynet's staff and their ability to keep abreast of and understand the risks associated with the various solutions and systems. Operational risk entails on the one hand a risk that increased complexity will lead to slipups within supervised entities due to technical or human failure, on the other a growing risk that supervised entities or infrastructural systems will be impacted from outside through various forms of internet-based attack.

High costs and stringent requirements on customer protection and documentation mean that institutions find that it pays less and less to offer face-to-face individual customer service. Ensuring that internet-based solutions meet requirements as to proper customer protection, identification, documentation and technical security will pose a supervisory challenge to Finanstilsynet.

The Financial Action Task Force (FATF) pointed to shortcomings in Norwegian government authorities' work in the sphere of money laundering and terrorist financing in their assessment of Norway in 2014. Finanstilsynet will accordingly further develop and strengthen its supervision of supervised entities' regulatory compliance.

Particular attention must be devoted to pension saving and life insurance in the next few years. Although the new pension agreements are mainly defined contribution, life insurance companies will in coming years continue to face substantial residual risk posed by established defined benefit agreements, including paid-up policies with a guaranteed rate of return. Increased longevity and a very low interest rate level will compel life insurers and pension funds alike to strengthen their solvency capital in order to meet the increased requirements associated with defined benefit agreements. Monitoring compliance with the new, wide-ranging requirements on solvency capital which entered into force in 2016 will pose a challenge. An increased volume of defined contribution pension agreements offering the customer an investment choice puts a large premium on professionally adequate and balanced advice. Supervisory follow-up of interest conflicts between customer and undertaking remains important.

Recent years have seen a structural change in Norwegian and European financial markets whereby large undertakings and municipalities are opting to fund their operations by borrowing directly in bond markets rather than by traditional bank funding. Concurrently capital surpluses and a protracted low interest rate level giving reduced opportunities for return have stimulated investment in bonds and other fixed income instruments carrying high risk. Due to heavy demand from institutional investors, effective return has at times produced limited excess return as compensation for the credit risk. The higher level of activity calls for well-functioning markets that have the necessary confidence. This requires effective monitoring on the part of Finanstilsynet, both of market conduct and of institutions' risk exposure.

Impaired earning power and overstretched liquidity among a number of bond issuers connected to the oil and offshore industry create uncertainty regarding their ability to redeem or refinance loans falling due in the years immediately ahead. This could produce knock-on effects in the form of losses for institutional and private investors alike and high loss risk for a number of banks.

In addition to supervising institutions' financial position and risk exposure, Finanstilsynet plays a role in preventative consumer and investor protection. Finanstilsynet will in the years immediately ahead continue to give much weight to consumer interests when planning and conducting supervision of public-facing institutions and in monitoring compliance with conduct-of-business requirements. Preventative information measures and close cooperation with consumer organisations will continue.

Given a continued high pace of introduction of a new Europe-wide regulatory framework and supervisory convergence in coming years, Finanstilsynet will need to continue to devote substantial resources to regulatory development. It will mainly involve implementing, on commission from the Ministry of Finance, Directives and Regulations that are part of Norway's EEA obligations. This will remain a substantial challenge to Finanstilsynet's management of the resources available to it.

Heavier requirements on reporting to the EU's supervisory bodies are another aspect of regulatory changes requiring further systems development and processing capacity. A relatively large volume of data will need to be gathered from Norwegian financial institutions to support the overall monitoring of the financial sector in Europe, along with data on Finanstilsynet's compliance with European supervisory standards.

Implementing and monitoring compliance with the EU's Bank Recovery and Resolution Directive, inter alia through requirements on annual preparation, and oversight, of institution-specific recovery plans and resolution plans, will require significant resources from Finanstilsynet in the years immediately ahead. The new regime will require all banks to draw up recovery plans including concrete, implementable measures for handling financial crisis situations. The plans must be quality assured and approved by Finanstilsynet.

New EU rules will expand Finanstilsynet's remit by placing commodity derivatives trading under regulation and supervision, and by the same token new non-financial institutions. Entities trading in commodities, including electric utilities, could for example be subject to the same regulation as an investment firm, bringing licensing requirements and associated supervisory tasks. Finanstilsynet's responsibilities in this regard must be seen in light of sizeable Norwegian derivatives markets in several commodity segments (e.g. fish and energy), and appurtenant market platforms for commodity derivatives.

The continuing expansion of Finanstilsynet's tasks will require strict prioritisation between the respective areas of supervision. Effective utilisation of available resources will be ever more important. A risk-based approach must continue to be applied. Presumed consequences of events and possible rule breaches must weigh heavily when allocating resources. Finanstilsynet must also further enhance its efficiency and effectiveness by digitising reporting and work processes.

3

IMPORTANT EVENTS IN 2015

Supervision, monitoring and licensing

Finanstilsynet's approach to the assessment of risk and capital needs

In August 2015 Finanstilsynet published a circular describing the main elements of Finanstilsynet's methodology for assessing supervised entities' overall risk level and associated capital needs (SREP).

Finanstilsynet supports the Basel Committee's proposed changes to the standardised approach for credit risk and a new floor provision

Finanstilsynet supported the Basel Committee's proposal in a consultative letter dated March 2015. The changes to the standardised approach for credit risk will make this approach more risk sensitive and risk weights less dependent on ratings. The consultation centres on the principles underlying the new requirements. The recommendation for risk weights and floor requirements will be determined at a later stage.

Finanstilsynet underscores the requirements on banks applying for IRB status

Experience gained from applications processing has shown the difficulties faced by banks in adjusting to the requirements for IRB permission. A particular challenge is faced by smaller banks not collaborating on data and methodology. Banks are urged to critically review the costs and challenges involved in applying for IRB status.

Thematic inspection of banks' practices as regards establishment, assessment and control of collaterals

This thematic inspection was designed to map and assess issues related to banks' use of collaterals in the lending process. It also covered their internal policies for valuation of collaterals, their compliance with such policies and what quality controls are in place.

IMF's review of Norway's financial system

The International Monetary Fund (IMF) conducts on a regular basis thoroughgoing assessments of member countries' financial systems under its Financial Sector Assessment Programme (FSAP). Norway was subject to such a review as from summer 2014. The conclusions were presented in August 2015.

Skandiabanken becomes a Norwegian commercial bank and is admitted to stock exchange listing

In May 2015 Finanstilsynet authorised the Swedish bank subsidiary Skandiabanken NUF's establishment as a Norwegian commercial bank with the name Skandiabanken ASA. At the time of its establishment the bank was a wholly-owned subsidiary of Livförsäkringsbolag Skandia, ömsesidigt bolag (Skandia Liv). Finanstilsynet concurrently authorised the establishment of the mortgage company Skandiabanken Boligkreditt AS. Skandiabanken ASA was admitted to listing on 2 November 2015.

Two companies ordered to relinquish gain

Following violation of the Securities Trading Act in regard to the sale of shares of DiaGenic ASA, Finanstilsynet ordered Guevoura Fund Limited and Credit Suisse Securities (Europe) Limited to relinquish the gain achieved through the violation.

Thematic inspection of actively managed equity funds

Finanstilsynet brought to light that certain securities funds performed closely to their benchmark but were marketed and priced as actively managed funds. Finanstilsynet ordered DNB Asset Management AS to revise its management practice or its pricing of Verdipapirfondet DNB Norge. Nordea Funds Ltd was censured for its management of Verdipapirfondet Norden Avkastning.

On-site inspection of Oslo Børs

In its final report Finanstilsynet underlined the need for the board of directors to play a proactive role in ensuring that the company handles potential conflicts of interest in a proper manner.

Thematic inspection – audit of valuation items (estimates)

Finanstilsynet conducted a thematic inspection of the audit of valuations of significant assets in annual financial statements (estimates). The object was to investigate the increased risk of error in valuing significant assets in the wake of the oil price fall. The thematic inspection did not reveal significant shortcomings in the audit evidence underlying accounting estimates.

Financial reporting – DNB ASA

Finanstilsynet reviewed certain aspects of DNB ASA's financial reporting. The review covered valuation of the bank's portfolio of loans recognised at fair value, mainly fixed interest loans, in the interim accounts and annual accounts for 2013.

Thematic inspection of bank audits

Finanstilsynet called for more tailored audits as a means to ensure that auditors verify a bank's compliance with legislation, licence terms and conditions and orders. This particularly applies to compliance with solvency and liquidity requirements.

Thematic inspection KPMG – auditor's independence

KPMG was heavily censured for its sponsorship of the Chess Olympiad while at the same time acting as the company's auditor. Entering a sponsorship agreement with an audit client violates the Auditors Act's requirements regarding auditor independence.

Regulatory development

Residential lending regulations

Based on a recommendation from Finanstilsynet, the Ministry of Finance adopted Regulations on requirements for new loans secured on residential property (Residential Mortgage Lending Regulations) with effect from 1 July 2015. The regulations build on earlier guidelines from Finanstilsynet. The regulations aim to contribute to a more balanced development of the housing and credit markets.

Changes to prudential regulation for financial groups

In December 2015 the Ministry of Finance adopted new regulations on consolidation etc. of cross-sectoral groups and amendments to the CRR/CRD IV regulations and the Solvency II regulations. The changes became effective on 31 January 2016.

Disclosure of Pillar 2 assessments

Finanstilsynet recommended to the Ministry of Finance that Norway should follow the ongoing process in the EU and consider adjustments to the framework for Norway's enforcement of Pillar 2 parameters in light of international developments.

National leverage ratio requirement

Finanstilsynet recommended to the Ministry of Finance that a national minimum leverage ratio requirement should not be set until the relevant EU body of rules is available. Finanstilsynet will continue to attach great importance to common equity tier 1 capital and leverage ratios when assessing Norwegian banks' financial position.

Regulations on new solvency requirements for insurance companies

On 25 August 2015 the Ministry of Finance adopted regulations on the implementation of the Solvency II Directive. The regulations permit higher requirements on life insurers' technical provisions to be phased in over a period of 16 years, and the transitional arrangement to be applied to individual portfolios.

The Financial Undertakings Act enters into force

The Financial Undertakings Act entered into force on 1 January 2016. Finanstilsynet has recommended necessary adjustments to regulations under the previous financial institutions act that will remain in force under the new Act. The Ministry of Finance has circulated its recommendation to relevant bodies for comment.

4

**ORGANISATIONAL SET-UP,
RESOURCE USE AND ACCOUNTS**

KEY FIGURES ON SUPERVISORY ACTIVITIES

INFORMATION AND COMMUNICATION

FINANSTILSYNET'S KEY RELATIONS

ORGANISATIONAL SETUP, RESOURCE USE AND ACCOUNTS

Board of Directors

Finanstilsynet's Board of Directors has by law the overarching responsibility for Finanstilsynet's activities and handles important matters in relation to regulations and licences, budgets and action plans. The Board has five members. Members and alternates are appointed by the Ministry of Finance for a term of four years. A new Board took up duties on 1 March 2014. Mr Endre Skjørestad, Board chair, was appointed for a new four-year term.

Composition of the Board as appointed in 2014:

Attorney-at-law

Endre Skjørestad
chair

Professor

Giuditta Cordero-Moss
deputy chair

Professor

Mette Bjørndal
board member

Professor

Lars Sjørgard
board member

Retiree

Arne Skauge
board member

Professor

Beate Sjøfjell
first alternate

Attorney-at-law

Kjetil Wibe
second alternate

Director at Norges Bank

Sindre Weme
observer at board meetings

Assistant director at Norges Bank

Ylva Sjøvik
alternate for observer from Norges Bank

Two members elected by and from among the employees supplement the Board when administrative matters are dealt with. As from April 2015 the following have represented the employees:

Senior supervisory adviser

Anders S. Hole

Senior supervisory adviser

Gry Evensen Skallerud

Their alternates were special adviser

Inga Baadshaug Eide and senior executive officer **Anne Nybohm**.

Eleven ordinary board meetings were held in 2015.

The Board dealt with 25 administrative matters and 62 supervisory matters requiring formal decisions. The Board received information on a further 26 administrative matters and 52 supervisory matters, bringing total items dealt with to 165. In addition, the Board receives a verbal briefing on relevant matters at each meeting.



Board of Directors of Finanstilsynet in 2015:

Chair

Endre Skjørestad

Attorney-at-law, partner at HAVER Advokatfirma ANS

Deputy chair

Giuditta Cordero-Moss

Professor, Department of Private Law, University of Oslo

Board member

Mette Bjørndal

Professor, Department of Finance and Management Science, Norwegian School of Economics

Board member

Lars Sørgard

Chief Economist, The Competition Authority

Board member

Arne Skauge

Retiree

First alternate

Beate Sjøfjell

Professor, Department of Private Law, University of Oslo

Second alternate

Kjetil Wibe

Attorney-at-law at Advokatene Rege & Wibe

Observer at board meetings

Sindre Weme

Director, Norges Bank Financial Stability, Banking Analysis

Alternate for observer from Norges Bank

Ylva Søvik

Assistant director, Norges Bank Financial Stability, Banking Analysis

Employee representative

Anders S. Hole

Senior supervisory adviser

Employee representative

Gry Evensen Skallerud

Senior supervisory adviser

From the left:
Gry Evensen Skallerud
Giuditta Cordero-Moss
Mette Bjørndal
Sindre Weme
Arne Skauge
Lars Sørgard
Beate Sjøfjell
Endre Skjørestad
Kjetil Wibe
Anders S. Hole

Photo:
Jarle Nytingnes



Finanstilsynet's management team

Morten Baltzersen

Director General

Emil R. Steffensen

Director, Banking and Insurance Supervision

Anne Merethe Bellamy

Director, Capital Markets Supervision

Cecilie Ask

Director, Legal Affairs

Gun Margareth Moy

Director, Administration

Kjetil Karsrud

Director, Communications

From the left:
Anne Merethe Bellamy
Kjetil Karsrud
Morten Baltzersen
Gun Margareth Moy
Emil R. Steffensen
Cecilie Ask

Photo:
Jarle Nyttिंगnes

Personnel policy and organisation

Finanstilsynet works continuously to further develop its organisation in keeping with national recommendations and its own needs. Priority setting, efficient administrative/case handling, appropriate expertise and flexible use of staff resources are key areas.

Finanstilsynet attaches importance to measures designed to recruit, retain and further develop capable staff members and managers. The Authority scores highly on popularity surveys among economics and law students. Measures to develop staff competence are in place, and 2015 saw the start-up of a programme to develop a culture of employeeship.

Finanstilsynet’s activities require cross-disciplinary competence and spearhead competence in the various areas of supervision. Its departments have highly competent staff with good industry knowledge. More than 90 per cent hold a university degree or the equivalent, and a number hold doctorates. The majority have their training in economics, business economics, law or auditing. In 2015 staff turnover measured 5.9 per cent compared with 4.8 per cent in 2014.

With its espousal of the Government-sponsored “IA Agreement” designed to promote inclusive employment, Finanstilsynet attaches importance to reducing sickness absence, to diversity and to a good policy on older employees. Sickness absence was 3.9 per cent in 2015 compared with 4.3 per cent in 2014. In 2015 optional health checks were offered by the in-house health service, emphasising the importance of a healthy lifestyle.

Finanstilsynet: facts and figures

The number of employees showed no change in 2015, and at year-end permanent staff members totalled 270. 52 per cent of the permanent staff are women. The management team comprised equal proportions of women and men at year-end. Women made up 52 per cent of all staff with managerial responsibilities.

The Director General’s salary at the end of 2015 totalled NOK 1,498,000. Fixed annual remuneration to the Board Chair was NOK 248,000, to the Deputy Chair NOK 167,000, and to each board member NOK 145,000. Remuneration to the first alternate was NOK 122,000, and to the second alternate NOK 102,000.

Chart 1: Registered case documents – by area

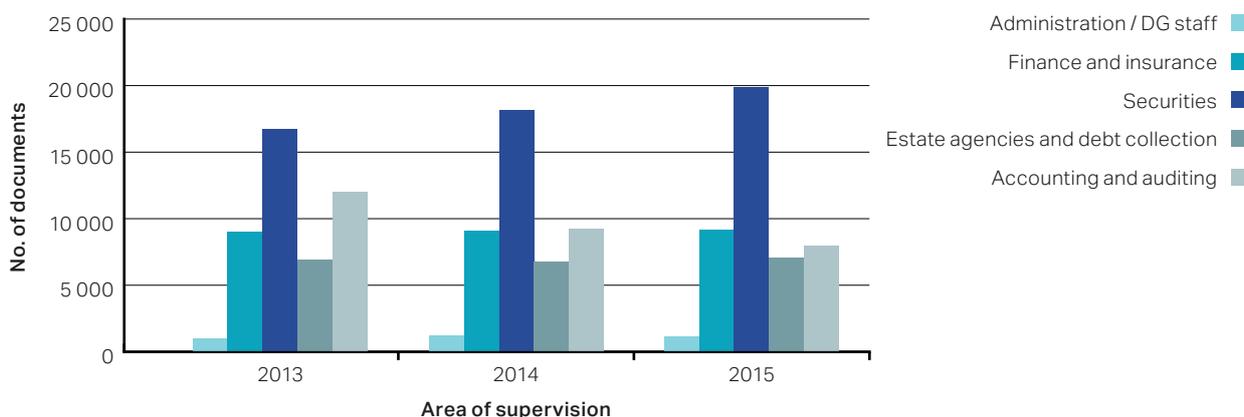


Table 1: Total case documents

	2013	2014	2015
Total case documents	45,604	44,518	45,195

The number of incoming and outgoing documents registered rose slightly from 2014 to 2015. The increase in the number of documents in the securities area is partly due to the expansion of the securities area to include supervision of managers of alternative investment funds. 2015 is the full year of operation of the new Act on the Management of Alternative Investment Funds. In addition, the number of prospectuses passported to Norway has risen. The decline in the accounting and auditing area in 2015 is related to preceding years' increase in the volume of documents arising from off-site supervision of external accountants in autumn 2013.

Document access at Finanstilsynet

Finanstilsynet received a total of 2,615 requests for document access in 2015. 520 documents were not released since their entire content was barred from publication. This figure is slightly lower than the previous year. Most access requests are received via the public electronic mail journal (OEP), used by all central government agencies.

Table 2: Requests for document access

	2013	2014	2015
Orders placed	2,751	2,759	2,737
Not released	491	503	480

Security and crisis preparedness

Finanstilsynet aims to be a confidence-inspiring and reliable agency, and acknowledges its security responsibilities towards entities under its supervision, its staff and other bodies with which it collaborates. Security and preparedness are accordingly an integral aspect of Finanstilsynet's activity.

Finanstilsynet adheres to Norges Bank's security regulations, which cover physical security and preparedness with respect to the office premises. Finanstilsynet continues its work on information security and has a separate policy in this area. Technical infrastructure also has its own security rules, applying both to the supervisory activity and Finanstilsynet's own organisation. Safety tests and drills are regularly conducted in the ICT area.

Management and control in Finanstilsynet's operations

Finanstilsynet's activity is regulated by the Financial Supervision Act, Public Administration Act, Freedom of Information Act and other legislation. These statutes are reflected in Finanstilsynet's internal policies and procedures and ethical guidelines. The internal policies and procedures contain information on lines of responsibility, security and preparedness, and administrative case handling rules. There is a clear-cut organisation set-up with line management, and the line managers are responsible for ensuring that staff follow relevant rules and internal policies and procedures.

Finanstilsynet is placed under the Office of the Auditor General which conducts performance audits and financial audits of the public sector. Specific procedures are in place for budget utilisation, payments and procurement based on the central government framework.

Finanstilsynet has an internal controller with special responsibility for acting on non-compliance with certain aspects of the internal policies and procedures and the ethical guidelines. The controller reports to Finanstilsynet's director general and each year sends a report to the Board of Directors.

Based on the letter of allocation from the Ministry of Finance and Finanstilsynet's own strategy, plans for activity are drawn up describing the respective organisational units' activities and resource use, and a common plan is drawn up for the entire organisation. The planning process includes the drawing up of risk assessments for the entire organisation. An overarching plan is adopted by Finanstilsynet's Board of Directors and sent to the Ministry of Finance. Concrete measures and tasks to contribute to Finanstilsynet's attainment of its goals are set out in this common plan and the detailed plans of the respective units. Progress is followed up on a regular basis at meetings between the director general and the management of the respective units. Regular reports on the activities are submitted to the Board of Directors and the Ministry of Finance.

Simplifications and efficiency enhancement

Finanstilsynet develops on a continuous basis ICT systems designed to contribute to simpler supervisory processes useful both to Finanstilsynet and to entities under supervision. Pertinent examples are electronic licence application forms and reporting solutions and work on improving the internal case and document management system. Importance is attached to providing information on Finanstilsynet’s website, which is being developed with users’ best interests in mind. Increased reporting requirements resulting from EEA legislation and supervisory cooperation nonetheless limit the scope for national efficiency enhancement initiatives.

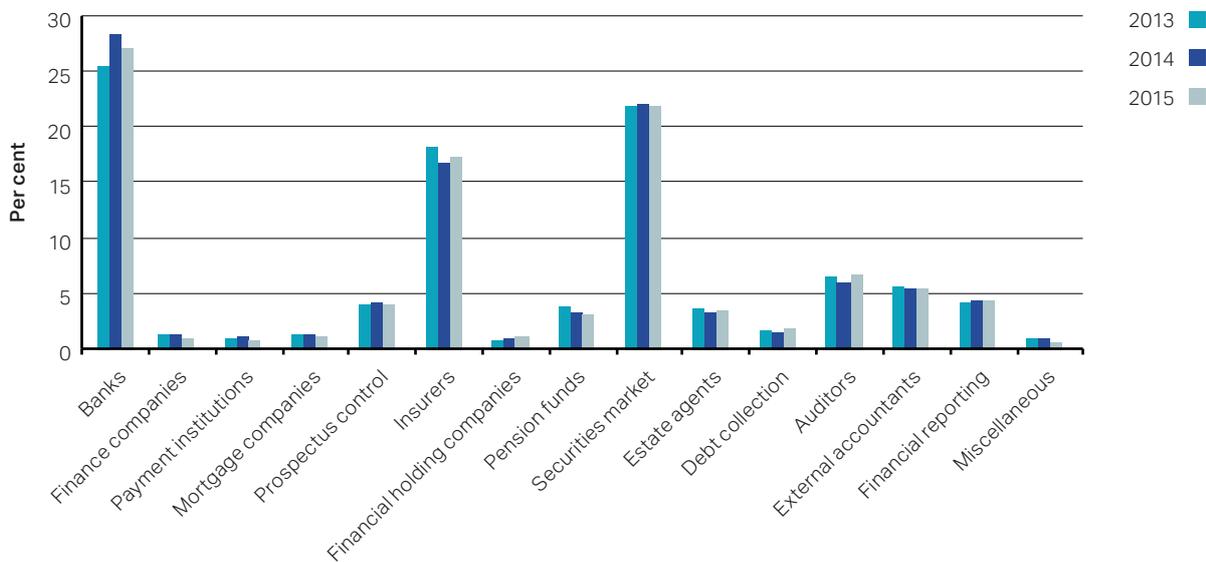
A continuous effort is made to improve work processes through the development of internal frameworks and models and through standardisation and automation.

Over and above this, Finanstilsynet has proposed the following changes with a view to greater efficiency and effectiveness for users:

- auditor confirmation to be integrated in the half-yearly return
- reporting by investment firms, management companies and AIF managers to switch from quarterly to half-yearly
- establishment of a new workflow in collaboration with the Brønnøysund Register Centre as regards amendments to articles of association
- automatic transfer of security provision from supervised entities’ systems to Altinn report form
- develop and take into use the Altinn form for licence applications and deletions
- upgrade and modernise Finanstilsynet’s website
- establish a secure digital post solution

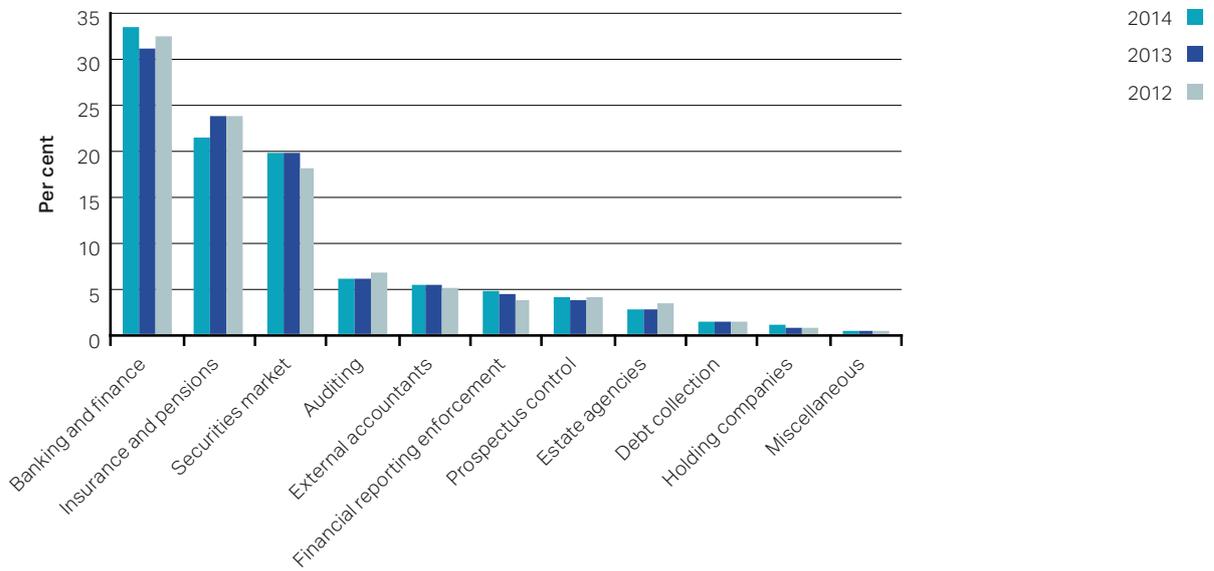
Most of the recommendations have been carried out or are in process, whereas establishing a digital post solution requires further clarification in 2016. As regards the recommendations put forward in 2014 to simplify the legislation and procedural requirements, the proposed amendment to the Estate Agency Regulations and the new Regulations on Apportionment of Finanstilsynet’s Costs were adopted in 2015.

Chart 2: Resource input by area of supervision



Administration, management, organisation and development are distributed on the respective areas of supervision.

Chart 3: Levy distributed on supervised groups



Annual accounts

Comments from the Director General

The annual accounts are prepared and presented in accordance with the Regulations on Financial Management in Central Government and are in keeping with basic principles for budgeting and accounting enshrined in rules on financial management and in circulars from the Ministry of Finance. The presented accounts with notes provide a true and fair view of Finanstilsynet's disposable appropriations, revenues and expenses, assets and liabilities in 2015.

The Storting determines Finanstilsynet's expenditure budget and revenue budget as part of the government budget. The 2015 operating expenditure budget (item 01) originally totalled NOK 328.2 million. The budget was increased by NOK 1.6 million as compensation for the public sector wage settlement. Including NOK 11.2 million carried forward from 2014, the aggregate disposable operating budget came to NOK 341.0 million.

Parts of Finanstilsynet's budget are allotted over item 45 *Major equipment procurements and maintenance*. This appropriation is earmarked for an IT development project, and unused funds can be transferred to subsequent budget years independently of operating expenditure. In the 2015 budget this appropriation totalled NOK 10.2 million which, together with NOK 4.9 million carried forward, brought disposable funds to NOK 15.1 million.

Finanstilsynet's expenditure budget was reduced in 2015 by NOK 11 million as a result of the introduction of a new VAT (value added tax) netting arrangement in the central administration. VAT payments on goods and services covered by the arrangement are expensed on a central expenditure item under the Ministry of Finance. VAT payments are however shown in Finanstilsynet's appropriation report, see table 3, and are included in the supervisory levy. The new VAT netting arrangement belongs under the central administration and is not part of the VAT system proper. Its object is to neutralise the effect of VAT when comparing costs of respective purchases of services and of own production.

Aggregate expenditure came to NOK 351.0 million, an increase of 0.4 per cent from 2014. The expenditure underrun for item 01 *Operating expenditure* was NOK 11.0 million, which Finanstilsynet has applied to carry forward to 2016. The expenditure underrun for item 45 was just under NOK 5.0 million which Finanstilsynet has also applied to carry forward to 2016. Calculation of underruns is shown in Note B.

Total salary expenditure fell by 0.1 per cent from 2014. Adjusted for government refunds, salary expenditure was approximately identical to the previous year. Annual salary growth in the state sector is put at 2.7 per cent. Lower salary growth in Finanstilsynet than in the state sector as a whole is explained by a staff reduction (seven positions) in this period. Years worked were calculated at 263 at the end of 2015, the same as at the end of 2014. Disbursements for investment and other disbursements to operations (see reporting by natural classification in table 4) also show a

decline from 2014. They should be viewed in light of the fact that value added tax is not shown in the reporting by natural classification in 2015. They show an overall decline of 0.9 per cent from 2014.

Pursuant to section 9 of the Financial Supervision Act, Finanstilsynet's expenses are covered by the institutions under its supervision over the financial year. The Act requires the expenses to be apportioned among the various institutional groups based on the extent of supervision, and expenses are therefore payable in arrears. The Storting adopts a revenue appropriation equal to the expenditure appropriation for the previous year, but the apportionment of the supervisory levy is based on accounting data. Levies for 2015 will be collected in 2016. The Storting passed amendments to the Financial Supervision Act in December 2015. This makes for a simplified process and a smaller degree of discretionary assessment than previously since the Act is supplemented with more detailed regulations.

The Norwegian National Collection Agency annually collects supervision fees and other levies on behalf of Finanstilsynet. This work also includes accounting and reporting of payments to the central government accounts. Hence explanatory notes are essential to obtaining a complete picture of Finanstilsynet's annual accounts.

The levy proposed by Finanstilsynet for 2014 was approved by the Ministry of Finance on 19 June 2015 after prior consultation with the trade organisations concerned. Total claims on entities under supervision came to NOK 335.3 million in 2015, and NOK 333.1 million had been paid by year-end (see note C). Supervised entities liable to pay the amount levied numbered 14,480, of which 73 were foreign branches. The largest category of supervised entities is external accountants, numbering 11,545.

The Office of the Auditor General audits the activity of Finanstilsynet. The report is barred from the public domain until the Storting has received the Office of the Auditor General's report on the annual audit and control for the budget year 2015, Document 1 (2016–2017). After that the audit report will be published on Finanstilsynet's website.

Oslo, 16 February 2016



Morten Baltzersen

Director General, Finanstilsynet

Accounting policies

Finanstilsynet's accounts are kept on a cash basis. Revenues and expenses are recognised as and when paid. The accounts follow the calendar year and contain all reported expenditures and revenues for the accounting year. Expenditures and revenues are entered in the accounts on a gross basis.

Finanstilsynet pays pension premiums to the Norwegian Public Service Pension Fund. For 2015 a pension premium of 16.6 per cent is computed on fixed salaries. Of this, 2 per cent is withheld from the employee. Pension premiums are paid in arrears in six annual instalments. The calendar year's final instalment falls due the following year. Hence there is a period displacement for the final instalment each year. Employer's contributions are computed and entered in the accounts to show the total salary expenditure.

Finanstilsynet is attached to the central government's consolidated accounts scheme at Norges Bank and has drawing rights equivalent to the Storting's appropriation. Upon the transition from one year to the next the balance on each settlement account is reset to zero.

Appropriation reporting

Appropriation reports with notes show the appropriations at Finanstilsynet's disposal, collated with accounting data reported to the central government accounts.

The Norwegian National Collection Agency is granted a debit authorisation in chapter 4602, items 03 and 86, and in chapter 5580, item 70. The results of granted debit authorisations are included in the same appropriation, but are booked and reported by the National Collection Agency. The overall claim on Finanstilsynet's chapters and items is shown in note C.

Reporting by natural classification

Reporting by natural classification with notes shows Finanstilsynet's reports to the central government accounts in 2015 based on the standard chart of accounts in the accounting year with comparatives for 2014.

Note 8 shows the difference between the final account and preliminary account with the Treasury. The final account with the Treasury shows the sum of booked amounts in assets and liabilities in Finanstilsynet's account specification, while the preliminary account with the Treasury shows assets and liabilities reported to the central government accounts.

Table 3: Appropriation report for the accounting year 2015, itemised

Expenditure chapter	Chapter name	Item	Item text	Note	Total appropriation	Accounts 2015	Expense overrun (-) or underrun
1602	Permanent posts	01	Operating expenses	A, B	340,976,000	329,952,566	11,023,434
1602	Major new procurements and maintenance	45	Major new procurements and maintenance	A, B	15,116,000	10,145,472	4,970,528
1633	Govt VAT netting arrangement	01	Operating expenses			10,900,228	-10,900,228
Total expensed					356,092,000	350,998,266	
Revenue chapter	Chapter name	Item	Item text	Note	Total appropriation	Accounts 2015	Expense overrun (-) or underrun
4602	Prospectus control fee	03	Unspec.	A, C	9,990,000	0	-9,990,000
4602	Relinquishment of gain and violation penalties, etc.	86	Unspec.	A, C	1,800,000	0	-1,800,000
5580	Contributions from supervised entities	70	Fee	A, C	335,900,000	3,302,460	-332,597,540
5700	Employer's contribution	72	Employer's contribution			31,352,210	
Total taken to revenue					347,690,000	34,654,670	
The Norwegian National Collection Agency collects and takes to revenue supervision fees and other levies on Finanstilsynet's behalf, see Note C.							340,332,408
Net amount reported to the appropriation account						316,343,596	
Capital accounts							
60050601	Norges Bank CA / receipts					10,933,584	
60050602	Norges Bank CA / payments					-327,464,163	
716106	Change in outstanding account with the Treasury					186,983	
Total reported						0	
Holdings reported to the capital account (2015/12)							
Account	Text				2015	2014	Change
6260	Shares				0	0	0
716106	Outstanding account with the Treasury				-11,833,382	-12,020,365	186,983

Note A Explanation of overall allocation

Chapter and item	Brought forward from last year	Current year's allocations	Overall allocation
160,201	11,204,000	329,772,000	340,976,000
160,245	4,916,000	10,200,000	15,116,000
460,203		9,990,000	9,990,000
460,286		1,800,000	1,800,000
558,070		335,900,000	335,900,000

Note B Explanation of utilised authorisations and calculation of amount possibly to be brought forward to next year

Chapter and item calculated	Headword	Expense overrun (-) or underrun	Expensed by others in accordance with debit authorisations	Expense overrun (-) or underrun in accordance with debt authorisations	Overall basis for amount brought forward	Max. amount to be brought forward*	Possible amount to be brought forward by Finanstilsynet
160201		11,023,434		11,023,434	11,023,434	16,488,600	11,023,434
160245	"may be brought forward"	4,970,528		4,970,528	4,970,528	22,500,000	4,970,528

* The maximum amount that may be brought forward is 5 per cent of the year's appropriation on operating items 01-29, with the exception of item 24 or the sum of the last two years' appropriations under the headword "may be brought forward". See circular R-2/2016 for further details on transfer of unutilised appropriations.

Explanation of use of budget authorisations

Debit authorisations received

The Ministry of Finance has authorised Finanstilsynet to place orders over and above appropriations granted on chapter 1602, item 45 of NOK 10 million. Finanstilsynet did not make use of this authorisation in 2015.

Headword "may be brought forward"

Finanstilsynet's appropriation on item 45 is allocated under the headword "may be brought forward". The appropriation on this item covers development measures for IT systems.

Debit authorisations granted (expensed by others)

Finanstilsynet has granted the Norwegian National Collection Agency a debit authorisation on chapter 4602, items 03 and 86, and chapter 5580, item 70.

Authorisation to use standard refunds of salary expenses to overstep expenditure

Refund of salary shall be reported as an expenditure reduction as from the financial year 2015. Salary refund is shown in note 2.

Authorisation to overstep operating appropriations against corresponding revenue gains

Finanstilsynet received no revenue gain authorisation in 2015.

Possible amount to be brought forward

Expenditure underrun on item 01 is calculated at NOK 11,023,000. This figure is below the threshold for transfer of 5 per cent of the year's appropriation on item 01, and the entire amount is deemed possible to bring forward to 2016. The entire unutilised appropriation of NOK 4,971,000 on item 45 may be brought forward.

Note C Explanation of revenues

Chapter and item	Overall allocation	Recognised by Finanstilsynet	Recognised by others	Overall revenue	Revenue gain or revenue loss (-)
460203	9,990,000		8,890,349	8,890,349	-1,099,651
460286	1,800,000		1,674,393	1,674,393	-125,607
558070	335,900,000	3,302,460	329,767,666	333,070,126	-2,829,874

Table 4: Statement of reporting by natural classification, 31.12.2015

	Note	2015	2014
Operating revenues reported to the appropriation account			
Receipts of fees	1	0	226,000
Receipts of grants and transfers	1	0	0
Receipts of sale proceeds and rents	1	0	0
Other receipts	1	0	0
<i>Total receipts from operations</i>		0	226,000
Operating expenses reported to the appropriation account			
Disbursements to salaries	2	254,511,881	254,864,057
Other disbursements to operations	3	80,597,902	83,304,877
<i>Total disbursements to operations</i>		335,109,782	338,168,934
Net reported operating expenses		335,109,782	337,942,934
Investment and financial revenues reported to the appropriation account			
Receipts of financial revenues	4	-3,960	-1,482
<i>Total investment and financial revenues</i>		-3,960	-1,482
Investment and financial expenses reported to the appropriation account			
Disbursement to investments	5	4,984,296	5,167,830
Disbursement to purchase of equities	5	0	0
Disbursement to financial expenses	4	0	0
<i>Total investment and financial expenses</i>		4,984,296	5,167,830
Net reported investment and financial expenses		4,988,256	5,169,312
Collection activities and other transfers to central govt.			
Receipts of taxes, charges, fees etc.	6	3,302,460	5,611,705
<i>Total collection activities and other transfers to central govt.</i>		3,302,460	5,611,705
Grant management and other transfers from central govt.			
Disbursements of grants and benefits	7	0	0
<i>Total grant management and other transfers from central govt.</i>		0	0
Revenues and expenses reported on central govt. chapter			
Group life insurance account 1985 (ref. chap. 5309, revenues)		0	0
Employer's contribution account 1986 (ref. chap. 5700, revenues)		31,352,210	32,105,841
VAT netting arrangement account 1987 (ref. chap. 1633, expenses)		-10,900,228	0
<i>Total revenues and expenses reported on central govt. chapter</i>		20,451,982	32,105,841
Net reported to the appropriation account		316,343,596	305,394,700
Overview of outstanding accounts with the Treasury			
Asset and liabilities		2015	2014
Receivables		246,210	112,304
Cash		0	0
Bank accounts with central govt. funds outside Norges Bank		0	0
Tax withholdings owed		-11,131,571	-11,190,454
Public charges owed		-158,896	-172,959
Other liabilities		-789,126	-769,257
Total outstanding account with the Treasury	8	-11,833,382	-12,020,365

Note 1 Receipts from operations	31.12.2015	31.12.2014
<i>Receipts from fees and charges</i>		
Fees (prospectus control)	0	226,000
Total receipts from fees and charges	0	226,000
<i>Receipts from grants and transfers</i>		
Total receipts from grants and transfers	0	0
<i>Receipts of sale proceeds and rents</i>		
Total receipts of sale proceeds and rents	0	0
<i>Other receipts</i>		
Total other receipts	0	0
Total receipts from operations	0	226,000
Note 2 Disbursements to salaries		
	31.12.2015	31.12.2014
Salaries	195,567,634	197,896,637
Employer's contribution	31,352,210	31,802,065
Pension expenses*	27,778,431	26,354,738
Sickness benefit and other refunds (-)	-5,414,966	-6,379,991
Other benefits	5,228,572	5,190,608
Total disbursements to salaries	254,511,881	254,864,057
<i>* Finanstilsynet pays pension premium to the Norwegian Public Service Pension Fund</i>		
FTEs	263	263
Note 3 Other disbursements to operations		
	31.12.2015	31.12.2014
Rent	16,896,976	16,615,696
Maintenance of own buildings and facilities	0	0
Maintenance and conversion of rented premises	137,588	162,654
Other expenses on operation of property and premises	5,907,204	6,056,745
Repairs and maintenance of machinery, equipment etc.	692,713	1,691,144
Minor equipment procurements	628,497	854,790
Lease of machinery, furniture etc.	8,676,009	8,452,282
Purchases of external services	24,067,851	24,936,193
Travel and per diem	6,041,814	6,547,309
Other operating expenses	17,549,250	17,988,063
Total other disbursements to operations	80,597,902	83,304,877
Note 4 Financial revenues and financial expenses		
	31.12.2015	31.12.2014
<i>Receipts of financial revenues</i>		
Interest revenues	-3,960	-1,482
Foreign exchange gain	0	0
Other financial revenues	0	0
Total receipts of financial revenues	-3,960	-1,482
<i>Disbursement of financial expenses</i>		
Interest expenses	0	0
Foreign exchange loss	0	0
Other financial expenses	0	0
Total disbursement of financial expenses	0	0

Note 5 Disbursed to investments and purchase of equities		31.12.2015	31.12.2014	
<i>Disbursed to investments</i>				
	Intangible assets etc.	805,196	2,022,462	
	Sites, buildings and other real property	0	0	
	Emergency preparedness acquisitions	0	0	
	Infrastructure assets	0	0	
	Machinery and vehicles	0	0	
	Operating movable property, furniture, tools etc.	4,179,101	3,145,368	
	Total disbursed to investments	4,984,296	5,167,830	
<i>Disbursed to purchase of equities</i>				
	Capital contributions	0	0	
	Bonds	0	0	
	Investments in equities and participations	0	0	
	Total disbursed to purchase of equities	0	0	
Note 6 Collection activity and other transfers to central govt.		31.12.2015	31.12.2014	
	Contributions from supervised entities	3,302,460	110,530	
	Administrative fines	0	5,501,175	
	Total collection activity and other transfers to central govt.	3,302,460	5,611,705	
Note 7 Grant management and other transfers from central govt.		31.12.2015	31.12.2014	
	Total grant management and other transfers from central govt.	0	0	
Note 8 Final and preliminary account with the Treasury				
Part A Difference between booked and reported account with the Treasury		31.12.2015	31.12.2015	
		Specification of booked account with Treasury	Specification of reported account with Treasury	Difference
Financial fixed assets	Investments in equities and participations*	0	0	0
	Bonds	0	0	0
	<i>Total</i>	0	0	0
Current assets	Accounts receivable	568,373	0	568,373
	Other receivables	246,210	246,210	0
	Bank deposits, cash etc.	0	0	0
	<i>Total</i>	814,583	246,210	568,373
Long-term liabilities	Other long-term liabilities	0	0	0
	<i>Total</i>	0	0	0
Short-term debt	Accounts payable	1,141	0	1,141
	Tax deductions owed	-11,131,571	-11,131,571	0
	Public charges owed	-158,896	-158,896	0
	Other short-term liabilities	-789,126	-789,126	0
	<i>Total</i>	-12,078,451	-12,079,593	1,141
Total		-11,263,868	-11,833,382	569,514

* Entities which own financial assets in the form of investments in equities and participations also complete Note 8B. Finanstilsynet does not own equities or participations, and Note 8B is therefore not drawn up.

KEY FIGURES ON SUPERVISORY ACTIVITIES

Table 5: Figures for supervised entities as at 31.12.2015

	2011	2012	2013	2014	2015
Banks and financial institutions					
Savings banks	111	109	106	105	104
Commercial banks	19	17	18	19	22
Finance companies and mortgage companies	56	52	54	55	57
Foreign branches of Norwegian banks and other credit institutions	14	16	17	18	7
Norwegian branches of foreign banks and credit institutions	42	42	42	40	41
Savings bank foundations and financial foundations					
Savings bank foundations and financial foundations	18	23	25	25	25
Payment institutions					
Payment institutions	17	22	21	14	15
E-money institutions					
E-money institutions	3	2	2	3	4
Insurance					
Life insurers	12	12	12	13	13
Non-life insurers	43	43	44	44	45
Local marine insurance associations	13	12	11	10	9
Local fire insurance associations	19	19	15	15	15
Norwegian insurers' foreign branches	12	16	15	15	13
Norwegian branches of foreign insurers	37	36	34	31	32
Insurance intermediaries ¹	99	96	97	102	102
Private pension funds	63	56	51	52	49
Municipal pension funds	32	32	33	38	39
Pension schemes	7	5	5	4	4
Holding companies					
Holding companies	11	12	12	11	14
Securities institutions					
Investment firms	143	136	129	106	114
Norwegian branches of foreign investment firms	19	23	21	22	22
Fund management companies and AIFMs	29	32	31	30	44
Clearing houses	3	3	3	[4]	3
The Norwegian Central Securities Depository	1	1	1	1	1
Regulated markets, incl. stock exchanges	4	4	4	[5]	5
Auditors					
Auditors	6,484	6,704	6,973	7,191	7380
Audit firms	674	600	563	533	516
External accountants					
External accountants	9,971	11,128	11,611	11,500	11,558
External accounting firms	2,817	2,862	2,853	2,858	2,835
Estate agency					
Estate agency firms	530	517	508	498	500
Lawyers' practices that include estate agency	1,317	1,329	1,325	1,278	1,238
Debt collection					
Debt collection agencies	96	94	98	98	100
Debt purchase businesses	5	4	5	4	4

Finanstilsynet also oversees the financial reporting of 261 listed firms.

¹ *Insurance agent firms that distribute insurances exclusively for insurers with offices in Norway are not included in this overview, nor are entities engaged in accessory insurance agent business.*

Table 6: Number of on-site inspections by type of institution (incl. IT inspections)

	2011	2012	2013	2014	2015
Banks/finance	53	51	63 ¹	67 ²	54³
Payment institutions ⁴	1	-	-	1	1
Insurers	14	8	8	13	9
Insurance intermediaries	7	3	5	3	2
Pension funds	2	6	5	3	2
Investment firms	19	17	12	11	17
Other securities institutions ⁵	4	3	3	3	2
Infrastructure	4	2	-	-	1
Auditors	47	48	55	29	40
External accountants	56	60	46	50	43
Estate agencies	93	43	43	32	37
Debt collection agencies	12	11	11	3	6
Data processing centres / IT providers	5	3	1	2	-

On-site inspections were conducted largely as planned. For banks the activity was as planned. Somewhat fewer inspections were conducted at insurers, but several of the inspections conducted were more extensive and challenging than expected.

IT inspections, included in table 6, comprised nine on-site inspections in the category banking and finance, one at a payment institution, two at investment firms, one at a securities fund, two at audit firms and one at a debt collection agency.

¹ 47 ordinary inspections, 6 IT inspections and 10 inspections connected to IRB

² 45 ordinary inspections, 13 IT inspections and nine inspections connected to IRB

³ 32 ordinary inspections, 11 IT inspections and 11 inspections connected to IRB

⁴ E-money institutions in 2014 and 2015

⁵ Includes securities fund management companies

Table 7: Cases handled after delegation from the Ministry of Finance

	2013	2014	2015
Cases pursuant to the Savings Banks Act No. 1 of 24 May 1961	44	37	28
Cases pursuant to the Commercial Banks Act No. 2 of 24 May 1961	19	12	36
Cases pursuant to the Financial Institutions Act No. 40 of 10 June 1988	201	188	176
Cases pursuant to the Guarantee Schemes Act No. 75 of 6 December 1996	0	1	0
Cases pursuant to the Insurance Activity Act No. 44 of 10 June 2005	77	95	94
Cases pursuant to the Securities Trading Act No. 75 of 29 June 2007	19	22	17
Cases pursuant to the Estate Agency Act No. 73 of 29 June 2007	6	5	6

INFORMATION AND COMMUNICATION

Information and communication are one of four strategic instruments of the supervisory regime, along with supervision and monitoring, licensing and regulatory development. The information effort is directed in the first instance at entities and sectors under supervision, but also the media and the general public.

Finanstilsynet has many areas of responsibility featuring extensive bodies of rules and complex issues that require a pro-active approach to information provision. The information and communication effort is based on the principles guiding the central government communication policy, and is accordingly a management responsibility in each area of supervision. A separate strategy for external communication is also a part of the basis for the communication effort.

Communication directed at entities and sectors

Finanstilsynet is dependent on the confidence placed in it by supervised entities and by the wider society. Confidence is largely a product of high quality supervision, but also of clear and consistent communication. Good communication with market participants, trade organisations, various government authorities, the media and the wider society is imperative if Finanstilsynet is to properly discharge its social role.

A key channel of communication with supervised entities and individuals is letters written and distributed by Finanstilsynet each year. A total of 15,377 letters were sent in 2015. A central aim is to communicate and inform in a clear and comprehensible language.

Rule clarifications, report-filing requirements and matters which entities and sectors must take on board are usually communicated in the form of circulars. Finanstilsynet issued 18 circulars in 2015. Finanstilsynet's circulars are also published on Lovdata Pro, operated by Lovdata (Norway's law database).

Seminars and presentations

Seminars and presentations are an important part of Finanstilsynet's communication with sectors under supervision. Each year, for example, the Authority organises a seminar for investment firms and management companies. At the turn of December Finanstilsynet held an information meeting on reporting requirements under the Alternative Investment Fund Managers Directive (AIFMD). A recording of the meeting is available on internet TV at finansstilsynet.no.

Collaboration

Finanstilsynet has an extensive network of contacts, and meets regularly with collaborating public authorities in Norway and elsewhere and with trade and professional organisations. See an overview of Finanstilsynet's key relations on page 33.

Finanstilsynet conducts user surveys at regular intervals. No such surveys were conducted in 2015.

General information activity

Sixteen press releases were issued over the course of the year. Three press conferences were held, which were broadcast on internet TV. In April Finanstilsynet presented *Financial Outlook 2015* and in November *Financial Trends 2015*. These reports analyse and review trends and risk in the financial market and potential sources of future stability problems in the Norwegian financial sector. In April Finanstilsynet presented the report *Risk and Vulnerability Analysis* on the use made of information and communication technology in the financial sector.

Media coverage of Finanstilsynet in 2015 focused on the requirements set by the authorities for banks' capital adequacy. Coverage of the banks' residential mortgage lending practices continued after the Ministry of Finance's adoption of regulations governing banks' mortgage lending practices on 1 July 2015. Matters illuminating consumer rights were also in the public eye. Among them were requirements on credit card invoicing and unlawful product bundling. The media monitoring company Opoint registered 4,677 media entries in 2015 with references to Finanstilsynet (5,207 in 2014).

Annual report format

The Norwegian Government Agency for Financial Management (DFØ) has made changes to the Regulations on Financial Management in Central Government with regard to annual reporting. The changes set requirements on sequence and headings in annual reports. Finanstilsynet sought and obtained dispensation from these requirements from the Ministry of Finance for a period of three years. Finanstilsynet aims to conform its annual reporting to the requirements as from the reporting year 2016.

Internet-based information

Finanstilsynet's website, *finanstilsynet.no*, is the main channel for information from Finanstilsynet, containing information on rules, licensing requirements, reporting etc., applying to the various areas of business. Reports, analyses, rules and matters of topical interest are published on the website along with circulars and press releases etc. Key statutes and regulations are translated into English.

The licence register is the most used service on the website. This is a searchable register of all firms and individuals under Finanstilsynet's supervision. The register also features a mobile-friendly web application. In addition the website provides an overview of market warnings against firms that are not licensed to engage in the business they are pursuing in Norway.

In 2015 the website had 545,000 visits. Around 19 per cent of all visits were by users outside Norway. Finanstilsynet also shares responsibility, with Økokrim¹, for a website, *hvitvasking.no*, that provides information on measures to combat money laundering and terrorist financing.

A pre-project was carried through in 2015 with a view to upgrading Finanstilsynet's website – *finanstilsynet.no*. The new website is scheduled to be up and running towards the end of 2016.

¹ The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime.

Finanstilsynet's key relations



5

CONSUMER PROTECTION

Consumer protection is an important factor in the development of rules for the financial market and in the supervision of financial services providers. Regulatory development and supervision are designed to safeguard the interests of consumers who purchase financial services. The consumer's position when making such purchases is therefore an important aspect of the work of Finanstilsynet.

Finanstilsynet collaborates with the Consumer Ombudsman, the Consumer Council and the Competition Authority to achieve better consumer protection in the financial sector. The Ministry of Finance commissioned Finanstilsynet to establish a competition policy forum drawing members from the above bodies. The forum held two meetings in 2015. Themes discussed were competition and stability in the banking market, in particular competition in the residential mortgage market, the increased marketing and use of consumer loans, price transparency in the market, new payment solutions, the increased offering of bundled products and customer mobility and barriers to changing bank.

Topical consumer issues

Home mortgage loan survey

Finanstilsynet conducts a mortgage survey each year, the latest one in autumn 2015. The survey covered 8,000 mortgage loan commitments made in August 2015 by the 30 largest banks. Most of the mortgages are compliant with the requirements of the new mortgage lending regulations. For further survey details see page 44.

Bundled products

The Finance Portal reviewed the loan products that are priced in the portal. The review shows that most banks require the customer to purchase a product bundle in order to qualify for the best mortgage loan product. Finanstilsynet has on a previous occasion tightened the rules governing bundled products. The Finance Portal's review shows a need for further follow up action vis-à-vis the banks.

Market warnings

In 2015 Finanstilsynet published eight warnings on its website against entities that had provided financial services in Norway without the requisite authorisation, and 241 warnings from foreign supervisory authorities. Many of these entities are engaged in fraud. The market warnings are also published on the Finance Portal. See page 59 in the chapter on the securities area for further details.

Thematic inspection of active management of equities funds

Finanstilsynet investigated in 2015 the level of active management in a number of Norwegian equities funds. It found that a number of funds that are managed close to their benchmarks are in fact offered and priced as actively managed funds. This could suggest that the investors have no real opportunity to achieve excess return; see page 61.

Law commission in the securities area

In 2015 a law commission was appointed to draft provisions to implement new EEA rules in the securities area. The commission will also give further consideration to new regulation to assure consumer protection; see page 57.

Sales of hybrid securities and CFDs

Finanstilsynet surveyed sales of hybrid securities and contracts for difference (CFDs) from investment firms to consumers. In Finanstilsynet's view such instruments are not suitable or appropriate for consumers. See more on the survey on page 59.

Estate agency

Matters of importance for consumers are given priority in the supervision of real estate agents. In 2015 the focus was on treatment of client funds, good estate agency practices in the brokering of homes in new projects, contractual terms and conditions, and advice and information.

6

MONEY LAUNDERING

The FATF (Financial Action Task Force) sets global standards for measures to combat money laundering and terrorist financing, and evaluates countries against these standards. Norway was evaluated in 2013–2014. As part of its follow up to the FATF report from autumn 2014, Finanstilsynet devoted somewhat more resources to this area in 2015. It also did more to bring its efforts into the public eye, including its ongoing monitoring of compliance with the anti-money laundering legislation.

Finanstilsynet participates in the *Contact Forum for Measures to Combat Money Laundering and Terrorist Financing*. The Contact Forum was established by the government in 2014 to coordinate the national anti-money laundering and anti-terrorist financing effort. The Contact Forum's secretariat function is split between the National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM) and Finanstilsynet.

Finanstilsynet, in collaboration with ØKOKRIM, is responsible for the thematic website *hvitvasking.no* which publishes information on measures to combat money laundering and terrorist financing. The scope of information and guidance to be provided by the website is reviewed on a continual basis. In 2015 Finanstilsynet collaborated closely with ØKOKRIM and Finance Norway, inter alia via a specialist forum devoted to discussion of key issues in the fight against money laundering. Guidance for market participants on practical issues related to their obligations under the legislation will continue in 2016, inter alia in the form of circulars in some areas of supervision.

An assessment of money laundering risk across all supervisory areas was carried out. An overall risk assessment to be completed in 2016 will form the basis for measures and supervisory follow-up. Finanstilsynet also participates in a working group tasked with preparing a national risk assessment to be considered by the *Contact Forum for Measures to Combat Money Laundering and Terrorist Financing*.

At on-site inspections of entities that are required to carry out customer due diligence and to report suspicious transactions to ØKOKRIM, Finanstilsynet examines their organisation of due diligence measures and their actual oversight of compliance with the money laundering legislation. In 2015 attention was drawn to poor compliance with the legislation at a number of banks. Finanstilsynet pointed to a need to improve internal procedures, tighten customer due diligence, clarify internal organisation and responsibilities, increase internal training and strengthen reporting to the board of directors. Attention was drawn to shortcomings in investment firms' and estate agents' compliance with the money laundering legislation. Several inspections of audit firms and external accounting firms brought to light inadequate compliance with anti-money-laundering procedures. In 2016 on-site inspections will be conducted at a number of payment institutions where money-laundering will be a theme.

On 6 February 2015 the Ministry of Finance appointed a law commission to review the anti-money-laundering legislation to assure compliance with EEA legislation and international standards in this area. Finanstilsynet is represented on the commission. The commission delivered its first interim report on 6 November 2015. This addresses who is to be responsible for the supervision of company service providers, persons trading in goods and operators of gaming activities. The interim report also looks into the question of setting an upper limit on cash use. The commission will deliver its second interim report by 6 August 2016.



REPORTS FROM THE SUPERVISED SECTORS:

BANKING AND FINANCE

INSURANCE AND PENSIONS

THE SECURITIES AREA

Investment firms

Mutual funds and collective investment schemes

Market infrastructure

Market conduct rules

Prospectus control – transferable securities

Financial reporting enforcement – listed companies

AUDITING

BANKING AND FINANCE

Banks play a key role for the entire economy as providers of finance and savings solutions. Regulation and supervision are important contributors to financial stability and confidence in the financial system. Supervision of the banking and financial sector promotes solid financial institutions with good risk awareness, management and control. Financial service provision must be compliant with the regulatory framework and in the best interest of society and the users of financial services.

Developments

Norwegian banks have posted sound profits following the international financial crisis. A favourable domestic economic trend lasting several years combined with falling interest rates have contributed to increased business volumes and incomes, while loan losses have been low. This has given Norwegian banks a good basis for strengthening their capital position, which is important in preparing the industry for possible economic setbacks.

The banks obtain a large share of their funding in the market, much of it denominated in foreign currency. A substantial portion of both Norwegian and international market funding has a maturity below three months. As was seen during the international financial crisis in 2008, Norwegian banks are vulnerable to turbulence in international money and capital markets. Funding through covered bonds has helped to reduce liquidity risk, but may have rendered banks more vulnerable to a setback in the economy and the housing market.

The oil price fall is affecting the Norwegian economy, and lower demand from the petroleum sector has brought substantially lower activity and impaired profitability in industries that deliver goods and services to this sector. The knock-on effects to the wider Norwegian economy have so far been limited, but a lasting low oil price could have major negative ripple effects to the non-oil economy.

The likely path of the international economy remains highly uncertain. Growth is moderate in the US and weak in the euro area. Several of Norway's trading partners in Europe are experiencing high unemployment, concurrent with high public and private indebtedness. Quantitative easing and very low key policy rates in the US and Europe have stimulated the economy, but may also have contributed to financial imbalances through an increased debt burden, increased asset prices and lower risk premiums. Considerable uncertainty attends the economic effects of phasing out the extraordinary monetary policy measures.

Norwegian households' debt burden continued to rise in 2015, posing a substantial and growing risk to financial stability in Norway. Household debt mainly comprises residential mortgages carrying floating interest. The debt burden and house prices are at unprecedentedly high

levels, and households are more vulnerable to income lapse and interest rate hikes through for example higher risk premiums. A sudden reversal of house prices and a fall in household demand will affect Norwegian business and industry on a broad front and thus also inflict increased loan losses on banks.

Supervision and monitoring

Monitoring and analysis

Finanstilsynet conducts regular analyses of developments in the financial industry, the markets and the real economy. In macroeconomic surveillance importance is attached both to the risk facing banks as a result of macroeconomic developments and the risk to the financial system and the economy that the banks as a whole can generate. Analyses of financial positions and credit and liquidity risk are performed for finance companies, individual banks and for the banking sector as a whole. Quarterly press releases summarise these analyses, which are also published in *Report for Financial Institutions* (Norwegian only) on Finanstilsynet's website. Each spring and autumn Finanstilsynet presents analyses of developments in financial institutions, markets and the real economy and other trends which may pose a risk to financial stability in the Norwegian market. The *Risk Outlook* report was published in April 2015, and the *Financial Trends* report in November. The various public reports with press releases are available on Finanstilsynet's website.

In *Financial Trends 2015* Finanstilsynet devoted special attention to the banks' exposure to oil-related activity. Direct exposure to oil-related activity makes up a relatively small proportion of Norwegian banks' aggregate lending, but there are differences between banks. It was pointed out that in the event of a moderate turnaround in the Norwegian economy, with temporarily weak growth, Norwegian banks can expect to see somewhat increased losses and reduced earnings, but not a dramatic impairment of financial position. However, losses on individual exposures may be substantial. It was concurrently emphasised that a severe setback affecting the Norwegian economy on a broad front may subject banks to substantial losses across several areas of their loan book.

Reporting

To ensure close monitoring of developments in financial institutions and markets, Finanstilsynet is dependent on data submitted by the institutions. All banks and finance companies in Norway report to ORBOF (a database for accounting information from banks and finance companies) on which Finanstilsynet collaborates with Norges Bank (the central bank) and Statistics Norway. In addition, credit institutions report capital adequacy and liquidity positions etc. to Finanstilsynet under the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR). Finanstilsynet also obtains reports from savings bank foundations and financial foundations, payment institutions and electronic money institutions.

Reporting under CRD IV, which is fully harmonised, was introduced in Norway as from July 2014. CRD IV covers, in addition to capital adequacy reporting, financial reporting (FINREP), and reporting of liquidity ratios (LCR and NSFR), large exposures, leverage ratios and encumbered assets. The reporting requirements are constantly changing, and new reporting areas are added. This requires continuous adaptation and further development of the reporting material.

In recent years the European Supervisory Authorities have compiled more and more information on developments in the respective countries' financial markets. This information is used by the European Banking Authority (EBA), both for its own supervisory purposes and to pass on to the European Systemic Risk Board (ESRB). Finanstilsynet collects data for Norwegian institutions, and is responsible for reporting on the situation among Norwegian institutions to the EBA.

Ongoing impact studies, in which Norwegian institutions participate, are conducted under EU auspices to assess the effect of the new regime and to tailor the final requirements.

In the course of 2015 a meeting was held with the reference group for CRD IV reporting at which new requirements and changes to the reporting were reviewed. It was also made known that XBRL (eXtensible Business Reporting Language) is to be the compulsory standard for CRD IV reporting from 2017 onwards.

The table below shows an overview of the new reporting areas introduced since 1 July 2014. In the near future reporting on funding plans, additional monitoring metrics (AMMs) and a benchmarking exercise will be added, in addition to changes, among others, to the LCR and FINREP.

Table 8: Reporting areas

CRD IV reporting	First reporting period	First reporting Date	Reporting frequency	Reference to CRR
Capital adequacy	Q3 2014	11 Nov 2014	Quarterly	Article 99
Large exposures	Q3 2014	11 Nov 2014	Quarterly	Article 394
Leverage ratio	Q3 2014	11 Nov 2014	Quarterly	Article 430
IP losses	Q2 2014	11 Feb 2015	Semi-annual	Article 101
FINREP	Q3 2014	11 Nov 2014	Quarterly, semi-annual, annual	Article 99
Non-performing exposures and Forbearance	Q3 2014	31 Dec 2014	Quarterly	Article 99
Asset encumbrance	Q1 2015	12 May 2015	Quarterly, semi-annual, annual	Article 100
LCR – Liquidity Coverage Ratio	July 2014	30 Aug 2014	Monthly	Article 415
NSFR – Net Stable Funding Ratio	Q3 2014	11 Nov 2014	Quarterly	Article 415

Facts:

At the end of 2015, 104 savings banks, 22 commercial banks and 57 mortgage and finance companies were licensed to operate in Norway. In addition Norwegian credit institutions had 7 branches abroad and foreign credit institutions operated 41 branches in Norway. 24 savings bank foundations and 1 financial foundation, 15 payment institutions and 4 electronic money institutions held a licence at year-end.

Financial soundness and profitability of Norwegian banks

Norwegian banks showed good profitability again in 2015, and loan losses remained low despite a somewhat weaker trend in the Norwegian economy. Non-performing exposures were at a low level. Banks' net interest revenues were maintained despite lower lending rates. Return on equity was 12.2 per cent in 2015. Good profitability and moderate dividends enabled the banks to build up capital in 2015 as previously, and common equity tier 1 ratios rose. Leverage ratios rose less than risk weighted capital adequacy. Banks were able to build up capital and simultaneously provide loans to creditworthy customers.

The increase of Pillar 1 requirements in the European capital adequacy regime (minimum requirements and buffer requirements) started in 2013 and will be fully phased in during 2016. Banks are well placed to meet the higher requirements.

Liquidity monitoring

Large Norwegian banks and mortgage companies obtain much of their funding in international money and credit markets. Conditions in these markets are liable to change rapidly, and refinancing during a crisis of confidence may be both costly and difficult. Finanstilsynet accordingly has a tight focus on liquidity risk. Increased liquidity buffers and a larger element of long-term funding have put Norwegian banks in a better position to meet scarcer liquidity. Covered bond issuance has played a part here. Norwegian banks enjoyed good access to both short-term and long-term market funding in the past year, but risk premiums rose as a result of turbulence in international money and capital markets.

Financial undertakings report figures of relevance to monitoring their liquidity and funding risk both indirectly via the ORBOF financial database at Statistics Norway and directly to Finanstilsynet.

Asset encumbrance data are also reported. Financial undertakings performing poorly on various liquidity and

funding indicators are followed up by Finanstilsynet, in serious cases through on-site inspections. Banks with poor results in 2015 were after closer assessment either followed up directly or through feedback on their ICAAP¹/ ILAAP².

New liquidity requirements in CRD IV / CRR

The CRD IV framework introduces quantitative regulation of liquidity in the shape of minimum liquidity requirements – a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR). The LCR became effective in the EU on 1 October 2015, with a gradual phase-in up to 2018. The individual member state can opt to phase in the liquidity buffer requirement faster than envisaged in the Directive. How a stable funding requirement is to be implemented in the EU has yet to be decided. The EU Commission is due to present a proposal on the NSFR by the end of 2016. A minimum NSFR requirement is expected to become effective from 2018 at the earliest.

The Ministry of Finance adopted on 25 November 2015 regulations to amend the CRD IV regulations by adding a liquidity reserve requirement (LCR), effective as from 31 December 2015. This requirement applies at entity level for banks and mortgage companies, as well as at sub-group level and group-level.

Undertakings can phase in the liquidity reserve requirement at a minimum of 70 per cent as from 31 December 2015, 80 per cent as from 31 December 2016 and 100 per cent as from 31 December 2017. Mortgage companies can phase in the requirement at a minimum of 70 per cent as from 30 June 2016.

Systemically important undertakings must meet the liquidity reserve requirement at a minimum of 100 per cent as from 31 December 2015. For mortgage companies that are a subsidiary of a systemically important undertaking the liquidity requirement must be met at a minimum of 100 per cent no later than by 30 June 2016.

Pursuant to the CRD IV regulations, Finanstilsynet adopted on 22 December 2015 regulations on the calculation of liquid assets, payments and receipts in the LCR. The regulations contain rules on haircuts for liquid assets, as well as on outflow rates and inflow rates for payments and receipts in the LCR. The rules are based on the liquidity rules of CRD IV.

The LCR requirement must be met for all currencies combined. The Ministry of Finance has asked Finanstilsynet to consider by the end of August 2016 whether an LCR requirement should be imposed in significant currencies, including the Norwegian krone.

Financial undertakings have reported LCR data for several years before it was introduced as a minimum requirement as from 2016. Undertakings also report the NSFR to Finanstilsynet.

¹ Internal Capital Adequacy Assessment Process

² Internal Liquidity Adequacy Assessment Process

Assessment of banks' risk and capital need

One of Finanstilsynet's tasks is to consider whether the banks' capital level and capital plans are adequate in relation to their risk level. In August 2015 Finanstilsynet issued in that connection circular 9/2015 entitled *Finanstilsynet's methodologies for assessing risk and capital needs*. The circular builds on guidelines from the European Banking Authority published in December 2014.

Each year Finanstilsynet obtains documentation of the internal capital adequacy assessment (ICAAP) of the largest banking groups (17 in 2015) and a number of smaller and mid-sized banks selected on the basis of a high risk profile or low capital adequacy. Based on Finanstilsynet's assessment of the risk situation, each bank receives a written response under its SREP¹. The banks' capital situation and ICAAP document are also assessed in most general on-site inspections. In 2015 feedback was communicated in the form of a separate SREP letter or supervisory report to 40 banks and one finance company.

With reference to circular 9/2015, the SREP feedbacks in 2015 emphasised that banks' overall capital requirement will comprise three elements: (i) minimum requirements (Pillar 1), (ii) a Pillar 2 add-on covering risks not covered or only partly covered by the minimum requirement (Pillar 1) and (iii) applicable buffer requirements. In that connection it is made clear that Finanstilsynet maintains its precept that Pillar 2 risks must be covered by common equity tier 1 capital. The SREP feedbacks dispatched in the second half of 2015 also stated that as from 2016 Finanstilsynet will set individual Pillar 2 add-ons for the individual bank. The add-ons will have a basis in Finanstilsynet's calculations and risk assessments and the bank's capital needs assessments. Finanstilsynet informed several banks that they needed to take steps to strengthen capital adequacy.

On-site inspection

A total of 32 inspections were carried out at banks and finance companies in 2015, of which five were thematic inspections of stress tests in the liquidity area. 45 inspections were conducted in 2014. In 2015 a further eleven inspections focused on ICT infrastructure, catastrophe solutions and preparedness and ten inspections related to follow-up of IRB-approved banks.

Large banks that are subject to an overall risk assessment

The 17 largest bank groups in Norway are subject to an annual overall risk assessment as part of the basis for Finanstilsynet's assessment of their capital needs. This risk assessment is also used to prioritise supervisory activities applied at these banks, which are subject to regular inspection of certain risk areas. In 2015 Finanstilsynet focused closely on the credit area to bring to light shortcomings in the banks' loss assessments and exposure monitoring at an early stage. Attention focused in particular on the banks' exposures to vulnerable industries such as offshore and supply.

The responses given in the supervisory reports to the banks identified in several cases poor documentation of impairment assessments and collectively assessed write-downs that were too low in light of the changes in the macroeconomic picture. High concentration in individual sectors, inadequate exposure monitoring and failure to group counterparties also receive attention in the reports.

Further, several of the banks were informed of shortcomings in their internal control and the design of the risk control function in particular.

Small and medium-sized banks and finance companies

Finanstilsynet has in recent years used the SEBRA ("system for EDP-based financial statement analysis") model in combination with public accounts data to analyse banks' corporate portfolios. The result of the analysis is used to select candidates for inspection among the small and medium-sized banks.

Half of the twelve inspections conducted at small and medium-sized banks concerned the credit area. At several banks indications of high risk in the loan book were pointed out, often associated with a high rate, or high probability, of non-performance. These banks were asked to take steps to reduce the risk present in the loan book and to tighten their credit practices. Some banks were also warned against the consequences of high lending growth and geographical expansion. Several were challenged on their impairment write-down arrangements or were asked to concretise action plans for individual borrowers.

Liquidity risk was a central theme at about half of the inspections of small and medium-sized banks. In this context Finanstilsynet emphasised the need for banks to ensure that they have a long-term funding structure through a good deposit-to-loan ratio and long-term market funding. In addition, importance is attached to banks having sufficient liquidity buffers.

After requirements for a risk control function at all banks were introduced in 2014, general governance and control have received more attention. Several supervisory reports in 2015 pointed to a lack of independence between controlling and executive functions.

¹ Supervisory Review and Evaluation Process

Thematic inspections of corporate governance at smaller banks

In autumn 2014 Finanstilsynet conducted thematic inspections of corporate governance at ten small banks. The object of the inspections was to assess the banks' division of work in central decision processes in the credit and securities area and in addition to assess the banks' solutions and processes designed to ensure satisfactory corporate governance. The assembled report from the inspections was finalised and published in June 2015. The report summarises the main conclusions drawn from the inspections and shows what steps Finanstilsynet expects to be taken in various areas. The banks have strengthened their internal control by establishing risk control functions and have in general come a long way in terms of complying with the new requirement to have such functions in place. However, many banks still have ground to cover to ensure that this function has sufficient independence and competence. Several banks fail to measure up to best practice regarding the four-eyes principle in the credit process, but have very largely assured that a minimum of two persons are involved in the bank's securities trading process. However, only one inspected bank established the three tiers (front, middle and back office) recommended by Finanstilsynet as regards securities trading.

Thematic inspections of bank groups' stress testing of liquidity and funding risk

In autumn 2015 Finanstilsynet conducted thematic inspections of stress testing of liquidity and funding risk at five bank groups. The object was to map the banks' practice regarding the use of stress testing in the area of liquidity and funding risk. Preliminary reports were sent to each of the bank groups in 2015, and the final supervisory remarks and assembled report are due to be completed in the first quarter of 2016.

IRB inspections

The largest banks use internal models (IRB) to calculate risk weights that determine how much capital will back their lending. In November and December 2015 Finanstilsynet conducted ten on-site inspections at banks and finance companies with IRB permission. Such inspections are held on an annual basis. An important theme is entities' validation of IRB models. Validation involves inter alia examining models' ability to provide sound estimates and to assign proper rankings to good and poor borrowers. Another main theme in 2015 was the banks' use of models and associated controls and analysis. For example collateral values are a key factor, and appurtenant valuations are therefore an important aspect of model use. Finanstilsynet reviewed selected loan exposures as a part of the inspections.

Inspections of IT infrastructure, catastrophe solutions and preparedness

In 2015 eleven inspections of IT infrastructure, catastrophe solutions and preparedness were carried out at banks and finance companies or at services providers to banks. The inspections covered management and control of IT services (operational IT risk), outsourcing of services and compliance with laws and regulations in general. Entities' access management and their management and control

of core solutions for banks were also assessed, in addition to crisis planning and testing of preparedness solutions. A joint Nordic IT inspection was conducted at Nordea in which representatives from the Single Supervisory Mechanism (SSM) also participated. Assistance was also provided to the IT inspection conducted at DNB Lithuania by the Lithuanian central bank and the SSM.

Forbearance reporting

As from the third quarter of 2014 banks were required to report exposures to borrowers on repayment relief as part of their reporting of financial information (FINREP). Finanstilsynet views forbearance as a change in the terms and conditions of a contract resulting from financial problems and debt refinancing that would not have been granted had the debtor not encountered financial problems.

Over the course of 2015 Finanstilsynet obtained information from eight individual banks in order to survey their definitions of forbearance exposures, and to map the technical systems employed by them to manage this type of portfolio. Based on the survey Finanstilsynet will consider whether there is a need to concretise the criteria for forbearance.

Follow-up of residential mortgage lending regulations

Regulations concerning requirements on new mortgages secured on residential property that were adopted by the Ministry of Finance in June 2015 set minimum standards for debt servicing capacity, equity and repayment of residential debt. The individual financial institution is permitted to grant mortgage loans that do not meet the requirements on servicing capacity, debt-to-loan ratio and repayment ceiling. Such loans may not exceed a value of 10 per cent of total loans granted per quarter. Institutions are required, also on a quarterly basis, to report to their board of directors, or, in the case of foreign branches, to the management, on their compliance with this limit. As a step in monitoring compliance, Finanstilsynet obtained the internal reporting from the 16 largest banks and the three foreign branches that offer home mortgage loans. The third quarter of 2015 was the first quarter in which the banks' lending practices were subject to regulation under the new regulations.

In the third quarter of 2015 three institutions reported a higher proportion of non-conforming mortgage loans than was permitted under the regulations. These institutions were asked to give an account of completed and planned measures designed to reduce the proportion of non-conforming mortgages and were ordered in the fourth quarter to submit monthly reports. The monthly reports show that the level of non-conformance was substantially reduced at all three banks, but for the fourth quarter of 2015 as a whole the non-conforming proportion at one of the three banks nonetheless overstepped the 10 per cent ceiling. For further details of the residential mortgage lending regulations, see the section on regulatory development on page 46.

Home mortgage loan survey 2015

Finanstilsynet has conducted home mortgage loan surveys since 1994. The survey is designed to capture trends and developments in banks' residential mortgage lending, not to ascertain their compliance with the home mortgage lending regulations. Monitoring compliance with the regulations is done through on-site inspections and review of reports to boards of directors.

In autumn 2015 the 30 largest banks (Norwegian and foreign) reported data on repayment mortgages and home equity credit lines granted against security in residential property. The banks in the sample altogether account for a market share of 88 per cent of all mortgage loans and home equity credit lines secured on residential property in Norway. In total, information on just over 8,000 new repayment loans and credit lines granted after 1 August 2015 was obtained.

The survey indicated that banks overall have tightened their lending practices. The proportion of repayment mortgages in excess of 85 per cent of property value, the proportion of mortgages with a projected liquidity deficit, and the proportion of interest-only mortgages all fell in 2015; see table 9. Young borrowers (under-35s) showed the highest proportion of mortgages with an LTV ratio above 85 per cent, but the figure was down on the preceding year. The proportion of interest-only repayment mortgages was also down on previous years.

The survey showed that all banks calculate borrowers' debt-servicing capacity assuming an interest rate add-on of 5 percentage points. The banks granted fewer mortgage loans to borrowers lacking sufficient income to cover debt servicing and normal living expenses (liquidity deficit); see table 9.

The tightening of lending practices applied both to loans for house purchase as well as other purposes, including refinancing of existing mortgages. Granting of home equity credit lines above the ceiling of 70 per cent of property value also fell. The banks obtained additional collateral for a number of credit lines that exceeded the LTV ratio limit, such that the proportion was reduced compared with the previous year; see table 10.

The home mortgage loan survey showed that banks have reduced the proportion of mortgages with a high LTV ratio and borrowers with a projected liquidity deficit. Other areas have also seen an appreciable tightening. At the same time the survey showed a high debt-to-income ratio for borrowers who took out a mortgage in 2015, in particular for young borrowers. Part of the reason may be that the historically low interest rate level has in isolation enabled borrowers to service larger debt, but at the risk of underestimating the vulnerability associated with higher interest rates and income lapse.

Accounts meetings

Again in 2015 Finanstilsynet held semi-annual meetings with the management of the largest banking groups at which the banks presented their results along with updates on key risk factors. They also briefed Finanstilsynet on trends in the markets in which the banks operate and on organisational matters and strategic considerations. The meetings are seen as useful as communication channels and as a link between Finanstilsynet's and the banking groups' management teams.

Meetings with branches of foreign credit institutions

Meetings were held with the senior management of the largest Norwegian branches of foreign banks over the course of the year.

Table 9: Breakdown of repayment mortgages, in per cent

	2013	2014	2015
LTV ratio above 85 per cent	15	19	16
LTV ratio above 85 per cent, incl. additional collateral	8	10	7
Liquidity deficit assuming 5 pp interest rate increase	6	5	2
Interest-only	12	14	11

Table 10: Breakdown of home equity credit lines, in per cent

	2013	2014	2015
LTV ratio above 70 per cent	11	12	13
LTV ratio above 70 per cent, incl. additional collateral	6	8	6
Liquidity deficit assuming 5 pp interest rate increase	2	2	1

Supervisory collaboration

The supervision of large individual banks operating in several countries is coordinated through supervisory colleges in which the relevant countries' supervisory authorities may be represented. Finanstilsynet is the coordinating authority for the DNB supervisory college, in which eight other supervisory authorities participate. The work of the college follows guidelines issued by EBA. Key tasks for the college in 2015 were the preparation of a joint assessment of the risk and capital situation in the DNB Group (SREP). The college also approved an assessment of the DNB Group's recovery plan. Drawing up such plans is a requirement of the EU's Crisis Management Directive, which will be incorporated in Norwegian legislation at a later stage.

Finanstilsynet also participates in seven supervisory colleges for foreign banks operating in Norway.

Licensing

Licence applications

Autobank AS was in April 2015 granted permission to operate as a commercial bank. Autobank is to be a niche bank engaged in car financing. The bank has yet to commence operations.

In May 2015 Finanstilsynet gave permission for the Swedish bank branch Skandiabanken NUF to establish operations as a Norwegian commercial bank under the name Skandiabanken ASA. As of the establishment date the bank was a wholly-owned subsidiary of the life insurer Livförsäkringsbolaget Skandia, ömsesidigt bolag (Skandia Liv). Skandiabanken ASA was admitted to stock exchange listing on 2 November 2015. The bank's use of the company name "Skandiabanken ASA" is limited to three years following admission to listing. Finanstilsynet concurrently granted permission for the establishment of the mortgage company Skandiabanken Boligkreditt AS. The mortgage company will be wholly owned by Skandiabanken ASA.

Monobank ASA was in June 2015 granted permission to operate as a commercial bank. Its business concept is to be a niche bank in consumer finance. Permission to start operations was granted on 11 November 2015.

Safe Deposit Bank of Norway AS was granted permission to commence business in July 2015. It received its licence in June 2013.

Ebanken was on 31 August 2015 granted permission to operate as a commercial bank. Ebanken is to be a niche bank offering savings and loan products with an emphasis on consumer loans to the retail market. The bank has yet to commence operations.

The Nordea Group announced its intention to convert its subsidiary banks in Denmark, Finland and Norway to branches of the Swedish parent bank Nordea Bank AB. In Norway such conversion will require approval by the Ministry of Finance under terms set when MeritaNordBanken was granted permission to acquire all the shares of Christiania Bank and Kreditkasse ASA in 2000. According to a stock exchange notice from July 2015 the conversion aims to simplify Nordea's legal structure.

In 2015 Finanstilsynet received 21 applications for a licence to operate as a payment institution. Two of these were applications for an ordinary licence, while the remainder sought limited authorisation to engage in money transfers. In 2015 one entity was granted a licence to operate as an ordinary payment institution, and one entity received limited authorisation to engage in money transfers. In addition, one entity had its limited authorisation renewed in 2015.

Regulatory development

EU crisis management directive

The EU crisis management directive (Bank Recovery and Resolution Directive, BRRD (2014/59/EU)) entered into force in the EU on 1 January 2015. The Directive aims to provide entities and authorities with the tools needed to pre-empt and manage crises at an early stage, and to limit the costs to taxpayers that result from the crisis. Under the Directive banks can fail without threat to financial stability since critical functions can be maintained during a crisis and losses will be borne by owners and creditors (bail-in) rather than by recourse to government funds. The bail-in tool became effective in January 2016.

The Directive requires entities to draw up recovery plans with measures for managing financial crisis situations. The plans need to be approved by the supervisory authorities. Resolution authorities will be established to draw up recovery plans for banks.

According to the Directive a bank must maintain a minimum level of own funds and debt that can be written down or converted (bailed in) if it were in crisis. Resolution fund resources will be available to cover loss if a systemic crisis threatens. Own funds and debt corresponding to at least 8 per cent of entities' total assets must be written down before recourse can be had to the resolution fund. The Directive sets requirements for the resolution fund's financial means. The fund must reach the equivalent of at least 1 per cent of the covered deposits of all authorised banks.

The Banking Law Commission has been mandated to draw up a proposal for implementing the Directive in Norwegian law, including a proposal as to what body should be the resolution authority.

Nibor

Rules on fixing Nibor (Norwegian Interbank Offered Rate) and other countries' corresponding interest rates have largely been left to the banks involved and their organisations. On 19 June 2015 the Ministry of Finance tabled a bill proposing a new act to regulate the fixing of reference rates. The act, which entered into force on 1 January 2016, requires the fixing of reference rates in general use such as Nibor to be properly organised. The administrator (the party responsible for fixing the reference interest rate) and the rate fixing procedure must be approved by the Ministry of Finance. Finanstilsynet oversees compliance with the statutory requirements. Finanstilsynet has been tasked by the Ministry of Finance with drawing up a proposal for regulations to supplement the above act.

New Financial Undertakings Act and associated regulations

The Financial Undertakings Act entered into force on 1 January 2016. The act replaces the Savings Bank Act, Commercial Banks Act, Financial Institutions Act and Bank Guarantee Schemes Act, as well as parts of the Insurance

Act. The act largely continues the existing regulation of licensing requirements, organisational rules, general rules of business, as well as rules governing guarantee schemes and capital inadequacy for banks, insurance companies and other financial undertakings. On commission from the Ministry of Finance, Finanstilsynet reviewed regulations issued under previous statutes and considered the merits of retaining them. Finanstilsynet's recommendation was circulated for comment on 21 December 2015. Until such regulations are adopted, the existing regulations to the Financial Institutions Act, the Savings Bank Act and the Commercial Banks Act will remain in force.

Home Mortgage Lending Regulations

The Ministry of Finance adopted regulations imposing requirements on new loans secured on residential property (Home Mortgage Lending Regulations) with effect from 1 July 2015. The regulations, which build on previous guidelines from Finanstilsynet, aim to contribute to a more sustainable housing market trend. All financial institutions that offer mortgages secured on residential property are covered by the regulations. The regulations will apply up to 31 December 2016.

Financial institutions must adjust their internal procedures to the requirements set under the home mortgage lending regulations. The regulations require institutions to calculate borrowers' ability to service overall debt based on their income and all living expenses.

The regulations give lenders flexibility to grant mortgages to creditworthy borrowers who do not fulfil all the requirements¹ of the regulations. Credit institutions can grant loans up to a value of 10 per cent of total loans granted against security in residential property per quarter. In order to maintain competition in the market, loans moved from one entity to another (remortgage loans), cannot count towards the 10 per cent quota.²

New requirements on liquidity under CRD IV / CRR

On 25 November 2015 the Ministry of Finance adopted regulations amending the CRD IV regulations by adding provisions concerning a liquidity coverage ratio (LCR) which entered into force on 31 December 2015. On 22 December 2015 Finanstilsynet adopted, with a basis in the CRD IV regulations, regulations on the calculation of liquid assets, payments and receipts in the LCR. The regulations contain rules on haircuts for liquid assets as well as outflow and inflow factors for payments and receipts in the liquidity reserve. The rules are based on the liquidity regime under CRD IV. For more information see *liquidity monitoring* on page 41.

Finanstilsynet announces changes to models for calculating capital charges

In circular 3/2015 Finanstilsynet announced changes to models for calculating capital charges (IRB models). The changes apply to commercial banks, savings banks, financial holding companies and finance companies.

¹ Refers to one or more of the conditions of section 3, 4 and 6 of the regulations.

² On condition that the remortgage loan has the same collateral, a loan amount that is no higher, a term that is no longer, and instalment payments that are identical or more stringent.

FINANCIAL SECTOR ASSESSMENT PROGRAMME (FSAP) IN NORWAY IN 2014 AND 2015

One of the tasks of the International Monetary Fund (IMF) is to assess its member countries' economies and economic policies through Article IV consultations. In addition, a special assessment is made of the financial sector and financial stability through the Financial Sector Assessment Programme (FSAP). While Article IV consultations have been conducted every other year in Norway, it is ten years since Norway was last assessed under the FSAP. The IMF regards Norway as a systemically important country, and systemically important countries will henceforth be assessed through Article IV consultations each year and FSAP once every five years.

The IMF visited Norway in November 2014 and in March and May 2015. During their visits the IMF held meetings with Finanstilsynet, Norges Bank, and the Ministry of Finance, and with Norwegian financial institutions and other financial sector actors.

There are two basic aspects of an FSAP assessment. The first is an assessment of factors of significance for financial stability, i.e. risks and vulnerabilities in the financial system, the authorities' work on financial stability and crisis management preparedness. The second aspect is a country's fulfilment of international standards in selected areas. What themes are taken up in an FSAP assessment varies from country to country. Norway is evaluated on the following five main themes:

- Compliance with Basel Core Principles (BCP), which are an international standard for banking supervision
- Macroeconomic analysis and macro policy instruments
- Stress testing of banks and insurers
- Payment and settlement systems infrastructure
- Crisis preparedness and crisis resolution arrangements

At Finanstilsynet compliance with BCP and conduct of bank stress tests were subject to the most extensive investigations and therefore receive a fuller account in this publication.

Compliance with Basel Core Principles for effective banking supervision (BCP)

The BCP is an international standard consisting of 29 core principles which countries should seek to comply with in their supervision of the bank sector. The IMF examined the degree to which Norway complies with these principles. The survey included a self-evaluation performed by Finanstilsynet, meetings with Finanstilsynet and with the bank sector in Norway.

The IMF concluded that Norway is in large measure compliant with the BCP and pointed to the general satisfactoriness of Norwegian rules and to the presence of a good risk-based framework for supervision. The IMF also considered that there is room for improvement in compliance with the principles of independence, resources, transactions between related parties and misuse of financial services. According to the IMF, Finanstilsynet is not sufficiently independent of the Ministry of Finance and recommended looking into the scope for allotting Finanstilsynet greater independence under existing legislation. Further, the IMF was critical of Finanstilsynet's reduced budget in a period of expanding tasks.

In connection with the principle on transactions between related parties, the IMF held that the legal definitions in the Norwegian legislation were too narrow, but that the new Financial Undertakings Act which entered into force on 1 January 2016 improves matters. The IMF also considered there to be room for improvement in the anti-money-laundering effort as regards the criteria included in the core principle on misuse of financial services. Many of the measures recommended by the IMF are now in place.

Stress test bank sector

In 2015, as a part of the FSAP, stress tests were conducted of Norwegian banks. The stress tests, carried out in the period December 2014 to end-March 2015, tested the financial system's robustness to negative macroeconomic scenarios. The six largest Norwegian bank groups using IRB models took part in the stress test. The stress test was conducted by the banks themselves under the guidance of Finanstilsynet and Norges Bank. The stress scenario projected an increase in the unweighted average default probability for the six banks from 1.87 per cent in 2015 to 2.94 per cent in 2017. The results from the banks' stress tests were compared with macro stress tests conducted by Finanstilsynet, the IMF and Norges Bank. The methodology used in the stress tests differed, but they were based on the same macroeconomic scenario. The IMF also conducted a liquidity stress test in which the banks' ability to withstand a shortage of Norwegian and foreign currencies was tested.

The IMF also assessed the framework for monitoring and supervising systemically important financial market infrastructures (FMIs) in Norway. The conclusion was that Norway has modern, stable infrastructure systems. The IMF nonetheless recommended certain measures with a view to developing the overall framework as well as the cooperation between relevant authorities. In addition, the authorities were asked to consider further measurements/controls to ensure the payments systems' operational robustness.

The results of the stress tests and the IMF's assessments of Norway through the FSAP were published in various theme reports in September 2015. The reports can be downloaded from the IMF website (imf.org).

PAYMENT SYSTEMS

Developments in 2015

There were fewer reports about operational incidents and better availability of financial services in 2015 than the previous year. However, an increase was seen in fraud attacks against financial institutions and payments services. Although this had little effect on the overall availability, the attacks were a major inconvenience to the customers and firms affected. Many of the fraud attacks against financial institutions contained an element of blackmail and ransom demands. An increase in Trojan attacks against internet bank customers was also noted. Corporate internet banking, transacting large amounts, was particularly at risk. Although most transactions were halted before completion, losses rose somewhat.

Finanstilsynet notes that authentication control, access control and protection of sensitive data are areas where there is room for improvement. Sensitive information in documents, e-mails etc. is particularly vulnerable since it often lacks the same protection as the business systems.

Outsourcing

In the autumn 2015 EVRY ASA signed an agreement with IBM to outsource basic operations. Servers and data will remain in Norway while system operations will in due course be conducted at IBM's operations centres, mainly outside Norway. The banks have notified changes in their outsourcing in compliance with new provisions of the Financial Supervision Act dating from 1 July 2014.

Nets put its business on a branch footing in 2015, and Nets Branch Norway became a branch of Nets A/S in Denmark. Operations remain in Norway. Nets Norge Infrastruktur AS, which inter alia operates the Norwegian interbank clearing system (NICS), remains a Norwegian company in its own right. Here too, the banks notified changes in their outsourcing, as they did when Nets relocated their debit and credit card fraud monitoring service to Denmark.

In 2015 Finanstilsynet processed more than 100 notifications of outsourcing from entities under supervision.

When reviewing notifications of outsourcing, Finanstilsynet considers whether the entity has made an independent risk analysis of the outsourcing relationship. Finanstilsynet considers the risk implicit in the outsourcing, both in the light of the risk faced by the individual entity and by the financial undertaking as a whole. Finanstilsynet took action in cases where the contracts fail to take sufficient account of regulatory requirements, and pointed out inter alia that the entity must be entitled to inspect and oversee the activities of the service provider that is party to the contract.

Supervision and monitoring

Incident reporting

Finanstilsynet received 150 incident reports in 2015, significantly fewer than the previous year. The Ministry of Finance was alerted on two occasions. Both concerned DDoS attacks involving elements of blackmail. Finanstilsynet is unaware of ransom payments made in any instance, or of any instance where attackers have acted on their threats in the absence of ransom payments. In Finanstilsynet's view the attacks were carried out in a relatively amateur manner, but with an increasing degree of professionalism. Finanstilsynet established a pattern of quarterly meetings with FinansCert for mutual updating on the fraud incident situation.

IT and payments services

Finanstilsynet conducted 20 on-site inspections of IT and payment services and two on-site inspections connected to project follow up. Norway participated in a joint Nordic IT inspection of Nordea Bank. DNB's payment services Post/Bank in Store were a theme at one of the inspections, as was the debit and credit card service at one bank, with the emphasis on card production and monitoring. Finanstilsynet participated in an SSM¹ inspection of the IT operation at DNB's subsidiary in Lithuania. In the insurance area there were inspections of two life insurers and of one of their systems providers. This area features tailored applications with high requirements in terms of specialised competence, inter alia in testing.

Like the previous year, four of the on-site inspections were in collaboration with the Norwegian Banks' Guarantee Fund, which examined compliance with regulations on requirements on computer systems and reporting to the Norwegian Banks' Guarantee Fund. The banks have been more aware of their reporting obligation since corresponding inspections were conducted in 2014.

There were several inspections of investment firms which focused on access control and protection of sensitive information.

The IMF considered Finanstilsynet's supervision and Norges Bank's surveillance of the financial infrastructures in 2015. The IMF made a number of recommendations, including with regard to the collaboration between Norges Bank and Finanstilsynet.

¹ Single Supervisory Mechanism (SSM) is a new bank supervision system in Europe. The SSM includes the ECB and the national supervisory authorities in the participating countries.

Payment systems

Finanstilsynet received nine notifications from supervised entities of changed or new payment services in 2015.

mCASH, which is a licensed e-money institution, sold its Norwegian arm to SpareBank 1 in 2015. An e-money institution licence confers the right to offer payments services. Banks, through their licences, are also entitled to offer e-money services and payments services. In addition, several banks, such as DNB with Vipps and Danske Bank with MobilePay, launched in 2015 payments services for person-to-person payments where both the payer and payee must be users of the service concerned. E-money regulation promotes simpler customer due diligence for such services without requiring identification and facilitates user signing-on for the services. The customer registers details of one or more debit or credit cards from which money is to be drawn, and an account number on which he or she will receive money. Although few cases of fraud involving the services have been noted thus far, Finanstilsynet does not rule out the possibility that the combinations of customer data enabled by the services could lead to entirely new methods of fraud.

Risk and vulnerability analysis (RAV)

Finanstilsynet's 2014 RAV analysis was structured differently from previous reports. First, findings and other observations in the various business segments were described, followed by an account of trends and developments. As a source for assessments from the entities themselves, Finanstilsynet utilised a questionnaire and fewer interviews than usual. Based on feedback from the entities, Finanstilsynet will continue both the traditional RAV interviews and questionnaire surveys in coming RAV analyses. The RAV analysis was presented at a press conference in April 2015. In May Finanstilsynet organised, together with Norges Bank, a seminar at which the RAV analysis and Norges Bank's yearly report "Financial Infrastructure 2015" were presented.

Licensing and legislation

New regulations on payment services systems and amendments to the ICT regulations were adopted on 17 December 2015. The first-mentioned contains general systems and security requirements for payments systems and meets requirements set in guidelines from the European Banking Authority.

On commission from the Ministry of Finance, Finanstilsynet prepared a consultation document on interchange fee regulation (IFR). Such regulation caps fees for payments using consumer debit and credit cards and gives the customer greater freedom when it comes to choice of card in a payment situation.

Finanstilsynet participated in several working groups under EBA auspices in 2015. Both EBA's work on risk-based IT supervision and its work on implementing the requirements of the EU's second payment services directive (PDS2) were covered. The first-mentioned includes preparing guidelines for assessments of operational risk in the Supervisory Review and Evaluation Process (SREP) and for outsourcing/cloud services. The second includes giving access to third party payments services, devising technical standards for strong customer authentication and secure communication and guidelines for incident reporting.

Emergency preparedness

Finanstilsynet is secretariat to, and heads, the Financial Infrastructure Crisis Preparedness Committee (BFI). The BFI held three meetings and two emergency preparedness exercises in 2015. Finanstilsynet represents the financial sector in the KIKS project under the auspices of the Norwegian Directorate for Civil Protection. The KIKS¹ project prepared a report entitled *Critical societal functions* in 2015.

¹ Norwegian acronym for "Security in critical infrastructure and critical societal functions".

INSURANCE AND PENSIONS

Insurance companies and pension funds are key actors in the financial markets due to their substantial investment of capital under management. Market developments thus have a major influence on institutions' performance. Regulation and supervision of the insurance and pension sector are important in safeguarding customers' rights under insurance and pension contracts, and in instilling public confidence in the market. The supervisory regime aims to foster financially solid, risk-aware institutions with sound governance and control.

Developments

Since a large proportion of life insurers' and pension funds' managed assets are invested in securities markets, developments in these markets are of great significance to their profits and financial strength. For pension institutions the low interest rate level and prospects of low interest rates for a long time ahead pose a major challenge. Although the share of unit linked defined contribution pensions is growing apace, the bulk of liabilities still comprise contracts providing a guaranteed rate of return. The guaranteed return is at a level above the current market interest rate. It is difficult to achieve sufficient return on pension assets under a low interest rate regime. Moreover, higher technical provisioning is necessitated by rising longevity.

Solvency II, into effect on 1 January 2016, reflects risk better than the earlier solvency requirement. The new requirements pose a challenge to life insurers in many countries in a situation of low risk-free interest rates and weak securities markets. The uncertainty attending the international economy and markets is substantial. Stock markets were on the weak trend in Norway and the US in 2015, whereas moderate growth was seen in the euro area. Little change has been noted in long government rates, in Norway as elsewhere, and these rates remain at a low level in historical terms.

Supervision and monitoring

Monitoring and analyses

Monitoring and analyses of developments in the economy and markets provide the background for Finanstilsynet's assessment of the general state of the financial sector and its supervision of individual institutions.

Finanstilsynet prepares quarterly reports on profitability, financial strength and balance sheet composition at life insurers and non-life insurers, while reports for pension funds are half-yearly. Quarterly press releases summarise these analyses, which are also published in *Report for Financial Institutions* (Norwegian only) on Finanstilsynet's website. Overall assessments of the situation in the financial sector and of various risks faced by Norwegian financial institutions were published in the spring 2015 report *Risk Outlook* and the autumn 2015 report *Financial Trends*.

Reporting

The reports filed by institutions are an important basis for analyses and on-site inspections. A complete overview of current reporting requirements, along with updates on any adjustments to the reporting set-up, is available on Finanstilsynet's website. Finanstilsynet collaborates with Statistics Norway on the quarterly reports filed by insurers through FORT (the Norwegian acronym for "public financial and supervisory reporting by insurers"), while pension funds report annually via PORT (the Norwegian acronym for "public financial and supervisory reporting by pension funds").

Solvency II is implemented in Norway as from 2016. It brings a new reporting set-up. In 2015, Solvency II preparatory reporting was implemented for a selection of insurance companies to test whether the industry and Finanstilsynet are sufficiently prepared for the new reporting regime. Data from the preparatory reporting set-up were checked and sent to EIOPA. The set-up is based on the joint European reporting format XBRL which contains built-in checks. Even so, a wide-ranging effort on compilation, revision and organisation of data is expected in 2016.

Pension funds will continue to report stress tests semi-annually. Stress testing is a key tool in the supervision of insurers' risk and financial position, in particular given the termination of Basel I capital adequacy requirements for pension funds at the turn of the year. The stress test scenarios cover all aspects of pension funds' activity including market risk, insurance risk, counterparty risk and operational risk.

Norwegian insurers' and pension funds' financial strength and profitability

Life insurers' pre-tax profit for 2015, after allocation to policyholders and transfer to fluctuation reserves, measured 0.7 per cent of their average assets under management. This was somewhat better than in 2014. The companies' increased their technical provisions by just over NOK 7 billion in 2015 to allow for rising longevity, and a further increase of a similar size is needed. Adjusted return in the collective portfolio was somewhat below the previous year at 4.2 per cent.

Insurers still hold a substantial proportion of bonds maturing several years ahead, and carrying interest rates higher than the current market rate. Upon maturity these will be reinvested at a lower rate of interest, which will reduce interest revenues ahead. Stock market fluctuations impact heavily on revenues. In 2015 life insurers' unrealised gains on the equity's portfolio were somewhat lower than in the same period of the previous year when the stock market upturn was significantly higher.

The introduction of Solvency II for insurance companies will be demanding both in terms of capitalisation and systems. The challenges are particularly large for life insurers since their technical liabilities under the new solvency regime are discounted by the risk-free interest rate in effect at any time, and are measured at fair value. With today's low interest rate level, this entails a substantial increase in the value of the liabilities compared with the existing regime. Life insurers have the option of utilising a transitional scheme for technical provisions over a period of 16 years. While this will ease the solvency requirement for insurers for a period, there will be no change in the underlying risk.

Pension funds have a larger share of equities in their balance sheets than life insurers. Over time this has resulted in wide fluctuations in return. The equity market upturn in 2012 to 2014 brought substantially higher return for pension funds than in 2011 when the market trend was negative and pension funds' rate of return was low. Again in 2015, there was a slight increase in pension funds' revaluation reserves which, together with retained profits, brought an increase in buffer capital. However, return was somewhat lower than in 2014, and at about the same level as for life insurers. Again in 2015, a number of pension funds set aside funds to provision for rising longevity, but the majority of pension funds have now completed the provisioning process.

Facts:

At the end of 2015 13 life insurers, 60 non-life insurers (including 15 fire insurers) and nine marine insurance associations were licensed to operate in Norway. A further 13 branches of Norwegian insurers were operating abroad and 32 branches of foreign insurers in Norway. 102 insurance intermediaries¹, 49 private pension funds and 39 municipal pension funds held a licence at year-end.

Non-life insurers posted weaker results in 2015 than in 2014, mainly as a result of reduced financial revenues. Their profitability, measured by the combined ratio, was somewhat lower compared with 2014 due to an increased claims ratio. Non-life insurers are generally well capitalised, and appear in the main to be well equipped to meet the capital requirements under Solvency II.

On-site inspection

On-site inspections were conducted at three life insurers in 2015. One inspection focused on the company's exposed financial position. The main theme at the second inspection was the company's implementation of the proportionality principle under the Solvency II requirements. At the third inspection the focus was on management and control systems overall and on the asset management and IT areas.

On-site inspections were conducted at two pension funds in 2015. The inspections covered the pension funds' management and control systems. One of the inspections, prompted by Finanstilsynet's assessment of the pension fund's financial position, was to engage in dialogue on measures to improve that position.

On-site inspections were conducted at four non-life insurers. The inspections addressed management and control – in particular the preparations undertaken for the new Solvency II regime.

Consumer protection and information

Finanstilsynet conducted a purely off-site inspection focusing on compliance with the information requirements applying where paid-up policies are converted to unit linked policies. The inspection also covered the insurers' internal control of compliance with the requirements. The inspection was yet to reach completion at the end of 2015.

¹ The figures for insurance intermediaries do not include agent activities of insurers that keep their own agent registers.

Accounts meetings

Finanstilsynet holds semi-annual meetings with the management teams of the largest insurers. At these meetings the insurers present their latest financial results and developments in key risk factors. In addition, updates are given on the markets in which the insurers operate, on organisational matters and on strategic issues at the individual insurer.

Supervisory cooperation

The supervision of large insurance companies operating in two or more countries through subsidiaries or large branches is coordinated through supervisory colleges in which the various countries' supervisory authorities are represented. Finanstilsynet heads the supervisory college for Gjensidige Forsikring ASA and Storebrand ASA, and organised meetings at both institutions in June 2015.

Finanstilsynet participates in supervisory colleges for the following foreign non-life insurers operating in Norway: Danica pensjonsforsikring, Tryg A/S and Alpha Forsikring A/S (Denmark) and If and Nordea Life and Pensions (Sweden) along with Help Forsikring (Arag) (Germany).

Implementation of recommendations from EIOPA

Finanstilsynet abides by the recommendations issued by the European Insurance and Occupational Pensions Authority (EIOPA) regarding preparations for Solvency II. The recommendations cover requirements on insurers' risk management and internal control in the form of an "own risk and solvency assessment" (ORSA), the requirement of pre-application for internal models and reporting requirements. Finanstilsynet gave written feedback on all insurers' ORSAs in 2014, and to a selection of insurers in 2015. Solvency II reports were subject to extensive testing in 2015, and Finanstilsynet provided feedback to the insurers covered by the preparatory reporting.

Silver Pensjonsforsikring AS

Finanstilsynet has since 2011 been in dialogue with Silver Pensjonsforsikring AS (Silver) concerning the company's financial position, and conducted an on-site inspection of the company in February 2015 as part of this dialogue. In July 2015 the company sought dispensation from the new capital requirements for insurers (Solvency II). The company wishes to be subject to lower capital requirements corresponding to those of the Occupational Pension Funds Directive, and which presently apply to pension funds (Solvency I).

In its recommendation to the Ministry of Finance, Finanstilsynet stated that although Silver meets current capital requirements the company is in a highly critical situation. Finanstilsynet pointed out that present prudential requirements are not risk-based, and thus do not provide sufficient certainty that contractual pension amounts can be disbursed in the future. Finanstilsynet considers that, given current prospects for return, considerable uncertainty attends Silver's ability to honour its commitments as they fall due. Finanstilsynet advised that Silver should not be granted dispensation from the requirements of Solvency II.

In its decision of 20 November 2015 the Ministry of Finance endorses Finanstilsynet's assessment that Silver's policyholders lack sufficient assurance that contractual pension amounts can be disbursed in the future, and that there is a marked need to strengthen the company's capital base, in keeping with the new Solvency II requirements. The Ministry concludes that Silver will not be granted dispensation enabling it to apply capital requirements based on the rules of the Occupational Pension Funds Directive. The company is however granted dispensation lasting one year (up to 1 January 2017) from the capital requirements for insurance companies that will follow from the Financial Undertakings Act chapter 14 as from 1 January 2016. This is on condition that Silver meets current requirements on solvency margin capital and capital adequacy in this period and that it meets the requirement on insurance capital¹ in effect at any and all times. The Ministry's decision requires Finanstilsynet to monitor Silver closely in this period.

Vardia Insurance Group ASA

Due to weak capitalisation, Vardia Insurance Group ASA received an add-on to the solvency margin requirement as from the turn of 2013. The company's capital adequacy problems are due in part to the fact that its capital base has been insufficient to handle the strong premium growth in the period 2013–2015. At the closing of the books for 2014 it was discovered that the company had recognised sales expenses in the consolidated accounts on a far larger scale than permitted by the accounting standards. In addition, the company had understated the scale of insurance contract cancellations. Since it was required to revise accounting policies and make other rectifications, the company was not compliant with prudential requirements on a consolidated basis at the end of 2014. The company was granted dispensation from the requirements in several rounds up to 10 June 2015. In the first half of 2015 the company carried out two increases of capital and also raised a subordinated loan. In order to achieve better control over its cost level, the company sold off subsidiaries operating the distribution network in Norway and Sweden to the local management of the two companies.

Despite these measures, the company's problems in meeting the solvency margin requirement on a consolidated basis persisted, and a new increase capital was carried out in the course of autumn 2015. In light of this Finanstilsynet ordered the company to obtain auditor confirmation of the interim financial statements for the third quarter of 2015. In its stock exchange notice of 30 November 2015 the company announced that a formal audit report of the interim financial statements could not be issued without improvements being made to the company's computer systems and clarification of the company's projected capital needs under the Solvency II rules. The company thereafter set in train a series of measures to assure compliance with the Bookkeeping Act's requirements for documentation of accounting items and audit tracking. The auditor's report on the interim financial statements was forwarded to the company on 21 December 2015; see the company's stock exchange notice of the same date.

¹ Collective term for all assets connected to a contract (policyholder assets).

Due to sizeable extraordinary costs in December 2015 the company at end-2015 again fell short of the solvency margin requirement on a consolidated basis. At the start of 2016 the company is compliant by a small margin with the new solvency capital requirement (Solvency II) which entered into force on 1 January 2016.

Licensing

Licence applications

In January 2015 Finanstilsynet authorised the marine insurance association Vega Assuransforening to transfer its business to Nordlys Forsikring Gjensidig. In October 2015 Finanstilsynet gave its approval for Trøndertrygd Gjensidig Sjøforsikringsforening to merge with Bud og Hustad Forsikring Gjensidig, with the latter as the acquiring company.

Finanstilsynet approved an application to wind up Aker Insurance AS in May 2015. Permission to dispose of the insurance portfolio of R&Q Insurance (Malta) LTD was granted in December 2014. Disposal has been carried out, and R&Q Triton AS is the designated contact point and claims representative for the Maltese insurer.

In August 2015 Finanstilsynet authorised Watercircles Forsikring AS to set up business as a non-life insurer.

Upon Finanstilsynet's recommendation the Ministry of Finance authorised in September 2015 Garantiforsikring AS to engage in credit insurance. The licence is limited to writing guarantee insurance for companies in the Flying Elephant Group.

At the request of the captive insurance company Industriforsikring AS, Finanstilsynet clarified the nature of the company's licence. The company can write direct insurance for Norsk Hydro AS and for companies in which Norsk Hydro ASA wields determinative influence by agreement or as owner of shares or units. Industriforsikring AS is also permitted to write reinsurance for companies in which Norsk Hydro ASA has a stake of at least 33.4 per cent.

In July 2015 Finanstilsynet authorised Pensjon Pluss AS to operate as a defined contribution pension undertaking.

In November 2015 Finanstilsynet authorised BKK Pensjonskasse to extend its activity to include unit-linked life insurance.

In 2015 Finanstilsynet authorised five pension funds to extend their activity to include paid-up policies. Four of these funds were also authorised to extend their activity to include pension-cover-continuation insurance.

Maximum guaranteed rate of return in life insurance

Finanstilsynet is required to stipulate the highest interest rate available to life insurers and pension funds when calculating premiums and associated technical provisions in collective annuity and pension insurances. The maximum guaranteed rate was reduced from 2.5 per cent to 2.0 per cent on 1 January 2015. Finanstilsynet's authority to set the highest permitted guaranteed rate for life insurers was annulled as from 1 January 2016. It is however

recommended that Finanstilsynet should retain authority to stipulate the maximum guaranteed rate of return for pension funds.

Insurance Complaints Board

Finanstilsynet acts as secretariat to the complaints board for insurance broking activities and reinsurance broking activities. The board handles disputes between principals and brokers. No complaints were received by the board in 2015.

Regulatory development

Solvency II – the new solvency framework for insurers

The Solvency II framework became effective on 1 January 2016, concurrently with the Financial Undertakings Act in which the main provisions of the Solvency II Directive are implemented. The Ministry of Finance adopted on 25 August 2015 regulations (Solvency II Regulations) laying down further rules as well as comprehensive transitional rules within the framework set by the EU. The Solvency II Directive is supplemented by implementing provisions, technical standards and recommendations.

On 21 December 2015 Finanstilsynet adopted regulations to supplement the provisions of the Solvency II Regulations. The regulations contain provisions corresponding to *Commission Regulation (EU) No 35/2015*, with an adjustment of the capital requirement for exposures to Norwegian municipal and county authorities.

The EU Commission has adopted a total of 16 EEA-relevant technical standards. Like the Commission Regulation, technical standards have yet to be incorporated in the EEA Agreement. Finanstilsynet expects and assumes that insurers will abide by the standards.

EIOPA published two sets of recommendations in 2015 which will apply once Solvency II enters into force. The two sets include 28 recommendations concerning various themes in all key areas of the Solvency II regime. Finanstilsynet has confirmed to EIOPA that the recommendations will be followed in Norway.

Risk weighting of exposures to Norwegian municipal authorities under Solvency II

Under the Solvency II regime, exposures to Norwegian municipal authorities etc. are to be treated either as exposures to the state or as exposures to ordinary, non-credit-rated undertakings. This may involve significantly higher capital charges than under current legislation. In a letter of 19 October 2015 the Ministry of Finance asked Finanstilsynet to adopt supplementary provisions to the Solvency II Regulations providing an intermediate solution for investments in Norwegian municipal authority debt. The Ministry concurrently stated that it would return to this matter after incorporation of the relevant legislation in the EEA Agreement. Against this background, Finanstilsynet adopted regulations entailing that exposures to non-rated Norwegian municipal and county authorities will be treated as exposures to AA-rated counterparties. The capital charge on such exposures will accordingly be significantly lower than on exposures to ordinary undertakings but higher than on exposures to the Norwegian state.

Pre-application for internal models

Solvency II permits insurance companies to use their own models to compute the solvency capital requirement. In 2015 Finanstilsynet held a pre-application dialogue with three companies planning to apply to use such models. The pre-application dialogue is designed to ensure a mutual understanding of the requirements, enabling insurers to submit an application that is as complete as possible.

Reporting under Solvency II

A wide-ranging effort has been under way to set up the reporting material required under Solvency II. As part of the preparations it was decided that parts of the required reporting should take place ahead of schedule. Finanstilsynet held an information meeting for the reporting entities concerned in 2015. Solvency II reporting came into force on 1 January 2016.

Accounting rules for the insurance and pensions area

A consultation document proposing changes to the annual accounts regulations for insurance companies prompted by the introduction of the Solvency II regime was circulated for comment by the Ministry of Finance on 5 May 2015. Finanstilsynet proposed making the Solvency II principles the basis for claims provisioning (best estimate) and the risk margin. The proposal was not acted upon. The Ministry opted to retain current rules for claims provisions for accounting purposes. The rules governing calculation of contingency provisions are not retained, either for solvency purposes or for accounting purposes.

Solvency regulation of pension funds

The current solvency requirements (Solvency I) are retained for pension funds in 2016. By letter dated 25 August 2015 the Ministry of Finance asked Finanstilsynet to consider whether the statutory authority to apply the Solvency II requirements entirely or in part to pension funds should be activated. The Ministry also asked to be kept informed of the supervisory follow-up of pension funds with the emphasis on those pension funds whose regulatory requirement weakens as a result of the lapse of the capital adequacy requirement. Finanstilsynet replied to the letter early in 2016, recommending a simplified Solvency II requirement based on an adjusted version of stress test 1. This stress test corresponds to the main requirements of Solvency II, and is familiar to pension funds. It will assure pension funds solvency protection almost as good as that required for life insurers. It is proposed to introduce the requirement on 1 January 2018. Risk-based monitoring of pension funds will continue to 2018.

New law drafted on collective occupational pensions insurance

The Banking Law Commission reported on a new tax-favoured occupational pensions product in the private sector in NOU 2015: 5 entitled Pensions Legislation and National Insurance Reform IV. The report drafts new law provisions on defined benefit retirement pension in occupational pension schemes geared to the main principles of new retirement pension under National Insurance. The draft law requires annual accumulation of retirement pension rights based on a pension level calculated annually as a percentage of salary. The report was circulated for comment with the deadline for response set at 14 August 2015. A number of consultative bodies pointed to detrimental aspects of the proposed product and its lack of clarity, and stated that it adds nothing new to existing products.

Insurance appraisal information requirement

An insurance appraisal comes about when the parties to an insurance settlement (the insurance company and the insured) desire an independent evaluation of a damaged object in order to effect a claim settlement. The right to request an insurance appraisal is not enshrined in legislation or other body of rules, but is a purely private-law agreement between the parties to an insurance settlement. To enable insurance policyholders and claimants to better understand and assess the insurance appraisal arrangement, Finanstilsynet introduced provisions requiring insurers to provide information on insurance appraisal. The provisions entered into force on 1 January 2016.

Risk equalisation reserve in life insurance

Life insurers and pension funds are entitled to set aside one half of the year's surplus on the risk result to a risk equalisation reserve. Under the Insurance Act the reserve forms part of the technical provisions, whereas it is entered as equity capital in the financial accounts. The reserve is designed to cover deficits on the risk result, and can also be used to increase the premium reserve (the capital value of future liabilities) as a result of provisioning for a new mortality base in collective pensions insurance. Finanstilsynet can order a pension institution to devote all or part of the reserve to increasing the premium reserve for contracts as and when this is considered necessary. In 2015 Finanstilsynet engaged in dialogue with most life insurers to ensure that the reserve is used to increase the premium reserve at an early stage of the period of escalation to a new mortality base.

New statutory provisions on disability pension in private occupational pension schemes

New rules on disability pension schemes in tax-favoured private occupational pension schemes that are geared to the main principles of new disability benefits under the National Insurance were adopted by Act of 22 May 2015 No. 31 on Amendments to the Occupational Pensions Act etc. On commission from the Ministry of Finance, Finanstilsynet drafted supplementary regulations to the new law provisions. The new rules entered into force on 1 January 2016. The disability pension component of existing pension schemes will be wound down by 31 December 2016.

THE SECURITIES AREA

The overarching aim of regulation and supervision of the securities market is to ensure reliable information provision and secure, orderly and efficient trading in financial instruments thereby enabling the securities market to function as a source of capital for business and industry and as a basis for saving and investment.

Supervision of the securities area includes marketplaces and settlement systems, mutual funds and management companies, listed issuers' financial reporting and prospectus control. Supervision covers securities institutions' financial position and operations, and their compliance with business rules and general rules of conduct.

Developments

Stock market

At the start of the year the Oslo Børs Benchmark Index was at 576 points. The year's highest value, the highest ever, was 661 points recorded on 15 April. The lowest was 555 points on 24 August. At the end of 2015 the benchmark index stood at 610 points, an increase of 5.9 per cent for the year.

Companies benefiting from the low krone exchange rate and low oil price had a good year on the stock exchange. This is true for example of the seafood industry with an index increase of 28.5 per cent in 2015. Oil service shares on the other hand saw a challenging year, with an index fall of 22.5 per cent. Due to the low oil price, Oslo Børs has become increasingly independent of oil in the recent past. At year-end oil-related shares made up a mere 27 per cent of market capitalisation.

Turnover at Oslo Børs rose in 2015 compared with the past few years. In 2015 equities worth NOK 1,113bn changed hands, an increase of 5.4 per cent over 2014 and of 35.4 per cent from 2013 when turnover totalled NOK 1,056bn and NOK 822bn respectively. An average of 102,000 trades were transacted daily, the highest ever.

Oslo Børs' market share of equities that are also traded on other marketplaces (equities included in the OBX index) was 65.9 per cent, up from 64.1 per cent in 2014¹.

In 2015 equity capital worth NOK 27bn was raised on Oslo Børs and Oslo Axess², and about 37 per cent of the equity capital was raised in connection with listings. In all, 12 new entities were admitted to Oslo Børs / Oslo Axess in 2015, down from 19 in 2014.

Bond market

The number of new issues in the Norwegian bond market³ declined in 2015 compared with 2014. In 2015 bonds worth a total of NOK 278bn were issued (exc. government bonds), with banking and finance accounting for NOK 188bn, corporates for NOK 62bn and municipal and county authorities for NOK 28bn.

Total outstanding volume in the Norwegian bond market, including government bonds, came to NOK 1,888bn at year-end. Of this, NOK 830bn was issued by banks and other financial institutions, NOK 611bn by the central government sector (including government bonds worth NOK 439bn) and NOK 448bn by corporates⁴.

The bulk of the Norwegian bond market is quoted on Oslo Børs or Nordic ABM. The outstanding volume of quoted bonds at year-end was NOK 1,580bn. This broke down to NOK 224bn in corporate bonds and NOK 594bn in other bonds on Oslo Børs (exc. government bonds), and NOK 63bn in corporate bonds and NOK 361bn in other bonds on Nordic ABM. In 2015 bonds worth NOK 5,356bn were traded on Oslo Børs, and NOK 303bn on Nordic ABM. Trades on the stock exchange are in principle bilateral, and are notified for publication in the exchange's systems⁵.

¹ Source: Fidessa Fragmentation Index

² Source: Oslo Børs

³ The market is defined as bearer bonds with a Norwegian identity code (ISIN).

⁴ Source: Stamdata

⁵ Source: Oslo Børs

Only ten oil and gas bonds were issued in 2015 compared with 35 in 2014. Credit spreads rose over the course of the year, in particular in the market for high yield bonds.

The five largest holders of quoted bonds on Oslo Børs and Nordic ABM are life insurers and private pension funds, banks, foreign companies and the social security administration.

Mutual fund market

Norwegian retail customers' net subscription in Norwegian mutual funds in 2015 totalled NOK 12.2bn. Of this, NOK 3.0bn, net, was invested in equities funds, NOK 6.1bn in combined funds and NOK 2.8bn in fixed income funds. Net subscription in Norwegian equities funds was minus NOK 3.9bn in 2015. Total net subscription in mutual funds managed by Norwegian fund management companies came to NOK 11.6bn compared with NOK 26.4bn in 2014. Aggregate total assets managed by Norwegian management companies came to NOK 904.3bn at the end of 2015¹.

Regulatory development in the securities area

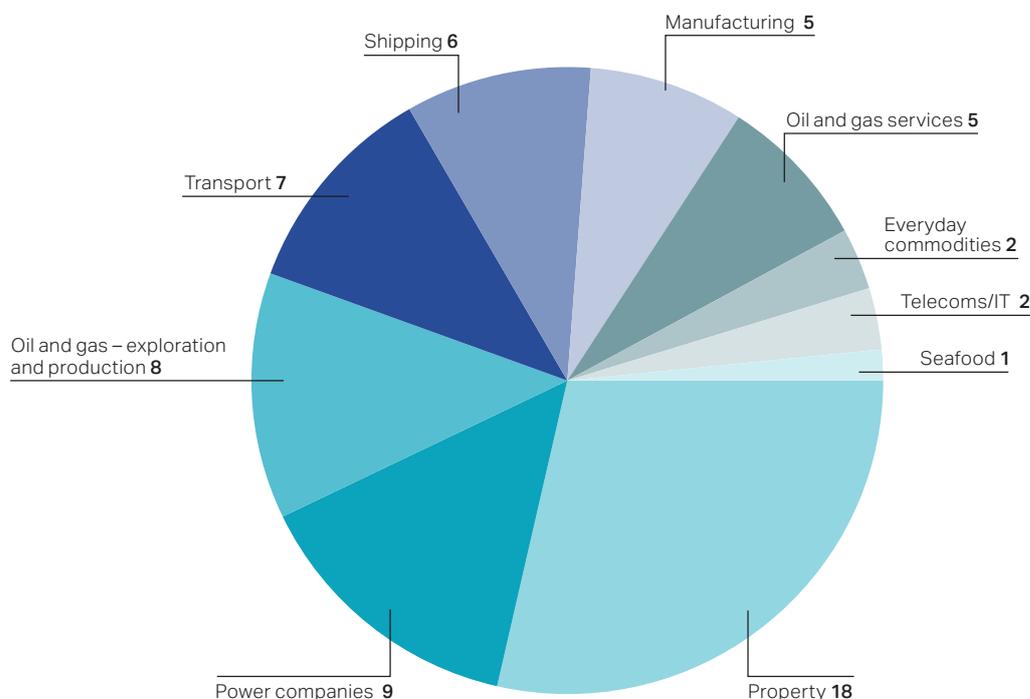
Developments in the securities area reflect significant changes in the relevant legislation.

The government appointed a law commission to propose provisions to implement new EEA legislation in the securities area and provisions to replace or amend the Markets in Financial Instruments Directive (MiFID), the Transparency Directive and the Market Abuse Directive. The commission will also consider further national regulation to assure consumer protection for customers of investment firms. The commission will in addition review the rules governing the mandatory bid obligation and aspects of appeal board procedure.

On commission from the Ministry of Finance, Finanstilsynet heads a working group tasked with proposing rules to implement anticipated EEA rules corresponding to the Central Securities Depositories Regulation. The working group will in addition recommend rules entitling bond issuers to gain access to the identity of the holders of their bonds. The Ministry of Finance has requested that the current Norwegian statutory protection of rights and the rules governing the right of access to information set forth in the Securities Register Act should as far as possible be retained.

Chart 4: Corporate bonds – issued volume 2015 (billions of NOK)

Source: Stamdata.no



¹ Source: Norwegian Fund and Asset Management Association

Finanstilsynet prepared in 2015 a consultation document proposing rule changes to implement the UCITS V Directive on collective investments in transferable securities. The prime objective of the directive is to adjust the rules to market developments and to harmonise and strengthen rules governing depositories, remuneration arrangements and sanctions.

Finanstilsynet prepared in 2015 a consultation document proposing provisions to implement the EU's Regulations on certain standardised types of alternative investment funds, including a Regulation on European Long Term Investment Funds.

Finanstilsynet also prepared in 2015 a consultation document on other legislative amendments in the mutual funds area. It recommended establishing exceptions from particular requirements on the marketing of alternative investment funds to non-professional investors in cases where the funds are not to be marketed to non-professional investors other than employees and board members of the trustee.

The Securities Trading Regulations were amended with effect from 1 October 2015. Investment firms' reporting to Finanstilsynet is now semi-annual instead of quarterly. Finanstilsynet has prepared a new semi-annual report form including a guidance section.

Investment firms

Supervision and monitoring

Finanstilsynet's supervision of investment firms aims to promote an informed attitude to risk. Finanstilsynet is also required to oversee investment firms' compliance with the conduct of business rules, thereby ensuring a high level of investor protection in the securities market. Further, supervision promotes market integrity. At the end of 2015 there were 136 investment firms in Norway, of which 24 were branches of foreign investment firms.

Finanstilsynet conducted on-site inspections at 15 Norwegian investment firms and Norwegian branches of foreign investment firms in 2015. One off-site inspection was also conducted. Two inspections specifically targeted securities firms' ICT solutions. In 2015 Finanstilsynet also announced an on-site inspection at a foreign investment firm operating cross-border business into Norway through a tied agent. The firm terminated the agency relationship upon being notified of an inspection.

One investment firm opted in 2015 to return its licences upon receiving notice of revocation of its licences from Finanstilsynet. The notice cited serious, systematic breaches of the Securities Trading Act's requirement of good business practices.

In 2015, as previously, investment firms' consumer protection and compliance with the conduct of business rules were a central theme of on-site inspections. Finanstilsynet checked the firms' investment advice, inter alia whether recommended investment services and financial instruments were appropriate to the clients. Finanstilsynet also checked whether the information firms had given their clients on risk and costs was balanced, correct and understandable.

Finanstilsynet also addressed investment firms' control function, in particular how the structure and organisation of this function were designed with a view to limiting conflicts of interest.

Finanstilsynet also conducted off-site inspections of a small number of investment firms with a limited range of services to learn more about their business model. This group of investment firms includes inter alia energy managers, corporate finance advisers and investment advisers.

Thematic inspection of the CFD market

A CFD, or Contract for Difference, is an agreement between two parties to exchange the difference in the value of an underlying financial instrument such as an index, commodity or currency between the date the contract was opened and the date it was closed. The high level of gearing offered by a CFD renders the positions taken vulnerable. In 2015 Finanstilsynet conducted on-site inspections at seven such investment firms operating principally in the CFD business. Work on this thematic inspection continues in 2016.

Survey of and statement on sales of hybrid securities to consumers

In 2015 Finanstilsynet surveyed sales of hybrid securities in the Norwegian market. Hybrid securities are contingent capital that can be written down or converted and can count towards the own funds of banks and other institutions that are subject to capital requirements. Since their characteristics make it difficult to assess the risk attending them, hybrid securities are to be regarded as complex financial instruments.

The survey was carried out by sending identically worded letters to a selection of investment firms and branches of foreign investment firms. The survey revealed that investment firms to some extent sell hybrid securities to consumers in the Norwegian market. In light of this, Finanstilsynet published a statement to the effect that in its view investment firms should recognise that hybrid securities are generally an unsuitable or inappropriate product for consumers.

Market warnings

Finanstilsynet published 241 warnings given by foreign supervisory authorities against firms providing investment services in the EU/EEA without the requisite licence. Finanstilsynet's website also carries information on investment fraud, advising investors on how to protect themselves against fraudsters. Finanstilsynet's market warnings are also available at *Finansportalen.no*.

Like a number of other supervisory authorities in Europe, Finanstilsynet warned in 2015 against firms offering binary options without being licensed to offer investment services. These products are highly speculative, and investors risk rapidly losing their entire investment.

In 2015 Finanstilsynet ordered an investment firm established in another EEA state to remove information on the firm's homepage targeting Norwegian investors. Another EEA firm opted on its own initiative to revise its advertising in Norway after receiving a letter from Finanstilsynet questioning the information provided. In both cases Finanstilsynet held that the advertising constituted an unreasonable business method.

Monitoring of firms' financial development

Finanstilsynet monitors investment firms' profitability and financial positions on the basis of their periodical reporting. The reporting also provides a picture of trends in income distribution and of the risk attending the business.

Based on investment firms' half-yearly returns, Finanstilsynet publishes half-yearly press releases in which trends in these entities' business are presented and commented on. In 2015 the operating revenues of investment firms not integrated in banks were 9 per cent down on the previous year. Operating profits were 32 per cent lower. The decline is primarily due to structural changes in the industry following the entry into force of the Alternative Investment Funds Act, specifically the fact that a number of investment firms have switched to being AIF managers. In 2015, as in most previous years, investment firms' largest revenue source was their corporate finance business. Their next largest revenue source was investment advice, followed by secondary trading of stocks and bonds.

Finanstilsynet registered and brought to light a total of eight firms at the non-consolidated level and six at the consolidated level that breached the capital requirements in 2015. The firms concerned were followed up on, and several received warnings of possible licence withdrawal due to capital inadequacy. The breaches were in the main rectified by cash deposits at the non-consolidated level or by conversion of debt at the consolidated level. At the end of 2015 six investment firms were required to report their capital adequacy position each month (compared with the normal interval of each quarter) due to low capital adequacy, negative profit growth and/or poor quality reporting.

Finanstilsynet registered and brought to light an average of nine breaches of the rules governing major exposures in each quarter of 2015. The firms in question were closely monitored, and several orders to rectify the breaches were issued. The orders were in all cases complied with.

Licensing

Authorisation process

Three new investment firms were licensed to provide investment services in 2015. Three existing firms were granted an expanded licence enabling them to provide further investment services.

Fitness and propriety testing

In 2015, 176 fit-and-proper tests were carried out of board members and managers at investment firms. Qualifications, job experience and previous conduct were covered. Testing was carried out in connection with licence applications and management and board changes. In most cases where a manager was not considered suitable the decision cited a lack of relevant experience, and the entities came into line with Finanstilsynet's assessments.

Circulars

In 2015 Finanstilsynet published a circular on compliance at investment firms. The circular provides guidance to investment firms on how to go about ensuring that they meet the statutory requirement of an effective and independent compliance function.

Finanstilsynet also published a circular on the organisation of investment firms. The circular clarifies Finanstilsynet's interpretation of and administrative practices under the rules on investment firms' organisation.

Mutual funds and collective investment schemes

At the end of 2015 30 management companies were licensed to manage securities funds, along with one Norwegian branch of a management company established in Finland. 23 of these were licensed to carry on "active management of investors' portfolios of financial instruments". The number of securities funds managed by these companies fell from 441 at end-2014 to 404 at end-2015. UCITS make up the bulk of Norwegian securities funds.

At the end of 2015 a total of 28 companies were licensed to manage alternative investment funds, and 63 managers were registered in Finanstilsynet's register of registered managers of alternative investment funds. Funds managed by these managers cannot be marketed to non-professional investors.

Supervision and monitoring

As part of its supervision of all companies in the Pareto Group, Finanstilsynet ended in 2015 its on-site inspection at Pareto Forvaltning AS and Pareto Nordic Investments AS (now Pareto Asset Management AS).

Management companies are required to report possible breaches of investment limits set out in the Securities Fund Act and in fund rules. The number of reported breaches in 2015 was on a par with previous years. Depositaries' obligation to inform Finanstilsynet of any management company where rule breaches are brought to light is an important supplement to off-site supervision.

Finanstilsynet monitors management companies' financial situation and their compliance with the rules governing capital adequacy and large exposures on the basis of quarterly reports they file with Finanstilsynet. No breaches of the capital requirements applying to management companies were brought to light in 2015, and in aggregate their profitability is good.

In 2015 Finanstilsynet prepared the ground for supervision of managers of alternative investment funds (AIFs). Finanstilsynet monitored individual managers that have engaged in illegal management of AIFs. Reporting solutions for filing information on managers of AIFs via the Altinn internet portal were developed. Procedures for reporting capital adequacy rules were also introduced.

Thematic inspection of active management of Norwegian equity funds

As a part of its general supervision of securities funds in the Norwegian market, Finanstilsynet examined the extent to which certain selected Norwegian equity funds were actively managed in the period June 2009 to June 2014. The object was to ascertain whether funds that are marketed and priced as actively managed funds are in fact managed as such or whether they closely shadow their benchmark index.

The survey showed that some securities funds were managed close to the benchmark index whereas they were offered and priced as actively managed funds. Finanstilsynet ordered DNB Assets Management in 2015 to make corrections with regard to Verdipapirfondet DNB Norge, and levelled criticism at Nordea Funds Ltd for its management of Verdipapirfondet Nordea Avkastning.

While Finanstilsynet did not set a specific floor for risk taking at actively managed funds, it assumes and expects the funds to be managed in accordance with the fund documentation and to be priced such that the unit holders have a genuine possibility to achieve excess return.

Thematic inspection of combined funds

Net subscription in combined funds from the retail segment was substantial in the first half of 2015, and Finanstilsynet started a survey of the management of Norwegian combined funds and of whether customers' interests are adequately safeguarded. This work is yet to reach completion.

Licensing

New area of supervision – management of alternative investment funds

The Act on the Management of Alternative Investment Funds (AIFs) entered into force on 1 July 2014, and transitional provisions for existing activity expired on 1 January 2015.

In 2015 licences to manage AIFs were granted to 15 companies. Five applications in all were withdrawn during processing, inter alia after warnings of refusal from Finanstilsynet. Intrinsic Forvaltning AS opted to withdraw its application for a licence after dialogue with Finanstilsynet concerning Intrinsic Oppkjøp's offer to shareholders to purchase a number of unlisted companies.

Obligo Investment Management AS's licence to manage AIFs and to provide active management services is confined to services to professional investors. The company cannot have a hand in passing units of funds managed by the company to non-professional investors. This is grounded in violations previously brought to light at other companies in the same group which led to the revocation of the licences of ACTA Asset Management AS and Navigea Securities AS.

Three companies that are not credit institutions received approval as depositaries. Minimum requirements were imposed on these companies in terms of capital, organisation, independence and reporting.

Finanstilsynet has received only a small number of applications for permission to market AIFs to non-professional investors. In a decision on an appeal from January 2016 the Ministry of Finance revoked Finanstilsynet's rejection of an application for permission to market two Irish AIFs to non-professional investors in Norway. The Ministry of Finance concluded that the funds, which are characterised as Qualifying Investor Alternative Investment Funds, can be marketed to the same group of non-professional customers in Norway as they can under Irish law.

Finanstilsynet has received a large number of applications to market AIFs to professional investors in Norway where either the manager, the fund or both are established outside the EEA. 113 such marketing licences were granted in 2015, and 54 applications were under consideration at year-end.

A number of AIFs established in other EEA states have been passported for marketing to professional investors in Norway. This applies in particular to funds established in Ireland, the United Kingdom or Luxembourg. Some Norwegian managers of AIFs have notified cross border services out of Norway.

Management of securities funds

In 2015 one new management company was granted a licence to carry on securities fund management. Finanstilsynet granted licences to establish 19 new securities funds (14 UCITS), while 34 securities funds were wound up. Twelve of the wind-ups were carried out in connection with mergers.

Market infrastructure

Supervision and monitoring

The securities market infrastructure comprises marketplaces operated by Oslo Børs ASA: Fish Pool ASA, Norexco ASA, Nasdaq OMX Oslo ASA and the investment firm ICAP Energy AS. Also included is Verdipapirsentralen ASA (Norwegian Central Securities Depository (VPS)) which operates the central securities settlement system in Norway (VPO NOK). The foreign clearing and settlement houses SIX x-clear AG, Nasdaq OMX Clearing AB, European Commodity Clearing AG (ECC) and LCH.Clearnet Ltd are licensed to carry on settlement activity in Norway. They are also important parts of the Norwegian infrastructure. The two first-mentioned settlement houses have a Norwegian branch, while the remainder operate cross-border activities into Norway.

The foreign settlement houses holding a Norwegian licence are under both home and host country supervision. The home country has the primary supervision of these entities, while Finanstilsynet oversees their business in Norway and compliance with Norwegian rules. Many entities that deliver infrastructure in the securities market carry on cross-border activity. That is why supervisory colleges drawing participants from several national supervisory authorities are an increasingly important supervisory tool. Finanstilsynet participates in the supervisory colleges established for Nasdaq OMX Clearing, EuroCCP and LCH.Clearnet.

Serious ICT events must be reported immediately to Finanstilsynet. 2015 saw some technical problems at infrastructure entities, but no major serious events. Events are followed up on by Finanstilsynet on an ongoing basis, and particular emphasis is given to avoiding negative consequences for the market and to ensuring that entities introduce relevant preventive measures.

On-site inspection of Oslo Børs

An on-site inspection was conducted at Oslo Børs in 2015. The inspection brought to light no factors of critical significance for Oslo Børs' licence. Corporate governance, attending to public administrative tasks, market surveillance and the stock exchange's operation consistently come across as sound. However, the organisation and tasks of the stock exchange give rise to interest conflicts, which was a central theme of the inspection. In the wake of the inspection the stock exchange carried through relatively wide-ranging changes and improvements related to identification, documentation and handling of interest conflicts – all of which were duly noted by Finanstilsynet. In its supervisory report Finanstilsynet emphasised that it is important for the board of Oslo Børs to play an active role in ensuring that the undertaking handles potential interest conflicts in an adequate manner.

Merkur Market launched as a new marketplace

Oslo Børs launched on 13 January 2016 a new marketplace for listing and electronic trading of shares and equity capital instruments. The marketplace is referred to as Merkur Market, and will be available to small and medium-sized companies that want simpler access to the capital market. Oslo Børs is already licensed to operate a multilateral trading facility under the provisions of the Securities Trading Act. Merkur Market is regulated under that licence. Finanstilsynet reviewed the marketplace's own set of rules etc. to ensure that the new marketplace will function within its existing licence.

Irregular termination of account operator activity

In 2015 Finanstilsynet followed up on several entities registered as account operators in the securities register and which failed to comply with central rules when they opted to cease offering VPS account solutions to their clients. The cases concerned were wide-ranging on both the investor and issuer side.

Researchers' access to the securities register

Finanstilsynet is empowered, under an amendment to the Securities Register Act in 2014, to order Verdipapirsentralen ASA to disclose confidential information to researchers. The condition is that such disclosure is considered reasonable and does not entail disproportionate inconvenience for other interests. Finanstilsynet granted three applications from researchers to access data in 2015.

Time limit for cases involving the supervision of holdings in stock exchanges and securities registers

The rules governing the supervision of holdings in stock exchanges and securities registers were amended in 2014. The Ministry of Finance can now permit an entity to acquire in excess of 10, 20, 30 or 50 per cent of the shares of such institutions. However, no specific time limit applies to the authorities' consideration of such cases, which has drawn a reaction from EFTA's surveillance authority. Finanstilsynet accordingly drafted, on commission from the Ministry of Finance, a consultation document on a time limit. The consultation document deals inter alia with the point at which the deadline begins to run, the opportunity to defer the deadline when further information needs to be obtained, and the consequence of disregarding the deadline.

Consultative statement on the settlement of securities transactions in cases where a party to the transaction enters insolvency proceedings

In 2015 the Ministry of Finance circulated for comment a draft proposal regarding the settlement of securities transactions where either party enters insolvency proceedings. The regulations aim to clarify the legal basis for implementing the paper-based and monetary aspects of the settlement of securities transactions in insolvency situations. The proposal will make dealing with an insolvent party's assignment in the settlement of such transactions a more predictable process and reduce securities settlement risk. Finanstilsynet took a positive view of the proposal.

Market conduct rules

Supervision and monitoring

The overarching aim of supervision and monitoring of compliance with the market conduct rules is to safeguard the reputation of the Norwegian market and thereby its role as a well-functioning source of capital.

The rules on unlawful insider trading, market manipulation and due care in handling inside information are at centre-stage. Finanstilsynet also oversees compliance with the rules on the preparation of insider lists, the duty to investigate, the prohibition of unreasonable business methods, notification rules and rules requiring the disclosure of acquisitions of large shareholdings. Hence a wide range of target groups is involved: investors, advisers, issuers of financial instruments and their partners, including investment firms. The object is to bring to light and prosecute unlawful conduct in the securities market and, insofar as the conduct rules are applicable, in the markets for commodity derivatives. The supervisory effort is intended to have both an individual and a general deterrent effect in the market. Finanstilsynet works closely with ØKOKRIM (National Authority for Investigation and Prosecution of Economic and Environmental Crime) and Oslo Børs in this sphere.

Most of the large number of cases investigated by Finanstilsynet in 2015 were reported by investment firms. Many were also referred to it by Oslo Børs or initiated by Finanstilsynet itself in response to market events.

A number of the cases handled by Finanstilsynet were time-consuming, especially insider trading cases requiring investigation abroad. Such investigations often entail enquiring into foreign investors who have traded ahead of market events. The work requires extensive contact with foreign managers and supervisory authorities. Finanstilsynet also assisted foreign supervisory authorities in their investigations on a number of occasions, for example when recording statements from Norwegian nationals.

In 2015 Finanstilsynet investigated:

- 87 new cases of unlawful insider trading and/or breaches of confidentiality
- 47 new cases of market manipulation / unreasonable business methods
- 24 new cases of securities trading requiring disclosure
- 57 new cases of securities trading requiring notification

83 of the above cases were received from investment firms under an obligation to report transactions giving rise to suspicion of insider trading or market manipulation.

Administrative fines

Over the course of 2015 Finanstilsynet imposed 10 administrative fines for breaches of the disclosure requirement and five administrative fines for breaches of the notification requirement. Finanstilsynet publishes the fines on its website on the presumption that this has a preventive effect.

Relinquishment of gain

In March 2015 Finanstilsynet ordered two market participants to relinquish gains totalling NOK 259,271. The order was prompted by their violation of the prohibition of uncovered short sales of shares of DiaGenic ASA. Both parties accepted the order and paid the amount due.

Notifications to the prosecuting authority

Finanstilsynet reported four cases of suspected unlawful insider trading, market manipulation and/or breach of the duty of confidentiality to the prosecuting authority in 2015.

Follow-up of reported cases

The collaboration between Finanstilsynet, ØKOKRIM and local police districts on reported cases makes for more effective and efficient combating of crime in the securities market. Finanstilsynet assisted the prosecuting authority at interviews and in analysing share transactions in 2015. Finanstilsynet also gave evidence in a number of court cases.

Obligation to report suspected unlawful insider trading etc.

Finanstilsynet conducted in 2015 a survey of investment firms' compliance with the obligation to report to Finanstilsynet transactions giving rise to suspicion of unlawful insider trading or market manipulation. The survey, covering 116 investment firms, gave a good overview of their handling of the reporting obligation and provides a basis for assessing what systems and procedures the entities should have in place.

Survey of investment recommendations and information handling

Finanstilsynet conducted in 2015 a survey of the major investment firms' analytical practices. It focused in particular on information handling in the distribution and publication of investment recommendations that may constitute inside information. The survey, covering twelve investment firms, showed a high level of awareness and sound handling of such information among the investment firms.

Automation

In 2013 Finanstilsynet gained direct access to structured transaction data and position data from the VPS register. These data have enabled automation of parts of the system for identifying breaches of the provisions of the Securities Trading Act requiring the disclosure of acquisitions of large shareholdings. In 2014 Finanstilsynet developed a system that checks on a daily basis all quoted securities and all securities accounts to identify instances where a threshold is crossed triggering a disclosure obligation. Automation has increased the likelihood of discovery, and 10 new cases of non-disclosure were brought to light in 2015.

In 2015 about 140 million transactions were reported to Finanstilsynet, of which 69 per cent were from foreign and 31 per cent from Norwegian investment firms. Reporting must be of high quality, and it must be complete. The large number of transactions makes quality control difficult. Finanstilsynet has therefore developed software to analyse and identify the commonest reporting errors. The software generates a report to investment firms, making it simpler for them to identify problems.

Court rulings

The following court rulings were delivered in 2015 in cases which Finanstilsynet investigated and reported to the prosecuting authority:

- In February 2015 Borgarting Court of Appeal delivered judgment in a case of insider trading. Two employee shareholders traded in the company's shares ahead of the disclosure of an acquisition agreement. Prior to trading, the employees had received an e-mail from the company's board of directors. This made no specific reference to the acquisition agreement. Both defendants entered buy orders after receiving the e-mail. Finding that the e-mail contained inside information, the court convicted the defendants of deliberate insider trading and sentenced them, respectively, to 21 days' conditional imprisonment and a fine of NOK 50,000, and 90 days' unconditional imprisonment, and confiscated the proceeds of their criminal acts. The judgment is final and unappealable.
- In June 2015 Oslo City Court handed down a conviction on a plea of guilty in a case of insider trading. An employee of an oil service company unlawfully obtained access to the results of exploratory drilling, and there-after traded shares based on this information. The court found the information to be inside information, and sentenced the employee to conditional imprisonment of 38 days and a fine of NOK 40,000, and confiscated a sum close to NOK 30,000. In apportioning the sentence the court gave weight to the convicted person's admission of insider trading, acknowledgement of culpability and consent to conviction by guilty plea.
- In October 2015 Borgarting Court of Appeal delivered judgment in a case involving market manipulation. A former group CEO was indicted for giving incorrect and misleading information to the market through incorrect accounting figures. The court states that the group CEO's veiling of the true facts of the matter is serious, and that a well-functioning stock market is dependent on market participants' compliance with the ground rules and on their disclosure to the market of correct supplementary information on company assets, receivables and turnover. On this count, in addition to breaches of the Accounting Act, the group CEO was sentenced to two years' imprisonment, of which one year was suspended. The judgment was appealed.
- Gulating Court of Appeal delivered judgment in a case involving insider trading, breach of the Securities Trading Act's provisions requiring notification/disclosure of share acquisitions or disposals, market manipulation and unlawful shareholder loans. Seven persons were indicted in the case which inter alia involved trading in shares via intermediaries. The principal was sentenced to a term of nine years' imprisonment of which one and a half years was suspended, in addition to the confiscation of NOK 25 million. One of the principal's co-defendants was acquitted while the remaining five were sentenced to terms of imprisonment of two to five years. The judgment was appealed.

Prospectus control

– transferable securities

Finanstilsynet is responsible for approving EEA prospectuses in the case of public offers for subscription or purchase of transferable securities worth at least EUR 5,000,000 calculated over a period of 12 months that are directed at 150 or more persons in the Norwegian securities market. The same applies where transferable securities are to be admitted to trading on a Norwegian regulated market, including where a company whose shares are already admitted to trading plans to increase its capital by more than 10 per cent.

Prospectus vetting in 2015

Slightly more share prospectuses were approved in 2015 than in the previous year. The number of prospectuses issued in connection with initial public offerings on Oslo Børs or Oslo Axess was none the less lower than in 2014. The number of applications for approval of bond prospectuses in 2015 was halved compared with 2014. The reason for the decline is a substantial reduction in the number of new bond issues, in particular high yield bonds in the oil and oil service sector. These sectors previously accounted for two-thirds of the high yield bond market in Norway.

Finanstilsynet vetted prospectuses for several sizeable transactions in 2015. These included prospectuses for the public offering and listing of Frontline, Europris and Multiconsult. An overview of prospectuses vetted by Finanstilsynet in 2015 is given in table 11.

Table 11: Vetted documents

	2011	2012	2013	2014	2015
Shares	100	54	60	53	58
(quoted shares in parenthesis)	(85)	(45)	(52)	(47)	(55)
Bonds	110	146	178	194	98
Warrants	14	–	–	–	–
Total	224	200	238	247	157

Finanstilsynet discontinued four vetting processes after capital raising and/or admissions to listing were cancelled. In addition, one vetting process for capital raising and admission of shares to listing, and one vetting process for listing of bonds, were discontinued on Finanstilsynet's initiative. Further, a large number of documents were notified to and from prospectus authorities within the EU/EEA area.

Finanstilsynet started vetting of 13 prospectuses related to new share admissions. Of these, nine prospectuses were for IPOs on Oslo Børs or Oslo Axess. A total of 55 prospectuses for listed limited companies were vetted. A further three prospectuses for share issues by unlisted companies were vetted.

EU to build a capital market union

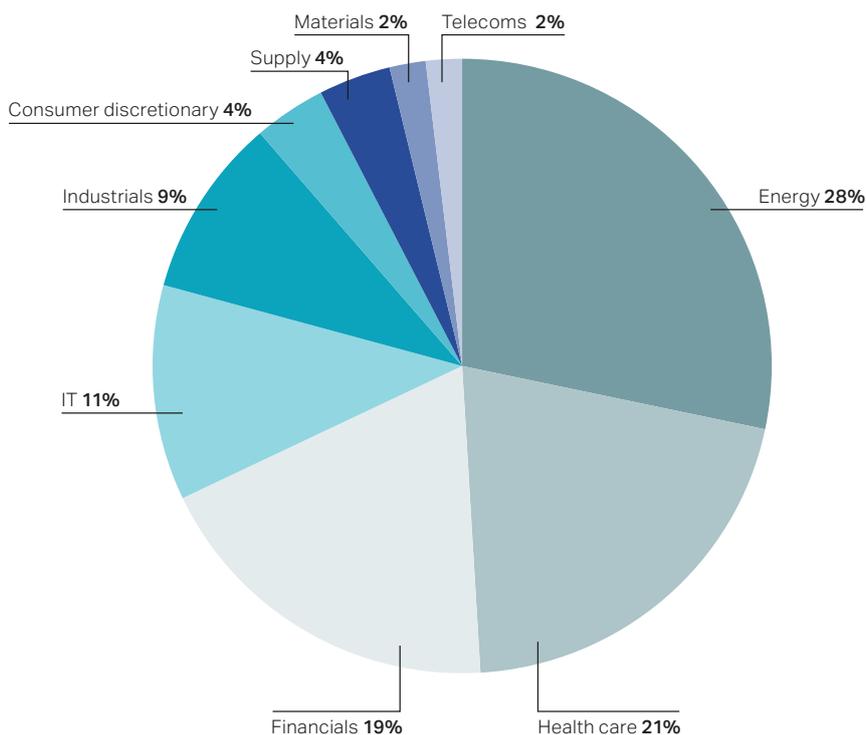
The European Commission aspires to lay the basis for a capital market union (CMU). Future EU legislation preparing the ground for a CMU is viewed as EEA-relevant, and could be of significance to the Norwegian capital market. In this connection the Commission has proposed new prospectus rules geared to small and medium-sized businesses. The new rules deal in particular with the scope of and exceptions from the prospectus requirements, the level of investor protection and opportunities to reduce the administrative burden and costs.

Finanstilsynet's guidance on the vetting process

Finanstilsynet has prepared a "Guidance on prospectus vetting" making information on the vetting process more readily available to the market. The guidance provides information on vetting deadlines, and requirements on completeness and encryption.

Chart 5: Share prospectuses approved by Finanstilsynet in 2015 – by sector

Source: Finanstilsynet



Financial reporting enforcement – listed companies

All listed companies are required to apply the International Financial Reporting Standards (IFRS) when preparing and presenting consolidated accounts. Finanstilsynet oversees financial reporting by Norwegian-registered enterprises that are listed on a regulated market in Norway or elsewhere in the EEA, as well as certain foreign enterprises that are listed on a regulated market in Norway.

At the end of 2015 261 companies were subject to Finanstilsynet's supervision of financial reporting. Of these, 36 were foreign. 190 were issuers of shares and equity certificates. Several issuers of shares and equity certificates also issued bonds that are quoted on Oslo Børs. Over the course of the year 20 new companies were admitted to Oslo Børs, two to Oslo Axess. A total of 21 issuers were delisted, 18 from Oslo Børs and three from Oslo Axess.

Enforcement of financial reporting

Selection

Finanstilsynet applies several criteria to select entities for review. Some entities are selected on the basis of signals given or by rotation, others on the basis of risk assessments. Risk-based analyses rely on data reported by companies via the Altinn internet portal.

Results of the enforcement

Finanstilsynet reviewed all or parts of the financial reporting of 40 entities. Particular attention was focused on issuers of shares and equity certificates, and some bond issuers. Finanstilsynet also reviewed the audit reports of all listed companies. Nine cases were given closer scrutiny, and had yet to be finalised at year-end.

No information was received from the entities, their elected officers, senior employees or auditors to indicate that the financial reporting of the issuers failed to provide a true and fair view in conformity with the provisions of the Securities Trading Act.

Four of the cases started in 2014 and completed in 2015 are described below. All public letters are available at Finanstilsynet's website.

DNB ASA

The review covered the valuation of the bank's portfolio of loans carried at fair value, mainly fixed rate loans. At the end of 2013 these amounted to some NOK 123bn, i.e. about 9 per cent of DNB's total outstanding loans.

In its valuation model DNB has employed a discount rate below the bank's own rate and the market rate for equivalent loans. In Finanstilsynet's view the bank has thereby assigned too high a value to the loans in certain periods.

DNB took note of Finanstilsynet's assessment and will in future periods ensure that the discount rate used for measuring loans at fair value does not diverge significantly from the market lending rate. The bank will also improve note disclosures on its valuation of and accounting policies for day 1 gains and losses.

Solør Bioenergi Holding AS

In its annual accounts for 2013 Solør Bioenergi Holding took to income a success fee of NOK 71.6m. The success fee was based on an agreement for the delivery of transaction services to a Swedish company which was previously a sister company and is now the parent of Solør Bioenergi Holding. In Finanstilsynet's assessment this agreement did not warrant being taken to income and Finanstilsynet instructed the company to reverse the entry in the accounts.

Solør Bioenergi Holding's original half-year accounts for 2014 also contained, in addition to the incorrect income entry of NOK 71.6m, a series of other significant errors and deficiencies. Finanstilsynet instructed the company to submit a new set of half-year financial statements for 2014 in which errors and deficiencies were corrected.

Austevoll Seafood ASA

Finanstilsynet considered whether Austevoll Seafood exercises actual control over Brødrene Birkeland AS (Br. Birkeland), and whether Br. Birkeland should therefore be consolidated as a subsidiary in Austevoll Seafood's group accounts.

Austevoll Seafood holds a 49.99 per cent stake in Br. Birkeland, and has three out of five members of Br. Birkeland's board of directors. There are also other factors indicating that Austevoll Seafood exercises actual control over Br. Birkeland. In Finanstilsynet's overall assessment, Austevoll Seafood exercises actual control over Br. Birkeland. Austevoll Seafood has taken due note of this assessment and will consolidate Br. Birkeland as a subsidiary.

Scana Industrier ASA

The review covered the entity's reporting of the going concern assumption and associated disclosure requirements.

Scana industrier had reported poor profitability over a long period. This, combined with a relatively high loan-to-value ratio, cast substantial doubt over the going concern assumption. The entity had breached a number of loan terms, and its liquidity situation was challenging.

In Finanstilsynet's assessment the disclosures bearing on continued operation were inadequate and imprecise. The entity needed to provide more details of management's exercise of judgement in connection with the going concern assumption. It also needed to disclose information on how the measures taken by the company to improve operations affected the continued business. Scana also needed to provide more concrete details of how it intended to meet its liquidity need going forward.

Scana took note of this assessment and improved its disclosures in its subsequent financial reporting. During consideration of this matter it appeared that the company may also have violated the ongoing information requirement. Oslo Børs was duly alerted, followed up on the matter, and levied a violation penalty on the company.

Thematic inspection of marine farms

Finanstilsynet charted selected aspects of the financial reporting of marine farms. This included obtaining information from six selected listed entities. The results of the survey are available in a report posted on Finanstilsynet's website.

The survey aimed to sum up current practices and to draw attention to areas in need of improvement. The thematic inspections focused mainly on recognition, measurement and presentation of farmed salmon in the income statement and balance sheet, along with appurtenant note disclosures. The entities report their financial results based on measurement of farmed salmon at fair value under IFRS. The entities also present alternative (non-GAAP) financial results based on a historical cost model. In the case of both models the survey showed highly dissimilar practices. The result is poor comparability between entities, also in terms of EBIT/kg, the key ratio viewed as the most important for users of financial statements.

The thematic inspection also covered note disclosures connected to licences and property, plant and equipment.

Administrative fine for late publication of periodic financial reports

Finanstilsynet's enforcement of periodic reporting includes checking that reports are published within deadline. Failure to observe the deadline normally attracts an administrative fine.

Administrative fines were imposed on three issuers in 2015 for late publication of their annual reports. One of these was Solør Bioenergi Holding which published its 2013 annual accounts more than two months after expiry of the deadline prescribed in the Securities Trading Act and the 2014 annual accounts more than three months after expiry of the same deadline.

Under the Stock Exchange Act Finanstilsynet is entitled to order a regulated market to suspend or remove a financial instrument from trading if called for on special grounds. Finanstilsynet ordered Oslo Børs to remove Solør Bioenergi Holding's bond from quotation on Oslo Børs due to significant shortcomings in the company's financial reports. The entity appealed against the order. The Ministry of Finance revoked the order on the grounds that the entity had not been made a party to the case, and returned the matter to Finanstilsynet for new consideration. The ministry did not take a position on the facts of the case. The entity is now compliant with its reporting obligations, and Finanstilsynet considers there is no longer a basis for delisting.

Expert Panel on Accountancy

The Expert Panel on Accountancy is an important complement to Finanstilsynet's resources. The panel was appointed by the Ministry of Finance in 2005. Finanstilsynet is secretariat to the panel.

The Expert Panel met four times in 2015. Matters are taken up either for comment or discussion. The panel's statements are enclosed with letters to companies, and the letters are published on Finanstilsynet's website.

The Expert Panel in the period 1 January – 31 December 2015

Stig Enevoldsen
(chair)

Aase Aa. Lundgaard
(deputy chair)

Frøystein Gjesdal
(member)

Signe Moen
(member)

Kjell Magne Baksaas
(member)

Nina Rafen
(member)

Geir Moen
(member)

Karina Vasstveit Hestås
(alternate)

Roar Inge Hoff
(alternate)

Reidar Jensen
(alternate)

AUDITING

Finanstilsynet's oversight of auditors comprises approval or licensing of individuals and firms, registration and supervision of statutory audit work. Finanstilsynet checks that auditors maintain their independence, and that they perform their work in a satisfactory manner and in compliance with law and good audit practices.

Market participants' confidence in financial reporting by business and industry is key to a well-functioning market. This is particularly true for reporting by public interest entities such as banks and other financial institutions, insurers and listed companies. High audit quality contributes to increased confidence. In order to properly perform his/her role as representative of the general public, the auditor must be independent and perform the audit in conformity with the requirements of the Auditors Act.

Trends

According to off-site supervision data from 2014, the five largest audit firms' market share has risen to 67.6 per cent in terms of statutory audit fees. There remain a number of small audit firms with just one statutory auditor. The number of audit firms that audit public interest entities continues to fall, standing at 15 at year-end.

Supervision and monitoring

Finanstilsynet carries out supervision based on its own risk assessments, reports received and other signals, for example in the media. Matters that come to light in other areas supervised by Finanstilsynet may also prompt scrutiny of the work of an auditor. Moreover, periodical quality assurance reviews of auditors of entities subject to statutory audit are required at least every sixth year, while auditors and audit firms that audit public interest entities are subject to periodical quality assurance review at least every third year.

The periodical quality assurance reviews are coordinated with reviews conducted by The Norwegian Institute of Public Accountants (DnR) of its members. Should the DnR bring to light circumstances that may prompt revocation of an auditor's licence, the matter is referred to Finanstilsynet for further action. The DnR's report for 2015 is presented on page 74. Where public interest entities are concerned, all supervision is carried out by Finanstilsynet.

In 2015 Finanstilsynet received 72 reports of possible audit deficiencies from the DnR, the tax authorities, bankruptcy administrators and other parties. All reports are reviewed and assessed for further action on the part of Finanstilsynet. Cases not given priority by Finanstilsynet are likely to conclude with the auditor being asked to conduct a self-evaluation. Failings in the conduct of the audit that emerge in the report are assessed and measures needed to enhance audit quality must be set out in the report. The evaluation must be documented.

38 on-site inspections were conducted in 2015. Some of these matters will be finalised in 2016.

Table 12: Revocation of auditors' licences

	2011	2012	2013	2014	2015
State authorised auditors, licences revoked	1	19	0	0	2
Registered auditors, licences revoked	2	17	0	2	0
Audit firms, licences revoked	0	0	0	0	0

The number of licence revocations is higher in years in which off-site supervision is carried out.

Off-site supervision

In 2015 Finanstilsynet published a report after the off-site supervision conducted in autumn 2014.

Supervision of audit firms

At inspections Finanstilsynet checks firms' compliance with applicable statutory requirements, including that the firm has in place adequate systems for internal quality control of the audit business, policies and procedures with regard to independence, confidentiality and compliance with anti-money laundering requirements. Finanstilsynet also conducts spot checks of audit engagements to verify compliance with the audit legislation and with the audit firm's internal policies and procedures.

Seven inspections of audit firms were conducted in 2015, of which four concerned firms that audit public interest entities. Audit firms which audit companies listed on a US stock exchange are also subject to oversight by the Public Company Accounting Oversight Board (PCAOB) in the US. Joint inspections conducted with the PCAOB are headed by Finanstilsynet. Two joint inspections were conducted with the PCAOB in 2015.

At several inspections Finanstilsynet brought to light audit firms' inadequate procedures for monitoring their own audit quality. At the engagement level Finanstilsynet showed that the quality assurance review conducted by statutory auditors and the quality controls conducted prior to presentation of the audit report were not satisfactory.

At virtually all the inspections Finanstilsynet commented on the firm's assessment of whether an audit engagement should be accepted or continued. The comments applied both to the audit firm's policy on assessment and to concrete assessments of individual engagements. The auditor's fulfilment of his/her obligations in this area is key to confidence in the audit institute.

Checks on individual assignments also brought to light weaknesses in auditors' documentation of their understanding of the business to be audited, in audit procedures performed and in the use of analysis in the planning, performance and completion of the audit. Weaknesses in the audit of significant areas were pointed out at several inspections. Finanstilsynet identified shortcomings in this area through its thematic inspection of audits of revenue recognition and of auditors' understanding of the business concerned in 2012.

Other individual cases

Again in 2015, Finanstilsynet dealt with cases in which the auditor had for several years running included in the audit report a qualified opinion on an item of the accounts and an emphasis of matter paragraph regarding the going concern assumption. If an entity fails to come into line, the auditor must issue an adverse opinion and consider withdrawing from the engagement. Finanstilsynet checked audit engagement letters prepared by the new auditor after the previous auditor had withdrawn due to persistent censurable aspects of the audit client's business. Finanstilsynet stated that a new auditor should not accept an assignment unless the client has rectified matters prompting the previous auditor's withdrawal. Finanstilsynet's opinion was that the Auditors Act had been breached.

KPMG was heavily censured for its sponsorship agreement with the Chess Olympiad while at the same time acting as the company's auditor. Entering a sponsorship agreement with an audit client breaches the provisions of the Auditors Act regarding auditor independence.

Thematic inspections

Each year Finanstilsynet conducts an audit-related thematic inspection. In 2015 the thematic inspection addressed bank audits. The inspection report points out the need for the auditor to assure him/herself that the bank complies with regulatory requirements regarding capital adequacy, liquidity and money laundering.

In 2015 Finanstilsynet conducted a thematic inspection of the audit of significant balance sheet items where estimates are employed. Finanstilsynet did not find significant deficiencies in the audit evidence underlying accounting estimates. Shortcomings were identified in the auditor's documentation of how he/she employed statements from specialists engaged by the company's management. The same is true of the auditor's documentation of his/her assessment of management's objectivity when determining the estimates. The auditor must be attentive to any possibility that management assessments are influenced by risk of failure to repay a lender or other financial claimant, or whether other factors affect management objectivity.

Other supervisory activity

Finanstilsynet's inspections continue to reveal that many supervised entities covered by the Risk Management Regulations omit to obtain auditor confirmation as required by the regulations. In such cases Finanstilsynet draws the auditor's attention to the obligation to send a numbered letter to the client.

Table 13: Number of approved auditors and audit firms at 31.12.2015

	2011	2012	2013	2014	2015	Licensed in 2015
State authorised auditors	3,165	3,339	3,544	3,729	3,888	167
Registered auditors	3,319	3,365	3,429	3,462	3,492	54
Of which: statutory auditors	1,891	1,840	1,799	1,625	1,584	76
Audit firms	674	600	563	533	516	27

Licensing

Finanstilsynet authorises auditors as either registered or state authorised auditors. In addition to statutory minimum education requirements, a practical examination has to be passed. In 2015 226 candidates took, and 218 passed, the examination. When processing applications for an auditor register number, which is needed in order to become a statutory auditor, Finanstilsynet checks that the auditor meets the statutory continuing education requirement and has the required indemnity insurance.

International tasks

Beyond the work done under EU Commission auspices, European supervisory authorities have formed a group to develop and harmonise the conduct of supervision – the European Audit Inspection Group (EAIG). The EAIG obtains and coordinates member countries' views on proposals for new audit standards established by the industry. The EAIG has also established a European database for inspection findings. The database provides a useful basis for communication with standard setters and for the supervision of the five large audit firms. European supervisory colleges have been established for EY, PwC, Deloitte and KPMG, and in 2015 the EAIG established a supervisory college for banking/finance.

The global collaboration between audit supervisory authorities takes place through the International Forum of Independent Audit Regulators (IFIAR). 51 countries, including Norway, are represented on the IFIAR. The IFIAR publishes each year a report on audit quality.

Regulatory development

In October 2015 the government appointed a committee to recommend changes in the legislation on auditing, auditors and external accountants. The committee will review the Norwegian audit legislation, and propose rules to implement a new EEA regulatory regime. The law committee will also review the legislation on external accountants and consider the merits of merging the two legislations. A report on amendments to the auditing legislation is to be presented by 31 March 2017. Finanstilsynet has one member on the law committee in addition to a secretary.

Finanstilsynet
 Postboks 1187 Sentrum
 0107 Oslo

Oslo, 29 January 2016
 Our ref.: NR/TR

Quality Assurance Review of Auditors – Annual Report 2015

According to the *Guidelines for periodic quality assurance reviews of auditors and audit firms*, The Norwegian Institute of Public Accountants (DnR) is appointed by Finanstilsynet to conduct the periodic quality assurance review of auditors who perform statutory audits of the annual financial statements of entities other than public interest entities. The Board of DnR hereby presents a summary of the quality assurance reviews conducted in 2015.

Organisation of the quality assurance review

The quality assurance review is described in *Details of the quality control programme for statutory auditors 2015* as posted at www.revisorforeningen.no. It is designed to test compliance with the Act on Auditing and Auditors and with good auditing practices, including International Standards on Auditing, in addition to compliance with the provisions of the Act on Auditing and Auditors concerning the auditors' capabilities to fulfil their obligations related to financial status, independence, indemnity insurance and continuing professional education. In addition, last year's review included a separate check of compliance with the Money Laundering Act.

The reviews were conducted by a review team comprising 30 state authorised and registered auditors, all with a broad professional background.

Selection of auditors for quality assurance review

In 2015 the quality assurance programme covered 854 statutory auditors. 141 of these were selected for ordinary quality assurance review. Upon being notified that they had been selected for review, 10 statutory auditors announced that they would discontinue their business or retire as statutory auditors in the course of 2015. In addition, four statutory auditors had their reviews deferred to 2016.

Thus 127 statutory auditors had ordinary quality reviews in 2015. In addition to the ordinary reviews, 43 statutory auditors were subject to follow-up reviews, resulting in a total of 170 conducted reviews in 2015.

Results of the quality assurance reviews

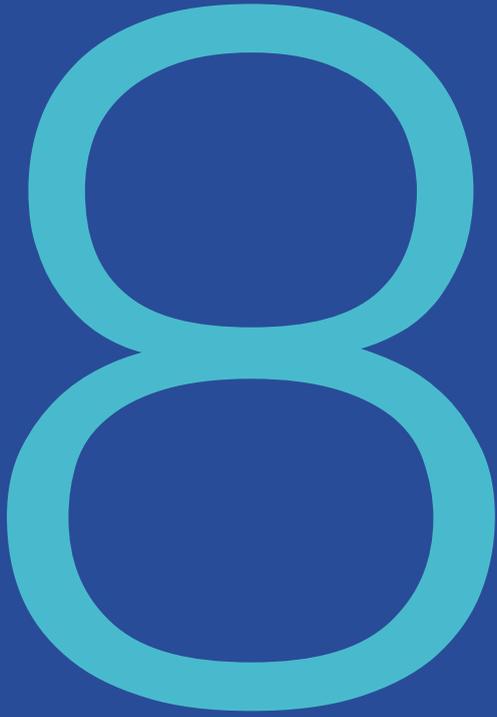
	Number	%
Approved	155	91.2
Audit flaws and/or other shortcomings – action plan and follow-up review	6	3.5
Submitted to Finanstilsynet for further action	9	5.3
Total number of reviews conducted	170	100

* One of the statutory auditors who had deficiencies is already being followed up by Finanstilsynet for other reasons.

Yours sincerely

Nina Rafen (sign.)
 Chair
 The Norwegian Institute of Public Accountants





INTERNATIONAL COOPERATION

INTERNATIONAL COOPERATION

Finanstilsynet and Norway are impacted by principles and rules in effect in the EU and across the world. Finanstilsynet also collaborates on supervision in the global and the EEA context. An important aim of cross-border supervisory cooperation is to identify risk factors present in firms and markets in the international financial market at an early stage. The supervisory cooperation also enables coordinated risk management measures to be put in place.

The EEA Agreement provides financial institutions in the EEA area with a uniform market framework in terms of regulation, enforcement and supervisory practices. In most areas overseen by Finanstilsynet, Norwegian legislation largely comprises transposed EU legislation. Regulatory enforcement and supervisory practices are also coordinated across the EEA area.

Supervisory collaboration across the EU/EEA

Finanstilsynet's collaboration with EU financial supervisors

The EU has three supervisory authorities in the financial area:

- EBA – European Banking Authority
- ESMA – European Securities and Markets Authority
- EIOPA – European Insurance and Occupational Pensions Authority

Part of the mission of the EU financial supervisory authorities is to support effective regulation and effective supervision across the single market. They aim to promote well-functioning markets and a level playing field, prevent supervisory arbitrage and improve consumer protection. The three bodies collaborate in a joint committee on cross-sectoral matters such as anti-money laundering and oversight of financial conglomerates.

Work on implementing rules, including EU rules, based on international initiatives in the wake of the financial crisis, continued in 2015. Parts of this work were delayed due to issues related to whether Norway was prepared to cede certain decision-making powers to the EU. In autumn 2014, after protracted negotiations, a political agreement was reached on a solution whereby the power to adopt binding decisions on supervisory authorities and financial institutions in EEA/EFTA-states will be vested in the EFTA Surveillance Authority. This is subject to approval by the Norwegian Parliament (Stortinget).

In 2015 the EEA/EFTA-states and the European Commission negotiated to put in place a proposal for legal texts to be incorporated in the EEA Agreement. The legal texts were drawn up with a basis in the political agreement reached in 2014.

Once informal agreement is reached between the European Commission and the EEA/EFTA states on the legal texts, a formal process is required on the part of all parties before the agreement can enter into force.

Pending a formal solution, a number of EU legislative acts in the financial sphere are currently not incorporated in the EEA Agreement. Although Norway is not bound by the EEA Agreement, it has implemented the substance of several of the above legislative acts in Norwegian legislation to ensure that actors in Norway's and other EEA countries' markets have an approximately level playing field. As soon as the EU and the EEA/EFTA countries have in place a solution for how financial supervisors in the EEA/EFTA countries are to be linked to the EU's financial supervisory authorities, work will start on incorporating the other legislative acts in the financial sphere into the EEA Agreement.

The EU also has a European Systemic Risk Board (ESRB) with overarching responsibility for macroprudential surveillance of the EU's financial system. Its mission is to ensure that risk build-up in the financial system does not threaten financial stability.

Since the establishment of the three EU supervisory authorities in 2011, Finanstilsynet has been invited to attend meetings of their Boards of Supervisors as Norway's observer and participates in the work of the board and in subgroups both on regulatory development and in the supervision of markets and firms. As from 2013 Finanstilsynet has attended meetings of the ESRB's Advisory Technical Committee (ACT) as observer. The ACT is an advisory body to the ESRB's General Board.

Regulatory development and enforcement in the EEA

Finanstilsynet participates in a number of working groups under the EU Commission and the supervisory authorities that prepare EU regulatory documents.

Once adopted by the EU, rules governing the financial area are incorporated in the EEA Agreement before being transposed into Norwegian law. Finanstilsynet, along with the Ministry of Finance and Norges Bank, participates in EFTA's financial services working group. This group coordinates the EFTA countries' views on the incorporation of legislative acts in the financial area into the EEA Agreement.

Topical EU legislative matters receive further comment in the chapters covering the respective areas of supervision in this annual report.

To ensure well-functioning markets, the EU strongly considers that not only the legislation but also its enforcement and supervisory practices must be consistent. The financial supervisory authorities in the EU accordingly issue recommendations on interpreting and enforcing EU rules. As a rule Finanstilsynet abides by the recommendations issued by the EU's financial supervisory authorities.

Supervision and supervisory practices

In addition to participating in the European supervisory collaboration, Finanstilsynet works closely with other national supervisory authorities in order to put itself in a better position to identify risks in firms and markets and to be able to coordinate measures with other national supervisors. Finanstilsynet reports for instance a number of datasets to the EU's financial supervisory authorities to enable analyses to be made and comparisons drawn across the internal EEA market.

The supervisory authorities in the EU (EBA, ESMA and EIOPA) also set the stage for national financial supervisors in the EEA in general to converge their supervisory practices, learn from one another and adopt a best practice. Such convergence is achieved through participation and discussions in expert groups, through peer reviews and through the laying down of recommendations on the conduct of supervision.

Where supervision of individual conglomerates is concerned, supervisory colleges have been established for conglomerates with cross-border operations. Each college comprises the national supervisor in each country in which the particular conglomerate is established, and the relevant EU supervisory authority. Following the establishment of the European banking union, the ECB also participates in the relevant supervisory colleges.

Nordic and Nordic-Baltic cooperation

The financial market in the Nordic region is well integrated, and a number of financial institutions sell services in other Nordic countries through subsidiaries and branches. The extensive cross-border activity in the region means close cooperation is needed to assure well-functioning markets and financial stability. The cooperation covers supervision of the respective financial institutions, monitoring of risks that pose a threat to financial stability, regulatory development, rule enforcement and development of supervisory practices.

The Nordic countries meet annually at director general level, and hold regular meetings at departmental level for the various areas of supervision.

Norway participates in the Nordic-Baltic Stability Group which draws representatives from the finance ministries, central banks and financial supervisors in the Nordic-Baltic countries. The group has drawn up a framework for coordination of cross-border measures in the event of a crisis situation at systemically important, cross-border financial institutions.

Norway also participates in the Nordic-Baltic Macroprudential Forum (NBMF) and NBMF subgroups. The forum brings together the top management at central banks and financial supervisors and discusses macro-prudential surveillance and other supervisory work in the Nordic-Baltic area.

Collaboration with other supervisors on the global stage

In the wake of the financial crisis, global institutions, headed up by the G20 countries, took the initiative for, and coordinated, principles for financial market reform. The Financial Stability Board (FSB) oversees the implementation of the reforms. In Europe the FSB has established an advisory body, Regional Consultative Group Europe, in which Finanstilsynet participates together with the Ministry of Finance and Norges Bank. In addition, Finanstilsynet is prepared to follow the principles for supervision established by the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors (IAIS) and the International Organization of Securities Commissions (IOSCO). The global cooperation between the audit supervisory authorities takes place through the International Forum of Independent Audit Regulators (IFIAR). 51 countries, among them Norway, are represented on the IFIAR.

In order to keep abreast of market developments and to play its part in the development of principles for legislation and supervisory practices, Finanstilsynet participates in global supervisory organisations covering most of Finanstilsynet's areas of responsibility. An overview of Finanstilsynet's participation in international organisations can be found on page 79.

Norway subscribes to The International Monetary Fund's (IMF) principle, adopted in 2010, that the 25 most significant countries should undergo a mandatory financial review once every five years. In 2015 the IMF conducted an Article IV consultation and a Financial Sector Assessment Programme (FSAP) in Norway. See an account of the IMF's FSAP assessment of the Norwegian financial sector in the chapter Banking and finance on pages 47 and 48.

Table 16: International organisations and EU/EEA related committees in which Finanstilsynet participates or attends as an observer

Cross-sectoral meetings

- EFTA Working Group on Financial Services
 - Financial Stability Board (FSB) – Regional Consultative Group Europe
 - Integrated Financial Supervisors Conference
 - FinCoNet – Financial Consumer Network
 - Project Link, the UN's annual macroeconomic meeting
 - Nordic supervisory meetings at director general level
 - Nordic-Baltic Macroprudential Forum
 - Nordic-Baltic Stability Group
 - EU Commission Expert Group on Banking, Payments and Insurance
 - The Legal Entity Identifier Regulatory Oversight Committee (LEI ROC)
-

Banking/finance

- Basel Consultative Group
 - Macroprudential Supervision Group (Basel Committee)
 - International Conference of Banking Supervisors (ICBS)
– arranged by the Basel Committee every two years
 - OECD's Financial Markets Committee
 - European Banking Committee (EBC)
 - European Banking Authority (EBA)
 - Nordic meetings on banking supervision
 - European Systemic Risk Board – Advisory Technical Committee (ESRB ATC)
-

Insurance

- International Association of Insurance Supervisors (IAIS)
 - International Organisation of Pension Supervisors (IOPS)
 - OECD's Working Party on Private Pensions (Task Force on Private Pensions)
 - European Insurance and Occupational Pensions Committee (EIOPC)
 - European Insurance and Occupational Pensions Authority (EIOPA)
 - International Forum of Insurance Guarantee Schemes (IFIGS)
– Finanstilsynet attends as secretariat for the Guarantee Scheme for Non-Life Insurance
 - Nordic supervisory meetings for insurance
-

Securities and prospectuses

- International Organization of Securities Commissions (IOSCO)
 - Enlarged Contact Group on Supervision of Collective Investment Funds (ECG)
 - European Securities and Markets Authority (ESMA)
 - Nordic supervisory meetings for securities
-

Accounting and auditing

- International Forum of Independent Audit Regulators (IFIAR)
 - Audit Regulatory Committee (AuRC)
 - European Group of Auditors' Oversight Bodies (EGAOB)
 - European Audit Inspection Group (EAIG)
 - European Securities and Markets Authority (ESMA)
 - Nordic collaboration
-

Money laundering and financing of terrorism

- Financial Action Task Force (FATF) – the international forum for measures against money laundering and the financing of terrorism, with its secretariat in the OECD
 - Joint Committee's Subcommittee on Anti-Money Laundering
– a collaboration between the EBA, ESMA and EIOPA
-

ICT supervision

- Information Technology Supervision Group (ITSG)
 - Security working group under the International Federation for Information Processing IFIP
 - ETSI ESI – groups working on international standardisation in banking and security and on the standardisation of electronic signatures
 - Financial Information Sharing and Analysis Center (FI-ISAC) – forum where the banking sector, prosecuting authorities and computer emergency response teams (CERTs) share information on cybercrime in the financial sector
 - European Central Bank – SecuRe Pay (mobile payment security)
 - Nordic supervisory meetings for IT
-

Finanstilsynet's organisation



FINANSTILSYNET
Revierstredet 3
P.O. Box 1187 Sentrum
NO-0107 Oslo

Tel. +47 22 93 98 00
Fax +47 22 63 02 26
post@finansilsynet.no
finansilsynet.no