



**KREDITILSYNET**

The Financial Supervisory Authority of Norway

# Annual Report

2008

# Kredittilsynet's organisation

Organisation chart per 01.01.2009

## The Board

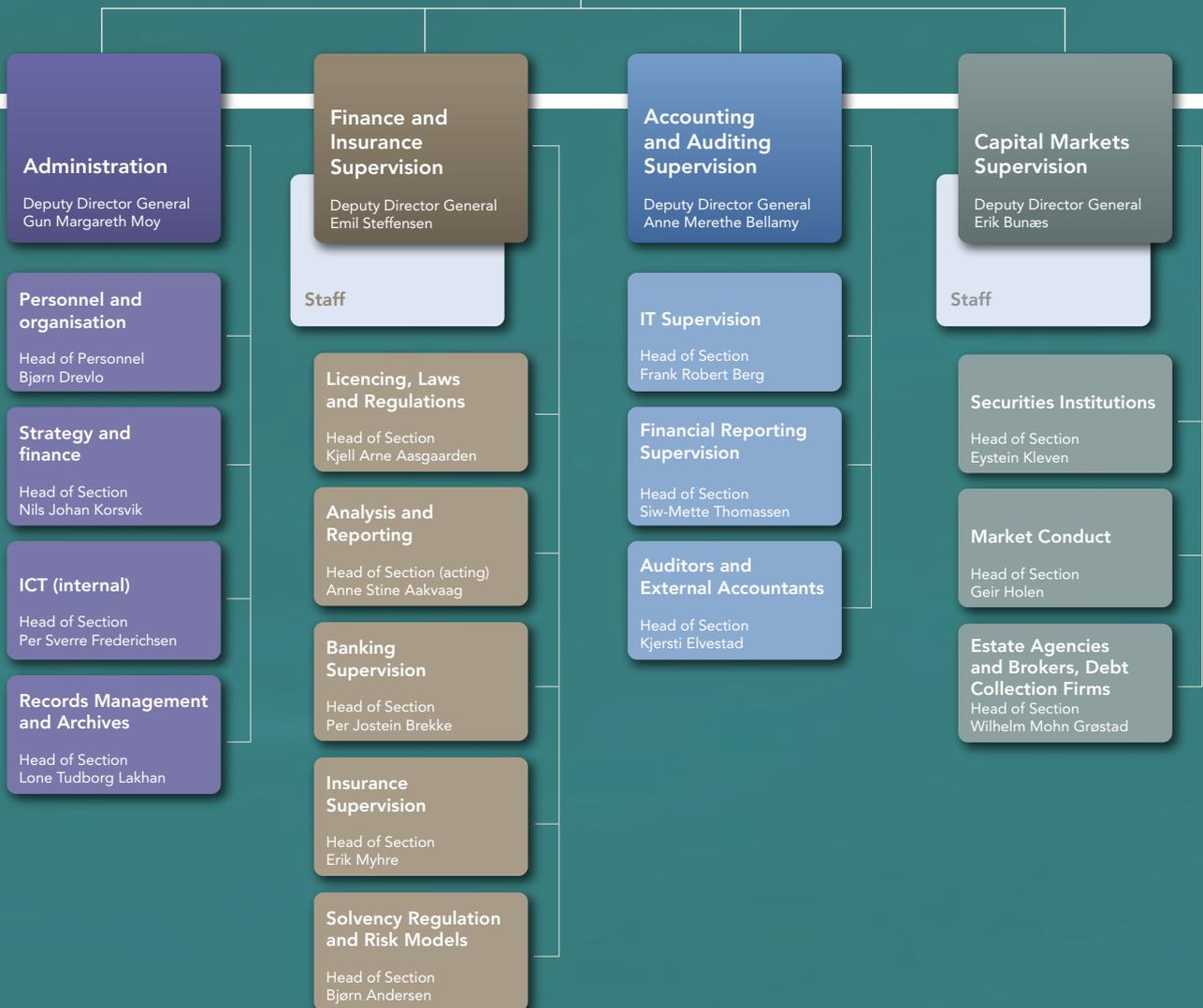
Finn Hvistendahl  
Chairman

## Director General

Bjørn Skogstad Aamo

### Staff

General Council Cecilie Ask  
Head of Communications Kjetil Karsrud  
International Coordinator Nina Moss  
Special Adviser/Controller Rune Grundekjøn  
Executive Secretary Patricia Storgård  
Board Secretary Anne Kari Østmo



Kredittilsynet is responsible for the supervision of banks, finance companies, mortgage companies, e-money institutions, insurance companies, pension funds, insurance intermediaries, investment firms, securities fund management, stock exchanges and other regulated markets, clearing houses and securities depositories, real estate agencies, debt collection agencies, external accountants and auditors. Kredittilsynet also oversees listed companies' financial reporting and market conduct in the securities market.

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For analyses of financial market trends, see *The Financial Market in Norway 2008: Risk Outlook*.

"Kredittilsynet 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."

(Financial Supervision Act, section 3)

# Preface

The international financial crisis was triggered by factors within the financial markets themselves. Many market participants assumed excessive risk without being aware of the consequences. US authorities allowed the rise of extensive lending practices not subject to capital requirements and usual banking supervision. A long period of low interest rates in the US and many other countries fuelled spiralling house and other asset values which were unsustainable over time. When the bubbles burst, the system proved highly vulnerable, with serious consequences for financial markets and in due course the real economy. The economic downturn could prove the most far-reaching since World War II.

In the next few years a thorough examination and strengthening of international regulation of the financial market will be needed to enable institutions and systems to become more robust. This also applies to the accounting framework. In the short term the challenge facing the Norwegian authorities in general, and Kredittilsynet in particular, will be to limit the adverse effects for Norwegian financial institutions, their users and the wider economy.

Banks and financial institutions in Norway are less impacted by the crisis than institutions in many other countries. All financial activity in Norway is subject to regulation and supervision. Norwegian banks have little exposure to securities instruments tied to sub-prime mortgages. Rules and supervisory practice have prevented the establishment of subsidiaries that were not subject to mandatory financial reporting and capital requirements. Financial and liquidity positions were satisfactory when the crisis struck. Even so Kredittilsynet in 2008 asked many banks to aim for higher equity capital levels to better withstand a cyclical downturn.

Liquidity supply and the money market proved highly vulnerable when international wholesale markets came to a halt after the failure of Lehman Brothers. Norwegian banks cover almost two-thirds of

their lending by means of deposits. More than 60 per cent of banks' market borrowing is from foreign sources. Once this funding dried up, the Norwegian money market was in very poor shape and interest rates rose appreciably. It was imperative for the government and Norges Bank to respond with a wide-ranging package of measures to safeguard the liquidity supply. The measures have in due course had an effect, allowing some recovery of liquidity supply and of the money market. This, together with resolute interest rate cuts by Norges Bank, is a sound basis for curbing the adverse effects of the financial crisis for Norwegian financial institutions and the Norwegian economy.

Heavy losses incurred by financial institutions in other countries have prompted markets to demand higher capital levels of borrowing banks. Levels that were adequate before are no longer robust enough. This may constrain Norwegian bank lending by a larger margin than would otherwise be natural, thereby exacerbating the economic downturn. That is why it is important to set up a fund to supply equity capital to Norwegian banks, which they also need if they are to replace the funding Norwegian firms previously obtained directly in the market or from foreign banks.

Kredittilsynet has for several years warned against very high loan-to-value ratios when financing house purchases, and has brought up the issue in its supervision of banks' lending practice. LTV ratios of 100 per cent leave many households vulnerable in the event of a housing market turnaround sparked by higher interest rates or other factors. Kredittilsynet gave early notice that if lending practice was tightened too late, it might intensify a market downturn. However, we must acknowledge that the point at which banks tightened their lending coincided with other negative developments and reinforced the decline in the housing market and construction activity. Markedly lower home lending rates may none the less help to avoid a dramatic decline in the housing market and the negative consequences that this may have for households and banks alike.

Kredittilsynet has also drawn attention to the substantial risk incurred by the banks in a period of accelerated lending to commercial buildings, and the need to curb such risk.

In 2008 it was the Icelandic-owned banking operations in Norway – Glitnir Bank hf.'s subsidiary and Kaupthing Bank hf.'s branch – that experienced the most dramatic effects of the banking crisis. Thanks to good cooperation between the Norwegian Banks' Guarantee Fund, Norges Bank and Kredittilsynet, solutions were rapidly found that brought Glitnir's banking business into new hands. No losses were sustained by depositors or the Guarantee Fund, nor was significant inconvenience caused to other Norwegian customers. As regards the Kaupthing branch, the Banks' Guarantee Fund quickly arranged for deposits up to NOK 2 million to be transferred to other banks or redeemed. The finance minister's guarantee for deposits that would normally be covered by the Icelandic guarantee scheme brought calm in connection with the wind-down of the branch. The efforts of the administration board make it likely that customers with deposits in excess of NOK 2 million will also avoid loss.

Thus far the Norwegian guarantee schemes and government crisis preparedness have functioned satisfactorily.

The dramatic decline in the stock market severely reduced returns for Norwegian life insurers and pension funds in 2008. Once again Norwegian life insurers were compelled to exit the stock market at a low level. They now have limited opportunity to enable policyholders or themselves to share in the stock market upturn that may in time ensue. Consideration needs to be given to legislation with a view to strengthening life insurers' ability to generate sound returns on long-term pension saving.

The new Securities Trading Act which entered into force in November 2007 enabled better protection of investors' and consumers' interests

in the market by tightening requirements on the orientation and quality of investment advice. In 2008 Kredittilsynet gave clear signals of the standards required of Norwegian investment firms, through both its extensive supervisory activity and its withdrawal of licences from entities that failed to comply with the statutory requirements. Kredittilsynet's impression is that most investment firms have taken steps to rectify matters. Further rules on remuneration of investment advice may need to be considered.

The housing market setback has dramatically affected Norwegian estate agents. Kredittilsynet has sought to protect buyers' interests by requiring more frequent reporting, by following up entities in a weak financial position, by extensive supervisory activity and by emphasizing the need to properly protect client assets.

Kredittilsynet expects the international financial crisis and its potential consequences in Norway to require a major work effort on the part of the agency in a number of areas in 2009 as previously. Delegation of tasks from the Ministry of Finance and an expanded budget are key contributions to discharging these tasks. In a period of crisis some tasks will be more important than others. Attending to other matters may well take somewhat longer than would otherwise have been the case.

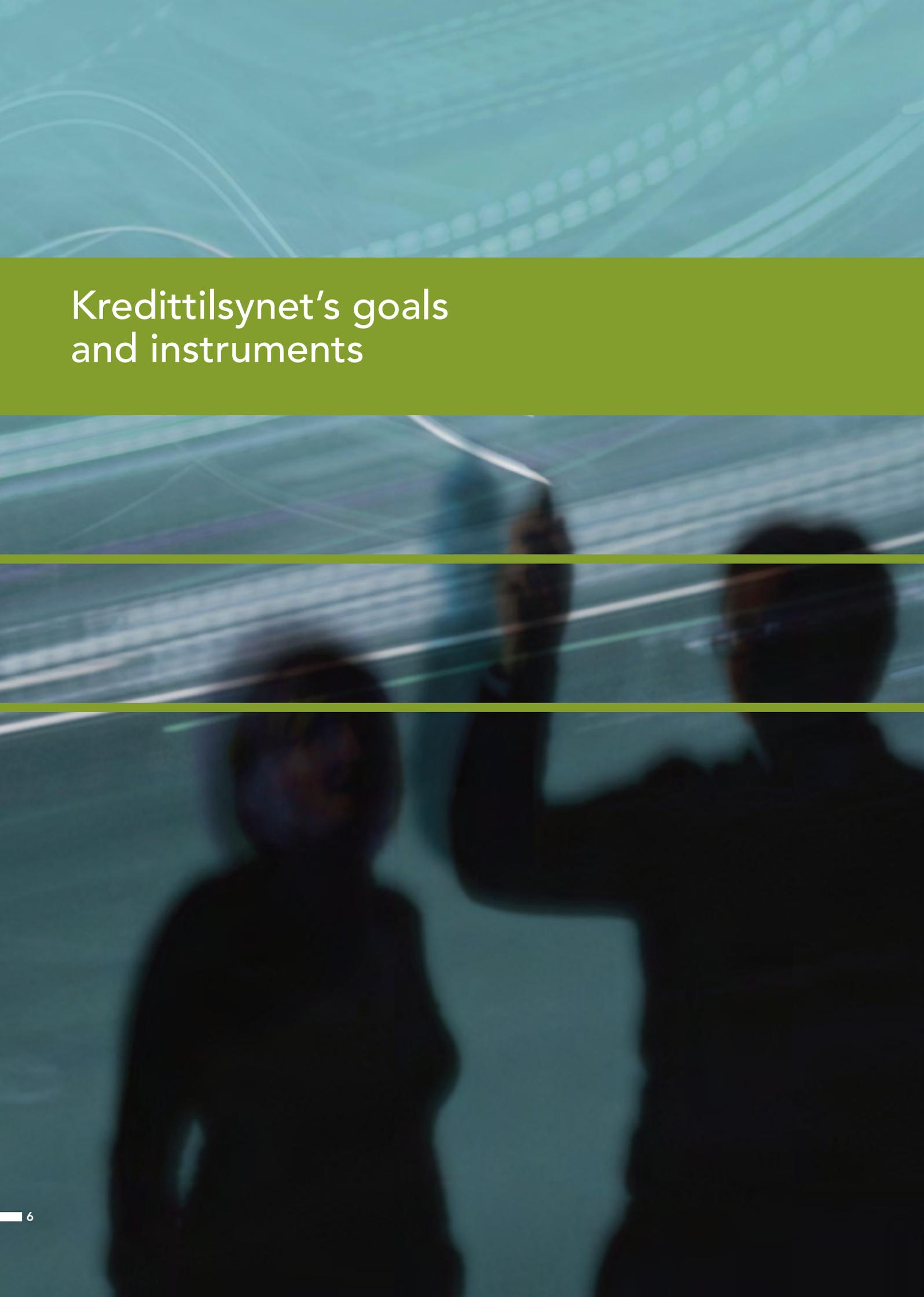
Oslo, 28 January 2009



Finn Hvistendahl  
Chairman



Bjørn Skogstad Aamo  
Director General



## Kredittilsynet's goals and instruments

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## Kredittilsynet's main goals

Kredittilsynet's main goal is to promote **financial stability and well functioning markets** through its supervision of institutions and markets. Behind this goal lie important economic considerations and a desire to protect consumers and investors. Financial stability and well functioning markets are crucial to economic growth and employment, which in turn are a prerequisite for a high standard of welfare and good conditions of living.

Where financial stability is concerned, Kredittilsynet has a particular responsibility for ensuring that financial institutions are well capitalised. Effective competition and good rules of conduct and norms are important for well functioning markets. Moreover, actors' compliance with good ethical norms is a social objective of major value in its own right.

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## Intermediate goals

The main goals of **financial stability and well functioning markets** are concretised in Kredittilsynet's strategy through the following six intermediate goals:

1. Sound financial institutions and firms with a fit and proper management, and good internal control and risk management
2. A robust infrastructure ensuring satisfactory settlements and payments
3. Good monitoring of risk in the household and corporate sector and in real estate and securities markets
4. Adequate information to investors and users in the financial market, and good quality financial reporting by listed companies
5. To promote financial market actors' compliance with the rules of conduct and to seek to prevent conduct liable to undermine confidence in the financial market
6. To ensure that critical situations are handled with minimal harmful effects

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## Kredittilsynet's instruments

Kredittilsynet's instruments are:

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

### Supervision and monitoring

Supervision and monitoring are core tasks that consist in ensuring that companies adhere to laws, regulations and guidelines governing their business. Supervision is carried out by analysing reported data and by inspecting enterprises on site. This instrument also includes monitoring of macroeconomic conditions and other developments of significance for the financial sector, along with international collaboration.

### Licensing

Licensing includes statutory work on licences and approvals to carry on business in Norway. Anyone intending to start a business in Norway within Kredittilsynet's field of responsibility has to apply for authorisation. Kredittilsynet also gives advice to licence applicants, and issues interpretative comments on acts and regulations.

### Regulatory development

Regulatory development is designed to promote a regulatory environment for the economy and markets that contributes to profitable and competitive operations at supervised entities. It includes both developing and simplifying rules, drafting acts and regulations and participating in law committees etc. Kredittilsynet also participates in the development of international standards.

### Information and communication

Information and communication promotes openness and predictability for the users of Kredittilsynet's services as well as an understanding and knowledge of the legislation and of Kredittilsynet's role as a supervisory agency. Importance is attached to good dialogue with supervised entities, trade organisations, government bodies and the media. Information and dialogue include written (electronic and paper-based) and oral information (presentations and meetings).

(Excerpts from Kredittilsynet's strategy for 2006–2010, adopted by Kredittilsynet's Board 23 October 2006.)



## Important events in 2008 and the development of the financial crisis

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## Supervision and monitoring

### **Glitnir Bank Norway receives liquidity guarantee from the Norwegian Banks' Guarantee Fund**

Glitnir Bank Norway was the Norwegian subsidiary of the Icelandic financial services group Glitnir Bank hf. On 7 October 2008 parent company funding of Glitnir Bank Norway ceased, prompting the Norwegian Banks' Guarantee Fund to make a liquidity guarantee worth NOK 2 billion available to the bank the following day. This was subsequently expanded to NOK 5 billion. Twenty banks in SpareBank 1 Gruppen took over the Glitnir Bank Norway on 21 October, and received the requisite licence on 4 December 2008. The bank changed name to BNbank ASA on 12 January 2009.

### **Norwegian branch of Kaupthing Bank hf. placed under public administration**

On 9 October the Norwegian branch of Kaupthing Bank hf. announced that it was in a negative liquidity position and was unable to service its customers. Kredittilsynet informed the Ministry of Finance which, in light of the confused situation in Iceland, announced the Norwegian government's readiness, if required, to disburse that portion of the deposit cover that would normally be met from the home country. Kaupthing was a member of the Norwegian Banks' Guarantee Fund which guaranteed customer deposits up to NOK 2 million. On 12 October 2008 the branch was placed under public administration by the Ministry of Finance, as advised by Kredittilsynet. The decision encompassed Kaupthing's banking and securities business in Norway. On the same evening Kredittilsynet appointed an administration board to take charge of the wind-up of the Norwegian operation. By mid-November almost all deposits below NOK 2 million had been transferred to other banks or redeemed.

### **Poor financial return at insurance companies and pension funds**

The international financial turbulence weakened life insurers' and pension funds' financial return. Kredittilsynet kept a close eye on developments at individual entities, with extra reporting of stress tests for both life insurers and pension funds. Non-life insurers also saw a substantial decline in financial revenues in 2008, although technical business improved.

### **Extended monitoring of financial markets and liquidity risk**

Funding became problematic, and Norwegian banks' funding costs rose as a result of the international financial crisis. Kredittilsynet followed the market situation through intensified monitoring of the financial markets. A particularly close eye was kept on credit institutions' liquidity situation.

### **Thematic inspection of bank lending to commercial properties**

In the first half of 2008 Kredittilsynet conducted a programme of thematic inspections of 11 major banks' lending to commercial properties to map their exposure to this market. It revealed that many banks had not stress tested their property portfolio and had relaxed their in-house lending guidelines.

### **Provisional ban on short selling imposed by Kredittilsynet**

On 8 October 2008 Kredittilsynet announced that in view of the extraordinary market conditions short selling in financial shares was regarded as an unreasonable business method and was therefore prohibited pursuant to the Securities Trading Act section 3-9. On 9 October the ban was extended to include primary capital certificates traded on Oslo Børs.

### **Supervision of financial advice given by investment firms**

Compliance with the new Securities Trading Act, which came into force on 1 November 2007, was followed up through inspections at investment firms in 2008. According to the new Act investment advice is a licensable activity, and Kredittilsynet carefully checked many newly established and already existing entities for compliance with the new framework.

### **Three investment firms lose their licences**

In the first half of 2008 the investment firms Glitnir Privatøkonomi AS, Totalvekst ASA and Caveo ASA lost their licences to provide investment services under the Securities Trading Act. They did so since they had breached good business practice by recommending inappropriate and overly complex savings products to customers. Totalvekst ASA and Caveo ASA appealed Kredittilsynet's decisions to the Ministry of Finance. The Ministry dismissed Totalvekst ASA's appeal on 19 January and Caveo ASA's appeal on 5 February 2009.

### **Licences to carry on estate agency withdrawn from 61 agencies in the Notar chain**

Kredittilsynet revoked the licences of 61 agencies in 2008 that were no longer in a positive equity position as required by the Estate Agency Act. On 5 December 2008 Kredittilsynet authorised Glitnir Oppgjørssentral AS to engage in estate agency. This firm is wholly owned by Gjensidige Forsikring AS, which has posted collateral for the estate agency business of firms in the Notar chain. Glitnir Oppgjørssentral AS took over responsibility for completing property transactions brokered by the Notar chain, thereby ensuring that no losses were sustained by individuals who had bought or sold property.

## Licensing

### Assessment of capital needs and risk at banks, finance companies and mortgage companies

As from 2008 all banks, finance companies and mortgage companies are required to self-assess their capital needs in relation to risk exposure and governance and control, as required by the new capital adequacy framework (Basel II). Kredittilsynet's task is to evaluate the process and its outcome at the banks. In 2008 Kredittilsynet reviewed 137 banks along with 14 independent finance companies and mortgage companies, giving feedback to these entities.

### New licences to banks intending to issue preferential bonds

As a result of the stimulus package presented by the Ministry of Finance and Norges Bank in autumn 2008, a number of banks/groups applied for authorisation to set up special investment vehicles (SIVs) able to issue preferential bonds. By the end of 2008 seven banks/groups had received the requisite licence.

## Development of the financial crisis internationally and in Norway

### 2002–2006

US banks lend heavily to poorly capitalised home buyers (subprime mortgages). Between mid-2004 and mid-2006 the Federal Reserve raises its key rate from 1 per cent (set in 2003) to 5.25 per cent.

#### Autumn 2005

The interest rate hikes begin to work. The housing market cools down and subprime mortgage delinquencies increase.

### 2002–2006

### 2007

### 2008

#### 2007

##### March–April 2007

The subprime industry collapses. More than 25 banks fold or are put up for sale.

##### August 2007

Subprime mortgages to the US housing market are spread across the global financial system through resale. No-one knows which banks own these ticking timebombs, and banks stop lending to each other. The credit crisis is a fact, and stock exchanges collapse.

##### September 2007

The UK bank Northern Rock runs into liquidity problems. Customers queue up to withdraw their savings.

##### 18 september 2007

The Federal Reserve cuts its key rate from 5.25 to 4.75 per cent.

##### November 2007

News breaks that eight Norwegian local authorities have invested in the US loan market through Terra Securities, borrowing heavily against future power revenues.

#### 2008 >>

##### 16 March 2008

The US investment bank Bear Stearns is acquired by JP Morgan Chase with help from the Federal Reserve.

##### 24 August 2008

Roskilde Bank in Denmark is taken over by the central bank.

##### September 2008

Banks in several European countries including Denmark, Belgium, the Netherlands, Luxembourg and the UK are taken over by or receive financial support from the government. A number of banks are taken over by other banks.

##### 7 September 2008

The federally guaranteed mortgage banks Freddie Mac and Fanny Mae are taken over by the US government.

##### 14 September 2008

The investment bank Merrill Lynch is taken over by Bank of America, thus avoiding bankruptcy.

##### 15 September 2008

The fourth largest US investment bank, Lehman Brothers, folds. The financial crisis escalates.

##### 16 September 2008

The US government bails out AIG, the world's largest insurer.

##### 18 September 2008

The world's largest central banks loan out NOK 1,000 billion to get the banks back on their feet.

##### 29 September 2008

The Icelandic government takes control of the country's third largest bank, Glitnir Bank hf.

## Kredittilsynet reports Fast Search and Transfer ASA to Økokrim

In April 2008 Kredittilsynet reported the search engine firm Fast Search & Transfer ASA to Økokrim for suspected breach of the Accounting Act and the Bookkeeping Act. The matter is under investigation by Økokrim.

## Kredittilsynet reports DnB NOR Markets to Økokrim for possible insider trading

Kredittilsynet reported DnB NOR Markets and two employees of DnB NOR Markets to Økokrim on 22 October 2008 on suspicion

of possible abuse of inside information. DnB NOR Markets had sold government bonds immediately prior to the government's presentation of a stimulus package to the banks on 12 October.

## Kredittilsynet decides not to order Terra Securities ASA to relinquish gain in connection with the firm's advice to municipal authorities

Kredittilsynet opted not to order Terra Securities to relinquish gain pursuant to the Securities Trading Act in connection with advice given to the municipalities of Narvik, Rana, Hemnes, Hattfjelldal, Vik, Bremanger, Haugesund and Kvinesdal. Based on an overall

### 2009

#### January 2009

The EU decides to harmonise the cover available under the Deposit Guarantee Directive. This will weaken the Norwegian deposit guarantee scheme unless a derogation is included in the EEA agreement.

#### 18 January 2009

The Danish government presents 'Bank Package II' making credit available to banks and mortgage lenders.

#### 26 January 2009

The Norwegian government presents a fiscal policy package worth NOK 20 billion to stimulate employment.

#### 19 January 2009

The UK government's stimulus package to the banking industry, presented on 8 October 2008, is followed up with additional measures to encourage lending by financial institutions.

#### 8 February 2009

The Norwegian government presents a new stimulus package designed to encourage bank lending to firms and households.

### 2009

### 2008

#### 3 October 2008

The US Congress endorses a rescue package worth USD 700 billion.

#### 7 October 2008

Landsbanki hf. in Iceland placed under public administration.

#### 8 October 2008

Glitnir Bank placed under public administration. Its Norwegian subsidiary Glitnir Bank ASA discloses serious liquidity problems. The Norwegian Banks' Guarantee Fund provides Glitnir Bank ASA with a liquidity guarantee of up to NOK 5 billion conditional upon a speedy sale of the bank. Kredittilsynet provisionally bans short selling in financial shares.

#### 9 October 2008

Kaupthing Bank hf. taken over by the Icelandic government. Kaupthing's Norwegian branch discloses liquidity problems. The Ministry of Finance provides a political guarantee for the portion of the bank's deposits that would normally be covered from Iceland (the home country's deposit guarantee scheme). Kredittilsynet also provisionally bans short selling in primary capital certificates.

#### 12 October 2008

The Norwegian government presents a package of measures worth NOK 350 million to the country's banking industry. Kaupthing Bank hf.'s branch in Norway is placed under public administration. Eurozone member countries and the UK agree further joint measures to restore confidence in the financial system.

#### 15 October 2008

Norges Bank lowers its key rate for the first time since March 2004, by 0.5 percentage points to 5.25 per cent.

#### 20 October 2008

Sweden announces a financial stability plan, including a bank debt guarantee, and a stability fund to handle crisis banks.

#### 21 October 2008

Glitnir Bank ASA is bought up by 20 banks in SpareBank 1 Gruppen.

#### 24 October 2008

The IMF grants Iceland a crisis loan worth up to USD 2 billion.

#### 29 October 2008

Norges Bank lowers its key rate by 0.5 percentage points to 4.75 per cent.

#### 20 November 2008

Denmark, Finland, Sweden and Norway join forces to lend USD 2.5 billion to Iceland.

#### November/December 2008

Adjustments are made to the package of measures to the Norwegian banking industry to enable as many banks as possible to avail themselves of it.

#### 17 December 2008

Norges Bank lowers its key rate by 1.75 percentage points to 3 per cent.

assessment, Kredittilsynet concluded that there were insufficiently weighty grounds to prosecute the case.

#### **Substantial increase in turnover in the auditor industry**

A substantial increase in turnover in the auditor industry has been noted in recent years, both for audit assignments and for advisory/ancillary services, according to a survey conducted by Kredittilsynet in autumn 2007. Audit companies' turnover related to auditing and advisory/ancillary services totalled NOK 6.7 billion for the financial year 2006, up 21 per cent on 2004. By end-2006, audit assignments numbered about 210,000, an increase of 21.9 per cent since end-2004.

#### **Kredittilsynet proposes taking over operative responsibility for prospectus control by end-2010**

Kredittilsynet proposes in a report that prospectus control should be transferred from Oslo Børs to Kredittilsynet by the end of 2010. The agency has looked into those of Oslo Børs's current supervisory and control tasks which, according to EU rules, must or should be taken over by Kredittilsynet. The report, which was forwarded to the Ministry of Finance in November 2008, deals with supervisory tasks related to issuers' obligations and to supervision of conduct in the securities market.

#### **Kredittilsynet analyses risk and vulnerability in the financial sector's ICT systems**

Kredittilsynet identified certain risk factors in its annual risk and vulnerability analysis of ICT systems in the financial sector. In 2008 these included inadequate catastrophe testing and inadequate control over the use of networks and infrastructure. ICT is increasingly important for financial institutions' business activities, and thorough internal control and established routines are crucial to a stable and predictable infrastructure.

#### **Marked fall in the number of estate agents in 2008**

Activity levels in the industry have risen substantially since 1993, a period of stable and largely good property market conditions. Activity levels

started to edge down slightly in 2007, however. This tendency accelerated rapidly in 2008, when property transactions were 11,000 or 15.5 per cent fewer in the first half-year than in the same period of 2007. The number of estate agencies fell from 717 at end-2007 to 611 at end-2008.

#### **Follow-up of compliance with the new Estate Agency Act in 2008**

The new Estate Agency Act which entered into force on 1 January 2008 imposed a significantly stricter framework on the industry, particularly in regard to estate agents' competence. A transitional arrangement applies up to 2011 to enable estate agents to meet the formal competency requirements. Stricter requirements also apply to estate agents' independence and the information provided when selling properties, and affiliation to a complaints board is now mandatory for anyone engaged in estate agency.

#### **Increasing number of case documents**

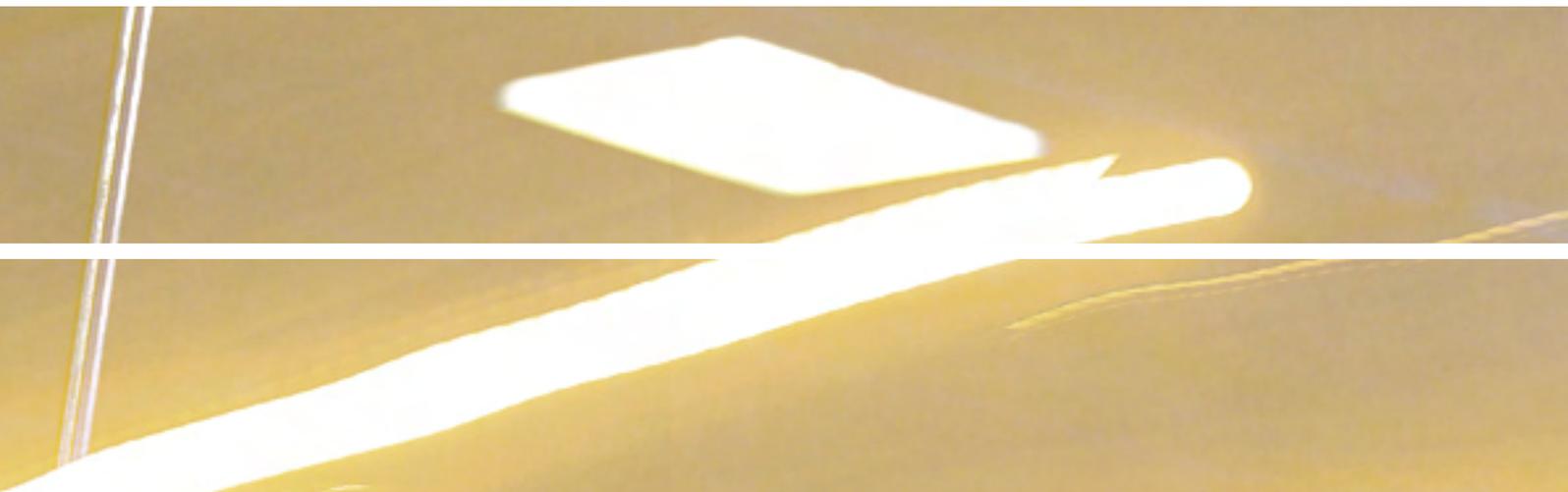
A marked increase has been noted in the number of registered documents. From 2007 to 2008 the increase was more than 20 per cent. Contributory factors are the digitalisation of Kredittilsynet's staff archive, increased licence applications prompted by the new Securities Trading Act, ICAAP reporting by banks and securities institutions, and enquiries related to the new Estate Agency Act.

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## Regulatory development

#### **Ministry of Finance adopts regulations on public administration of branches of foreign banks**

Upon Kredittilsynet's recommendation, the Ministry of Finance on 12 October 2008 adopted regulations concerning branches of banks whose head office is in another state. The regulations empower the Ministry of Finance to order a branch of a foreign bank to be placed under public administration. On the same day the Ministry of



Finance placed the Norwegian branch of Kaupthing Bank hf. under public administration.

### **Tighter requirements on sales of structured products**

Kredittilsynet adopted changes to the rules governing the sale of structured products which came into force on 1 March 2008. The changes bring a number of new requirements for financial institutions, including a warning from Kredittilsynet not to sell structured products to non-professional investors. Kredittilsynet also advises financial institutions not to offer debt finance when selling

structured products in view of the risk of substantial loss. A survey of sales of structured products was presented in January 2008.

### **New rules on securities trades subject to mandatory disclosure**

The changes in the regulations principally involve tighter disclosure requirements. More situations will trigger a disclosure obligation than was previously the case, including corporate actions that alter the distribution of voting rights. As a result a disclosure obligation may be triggered without the party concerned having exhibited any form of activity.

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## **Information and communication**

### **Increased cooperation with trade organisations**

Throughout autumn 2008 Kredittilsynet cooperated fruitfully with the Norwegian Mutual Fund Association on following up fixed income funds whose ability to redeem fund units was threatened by severely impaired liquidity in the market for money instruments. Kredittilsynet also collaborated closely with the Norwegian Banks' Guarantee Fund, the Norwegian Financial Services Association and the Norwegian Savings Banks Association in connection with the turbulence in the banking market.

### **More frequent presentations of Kredittilsynet's role and increased media coverage of the agency**

Representatives from Kredittilsynet attended a number of seminars in 2008. A large number of its presentations included analyses and assessments of the situation in the financial market. Media coverage of the agency's tasks and areas of responsibility also increased appreciably, particularly during the autumn in connection with the financial crisis and the situation in the markets. Indeed financial news in general receives closer and broader coverage, partly through a greater focus on consumer-oriented information on the savings and property markets.

### **Kredittilsynet hosts meeting of the International Forum of Independent Audit Regulators (IFIAR)**

In April 2008 Kredittilsynet hosted the third meeting of independent auditor regulators, attended by representatives of 22 countries. The meeting covered themes including auditing in today's financial markets, audit quality and inspection activities. IFIAR intends to improve information exchange between regulators and supervisors in the respective countries.

### **Finansportalen.no attracts much attention in its first year of operation**

Finansportalen.no, launched in January 2008, has become an important service for learning about and comparing prices of savings products and insurance. The portal, operating under the Consumer Council, was selected as best public website in December 2008 by the Directorate of public administration and ICT. See also Kredittilsynet's tasks in relation to consumer protection and information, page 84–87.



Kredittilsynet's Board of Directors has by law the overarching responsibility for the agency'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 four-year period.

## Organisational set-up and resource use

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## Board of Directors

The Board, appointed on 1 March 2006, comprises:

**Finn Hvistendahl**, chartered engineer, chair  
**Endre Skjørestad**, lawyer, deputy chair  
**Marianne Berg**, district court judge, board member  
**Hilde C. Bjørnland**, professor, board member  
**Eli Aas**, lawyer, board member

**Mette Bjørndal**, professor, first alternate  
**Jostein Skaar**, director, second alternate

**Birger Vikøren**, director at Norges Bank, attends as observer.  
**Arild J. Lund**, director, is his alternate.

Two members elected by and from among the employees supplement the Board when administrative matters are dealt with. As from February 2007 the employee representatives were:

**Nina Moss**, international coordinator  
**Knut Godager**, special adviser

Their alternates were senior adviser **Irene Støback Johansen**, adviser **Birgit Aarnes** and senior adviser **Hilde Høksnes**.

Eleven ordinary board meetings and three extraordinary board meetings were held in 2008. The Board dealt with a total of 36 administrative matters and 67 supervisory matters requiring decisions. The Board received information on a further 70 administrative matters and 84 supervisory matters, bringing total items received to 257. In addition, the Board is given an oral briefing at each meeting on relevant matters that have been or are being dealt with by the administration.



### The Board of Directors of Kredittilsynet

From left: Endre Skjørestad, Eli Aas, Jostein Skaar, Mette Bjørndal, Finn Hvistendahl, Nina Moss, Birger Vikøren, Hilde C. Bjørnland, Knut Godager and Marianne Berg  
Photo: Jarle Nytingnes



### Kredittilsynet's Management Team

From left: Anne Merethe Bellamy, Kjetil Karsrud, Cecilie Ask, Bjørn Skogstad Aamo, Eirik Bunæs, Gun Margareth Moy and Emil Steffensen  
Photo: Jarle Nyttिंगnes

## Priorities in 2008

Kredittilsynet's supervisory activities start out from the tasks imposed on the agency by law, the Ministry of Finance's annual letter of allocation (which is based on the budget adopted by the Storting, the Norwegian Parliament), and Kredittilsynet's strategy. With reference to the priorities set out in Proposition No. 1 to the Storting (2007–2008), which are acted upon in the letter of allocation, the Board of Directors of Kredittilsynet resolved that the following tasks should have highest priority in 2008:

1. Following up the new EU capital adequacy framework (Basel II) which applies to all banks and investment firms as from 2008. Important to ensure a capital adequacy commensurate with risk profile. Kredittilsynet to be guided by the recommendations of the Committee of European Banking Supervisors (CEBS).
2. Monitoring financial stability, liquidity and financial position at individual institutions by following structural developments and changes in the Norwegian and international economy of importance to financial institutions and financial markets. Special emphasis to be given to consequences of the strong credit expansion, inter alia in relation to the housing market, and consequences of the turbulence in international financial markets for the economy, markets and institutions.
3. Preparing for the task of adapting to a new solvency framework for insurance companies, due to come into effect in 2012 and requiring new rules, new supervisory methods, new reporting, and approval of insurance companies' risk models. Follow up compliance with EU directives in the securities field.
4. Giving weight to ICT-oriented supervisory activities with a basis in risk and vulnerability analyses in order to ensure security at internet banks and other electronic solutions for distribution of products and services in the financial and securities market.
5. Conducting sufficient on-site inspections, inter alia to follow up credit, market, liquidity and insurance risk and operational risk at supervised financial institutions and to oversee compliance with laws and rules.
6. Helping to ensure that imminent changes in the Auditors Act are appropriately prepared for and implemented.
7. Following up new rules in the securities field, including new licences, and develop a new system for reporting transactions in financial instruments based on European guidelines. Importance to be attached to compliance with conduct of business rules, particularly in the sale of securities and structured products to the consumer.

8. Following up conduct rules in securities markets and financial reporting of listed companies.
9. Following up the new legislation on real estate agency.
10. Prioritising the effort to increase efficiency and simplify operations, inter alia through greater use of electronic solutions in reporting, case processing and communication.

## Goal achievement in 2008

Although no Norwegian-owned banks incurred serious problems in 2008, Kredittilsynet expressed concern over the fact that high and growing home loans and strong growth in loans to commercial property and some businesses had led to greater risk and more vulnerability. The international financial crisis also led, in Norway as elsewhere, to new challenges in terms of securing the goal of **financial stability**. Turbulence in international financial markets and prospects of lower growth in the domestic and international economy heightened the risk facing banks and insurers alike. The crisis hit the Icelandic banks hard. The Norwegian subsidiary Glitnir Bank ASA received a guarantee from the Norwegian Banks' Guarantee Fund and was sold to a group of savings banks, SpareBank 1 Gruppen. No depositors or other customers will sustain losses on Glitnir Bank ASA, and no cash outlays will be required of the Guarantee Fund. Kaupthing Bank's Norwegian branch was forced into administration and wound up. In the space of a few weeks all customers holding deposits below NOK 2 million were invited to transfer their deposits to another bank. The board of administration is trying to find cover for deposits in excess of NOK 2 million, and for the outlays of the Norwegian state and the Guarantee Fund.

The international financial crisis brought a downturn and high volatility in the Norwegian stock market. Risk premiums in the bond market increased in Norway as elsewhere, and premiums in the Norwegian money market became substantial. It was consequently difficult to achieve the goal of **well functioning markets**. Securities settlement was problematic after the collapse of Lehman Brothers, which was a remote member of the Oslo Stock Exchange and highly active in the Oslo stock market. Even so, settlement was broadly satisfactory. Little new capital was subscribed in the market. New legislation based on the Markets in Financial Instruments Directive (MiFID) enabled better oversight of advisory services in the savings and securities market. A comprehensive supervisory effort was undertaken which appears to be encouraging a better standard of advisory services. A project designed to provide indicators and a better basis for judging how well markets function was completed.

Prioritised **tasks** in 2008 were largely implemented as planned:

1. As from 2008 the new EU capital adequacy framework (Basel II) is being followed up vis-à-vis all banks and investment firm by giving advice, receiving reports and carrying out supervision. Kredittilsynet assessed, under Pillar 2 of the framework, the capital adequacy of all banks and mortgage companies in relation to risk, and notified each entity of the assessments made.
2. Liquidity and financial strength of individual institutions were monitored more closely than usual in 2008. Quarterly meetings were held with all larger entities, and extra reporting of liquidity and deposits was submitted by many banks. Reports were filed on home loans and financial stability.
3. Kredittilsynet worked actively to prepare new solvency rules for insurance (Solvency II) within CEIOPS and carried out new impact studies and stress tests for Norwegian insurers.
4. A large number of ICT system inspections were carried out at financial institutions, a new system for reporting events that may compromise ICT security was launched, and a new risk and vulnerability analysis was devised for ICT activity at financial firms.
5. The scale of on-site ICT inspections was mainly as planned in many areas; see table 9, page 26. In the securities field some inspections were so demanding that the overall target was not met.
6. Kredittilsynet helped to draw up a proposal for implementation of the EU audit directive in the Norwegian Auditors Act.
7. New legislation in the securities field was followed up with new licences and inspections to ensure compliance with conduct of business rules, especially in the case of sale of securities and structured products to the consumer. A new system for reporting transactions in financial instruments, based on the European Transactions Reporting System (TRS) was developed and put into operation in 2008.
8. Conduct rules in the securities markets and listed companies' financial reporting were followed up by reports on and referral to the police of several major cases of suspected breaches of the insider rules and accounting rules.
9. New rules on real estate agency were followed up with new regulations, advice and letters and a series of thematic inspections related to important aspects of the new Act.
10. A new intranet was installed early in 2008, and a new website is being developed with a view to going live early in 2009. An electronic recruiting system was also put into use.

## Administration, staff and gender equality

Kredittilsynet's Director General is appointed by the King in Council for a six-year term. **Bjørn Skogstad Aamo** was appointed for a new six-year term in February 2005 with effect from April 2005.

The Director General's salary at the end of 2008 totalled NOK 1,130,000, and the Chairman of the Board's remuneration was NOK 170,000.

Fifty-three vacancies were advertised in 2008 compared with 46 in 2007. Eighteen of these were in-house compared with 12 in 2006. Applicants totalled 553 in 2008 compared with 408 in 2007.

At the end of 2008 Kredittilsynet had 235 full-time staff compared with 220 at the end of 2007. Fifty-four per cent of the full-time staff are women. Eighty-eight per cent of the staff hold a university degree or the equivalent.

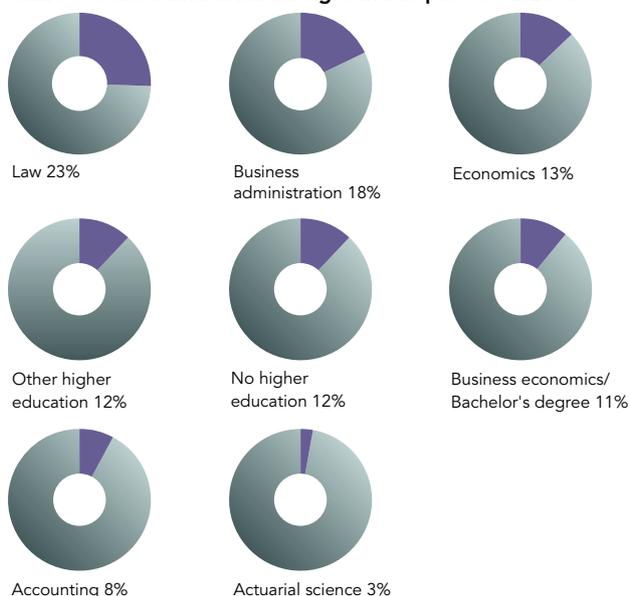
Women made up 43 per cent of Kredittilsynet's management team in 2008 and 43 per cent of all staff with managerial responsibilities. Women employees' pay measured 88.5 per cent of men's pay in 2008 compared with 89.5 per cent in 2007.

The gender equality effort is anchored in the work-environment and gender-equality committee, which is attended by a gender equality representative on a regular basis. The committee routinely reviews pay statistics for each job category, and for Kredittilsynet as a whole, to keep abreast of developments in pay equality, which is a priority area of in-house pay policy. The committee also reviews other equality-related issues. Kredittilsynet's action plan for equality, adopted in February 2007, was developed on the basis of a broad understanding of the concept of equality, and thus also covers ethnic origin, disability and age.

Kredittilsynet attaches much importance to building up and maintaining the expertise needed to perform effective supervision, and this is reflected in its pay and personnel policy. Although Kredittilsynet has so far managed to recruit staff satisfactorily, this is a strenuous task in a tight labour market. At the end of 2008 55 members of staff had substantial experience (generally more than five years) from industries under supervision. Staff turnover in 2008 was 10 per

cent compared with 11 per cent in 2007. Kredittilsynet has proven successful at retaining staff with long supervisory experience and staff who have developed a high level of expertise during their career with Kredittilsynet. A flexible pay and personnel policy is needed to achieve this.

**Chart 1: Staff educational background as per 31.12.2008**



### Inclusive employment

With its espousal of the Government sponsored "IA Agreement" designed to promote inclusive employment, Kredittilsynet attaches importance to preventing sickness absence. Achieving this requires close cooperation with the corporate health service and the Norwegian Labour and Welfare Administration (NAV). The work environment and gender equality committee regularly monitors sickness absence and the advisability of initiating measures. Sickness absence fell from 5.4 per cent in 2007 to 5.1 per cent in 2008. The already heavy workload of many staff was intensified in 2008 by the financial crisis.

The IA Agreement is also designed to prevent discrimination of job applicants with functional impairments and to raise the de facto retirement age. Kredittilsynet stresses its aspiration for diversity with respect to ethnic background, functional capacity, gender and age

in job vacancy advertisements, and at least one applicant from an underrepresented group is invariably called in for interview provided the qualification requirements are met.

### Cases and case processing time

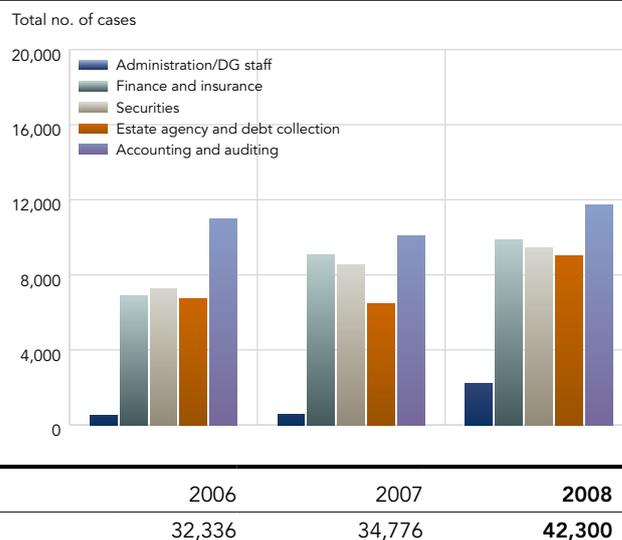
In keeping with Kredittilsynet's strategy, specific targets are set for the

time spent on a selection of administrative cases and for supervisory reports and resulting observations. The aim is to process 90 per cent of administrative cases within 30 days. A longer period is allowed for some types of complex cases. The deadline for supervisory reports and ensuing observations varies from one area of supervision to the next.

Table 1: Case processing time in Kredittilsynet in 2008

	No. of cases	Target attainment
Total no. of cases with processing time target	2,998	64%
- Cases with 30-day deadline	2,339	72%
- Cases with deadline longer than 30 days	659	35%
Supervisory reports	202	86%
Supervisory observations	190	73%

Chart 2: Registered case documents – by sector\*



\* Cases in the finance and securities sector are significantly more complex than cases in other sectors.

About 7,500 more documents were registered in 2008 than in 2007. Reasons for the increase included the digitalisation of Kredittilsynet's staff archive (containing some 1,500 documents) in the first half-year, the new Securities Trading Act which brought an increase in licence applications and therefore in entities under supervision, and the reporting of banks' and securities institutions' internal capital adequacy assessment (ICAAP). Moreover, a larger number of enquiries, notifications and reports were received as a result of the

new Estate Agency Act. More estate agencies closed down over the year, and more required close monitoring. In addition, more appeals were noted against penalties levied for late filing with the Register of Company Accounts, and more external accountant authorisations, auditor approvals and collateral for auditors were dealt with. In the second half-year an ICT survey of all estate agents also brought an increase in the number of registered documents.

### Efficiency improvements

The agency's efficiency drive has focused on developing new and existing computer systems and solutions, both in the supervisory areas and the administrative area. In the supervisory areas reporting and analysis systems are in focus, while in the administrative area electronic invoicing and an electronic staff archive have been introduced. Moreover, the Ministry of Finance has delegated further tasks to Kredittilsynet, which in an overall perspective makes for more efficient case handling. See separate account below.

### Delegation of authority from the Ministry of Finance

The Ministry of Finance decided in August to delegate more authority and competence to Kredittilsynet. As a result Kredittilsynet can now award licences under the banking acts and the insurance act and can take a number of individual decisions under the financial institutions act and the estate agency act. As previously, particularly important matters and/or cases involving matters of principle are not delegated. Delegation brings an improved service level to financial market actors by reducing case handling time.

### Security and crisis preparedness

Kredittilsynet aspires to being a confidence-inspiring and reliable agency, and acknowledges its security responsibilities towards entities under its supervision, its staff and central authorities. The agency therefore works continuously on security and preparedness both in its core area of operation and within its own organisation. Kredittilsynet's work in response to the financial crisis showed that the preparedness programme functioned properly. Steps were also taken to improve general security within the organisation.

### New office premises for Kredittilsynet

Kredittilsynet started work on preparing for relocation to No. 3 Revierstredet, Oslo, at the end of 2009. The agency will lease premises from Norges Bank, and cooperation with the latter's administration on various practical solutions is good.

## Finances

### Expenditure

Kredittilsynet's budget forms part of the government budget and is established by the Storting. The budget for 2008 originally totalled NOK 209.5 million. An additional appropriation of just over NOK 19.4 million was made in the revised national budget, of which NOK 9.5 million covered extra outlays on short-term leases necessitated by postponed relocation to new premises at Norges Bank. The original budget set aside NOK 1.4 million for this purpose. These extra outlays will be refunded by Norges Bank. The remaining NOK 10 million of the additional appropriation relates to increased expenses on the development of new systems for capital adequacy reporting (COREP) and transaction reporting (TRS), higher employer's contribution to the Norwegian Public Service Pension Fund, various ICT projects and measures to support recruitment. A new budget revision brought an appropriation of NOK 6.2 million in compensation for the public sector wage settlement. Including funds of just over NOK 4.8 million carried forward from 2007, the budget came to NOK 240.0 million. Kredittilsynet received an additional NOK 4.4 million in refunds of maternity and sickness benefits. The aggregate disposable budget

accordingly came to NOK 244.4 million, while aggregate expenditure came to NOK 236.2 million, an increase of 19.1 per cent on 2007. Total salary expenditure rose by 15.2 per cent, while expenditure on goods and services increased by 27.4 per cent. Aggregate expenditure was NOK 8.2 million less than disposable revenues. Unutilised revenues are carried forward to 2009.

As in the case of other government agencies included in the central government accounts, Kredittilsynet's accounts are prepared on a cash basis and, in contrast to private businesses, not an accruals basis. The accounts are prepared with a basis in the central government chart of accounts which employs natural classification of revenues and expenses. Based on this chart, Kredittilsynet has classified expenditures by function. The main classification by function is shown in table 2.

The closing letter dated 27 May 2008 from the Office of the Auditor General on the accounts for 2007 had no adverse comments about the accounts or Kredittilsynet's implementation of the budget.

Table 2: Kredittilsynet's accounts

	2006	2007	2008
<b>Salaries bill</b>	126,058	134,216	<b>154,593</b>
Of which:			
Salaries and social costs (all positions)	123,314	129,511	<b>150,756</b>
Stand-ins/substitutes	1,646	3,817	<b>3,144</b>
Other emoluments (directors, consultants/other fees)	1,098	888	<b>693</b>
<b>Goods and services</b>	45,599	64,032	<b>81,607</b>
Of which:			
Operating expenses	17,395	24,047	<b>35,558</b>
Information	4,897	2,921	<b>2,930</b>
Service travel and meetings, subscriptions	4,271	6,513	<b>7,173</b>
Inspections and other supervision	3,219	2,280	<b>3,795</b>
Organisation development, management and competence development	4,405	4,953	<b>4,671</b>
IT expenditure	11,412	23,318	<b>27,480</b>
<b>Total expenditure</b>	171,657	198,248	<b>236,200</b>

Figures in NOK 1000s

(Preliminary accounts for 2008)

## Comments

The salaries bill, in particular, was considerably higher than in 2007. The increase, of just over NOK 20 million, is explained by staff increases, the wage settlement and higher employer's contributions to the Norwegian Public Service Pension Fund. The large increase in operating expenses is essentially due to higher leasing costs. Extra costs on account of postponed relocation to Revierstredet will be refunded by Norges Bank, and will therefore not be covered by institutions under supervision. Expenditure on service travel and subscriptions rose, for one thing due to the large round of international meetings in the autumn occasioned by the financial crisis. Subscriptions to international bodies of which Norway is a member also rose. So did expenditure on inspections, partly because of an increase in the number performed, partly because of higher travel costs in general and inspections at Norwegian branches abroad. The increase in ICT expenditure is related to the development of systems for transaction reporting (TRS) and capital adequacy reporting (COREP).

## Revenues

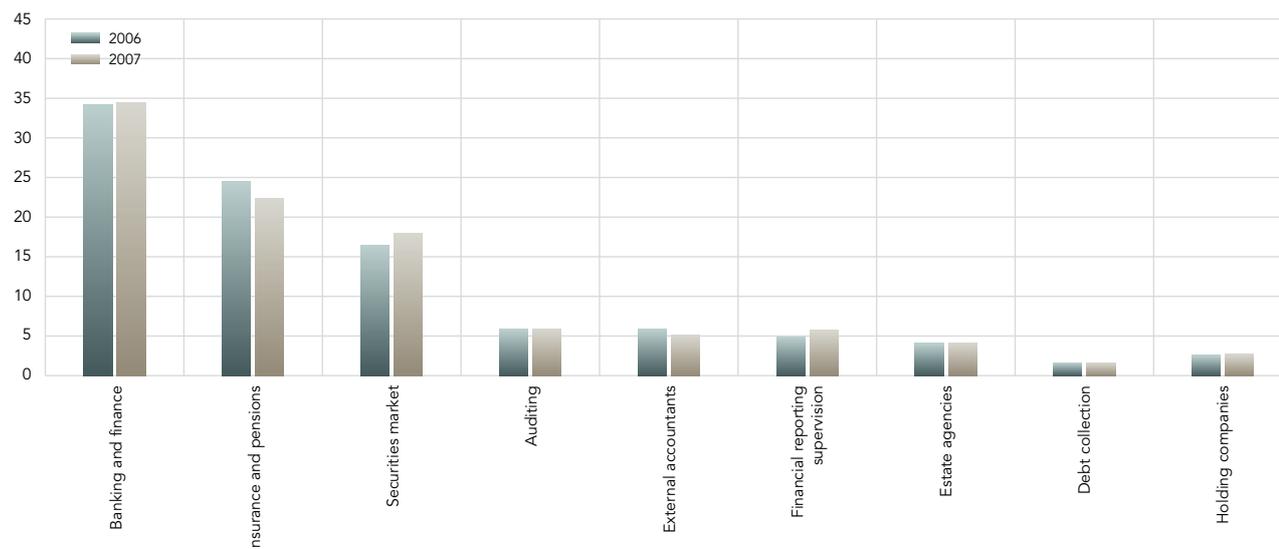
Under section 9 of the Financial Supervision Act, Kredittilsynet's expenses are covered by the institutions under its supervision at

the start of the financial year. The Storting therefore adopts a revenue appropriation equal to the expenditure appropriation. The Act requires the expenses to be apportioned among the various institutional groups based on the extent of supervision, and expenses are therefore paid in arrears. Contributions are also claimed from branches of financial institutions from other EEA states.

The total amount levied for 2007 and due for payment in 2008 was NOK 195.3 million. The levy was smaller than actual expenses because a) the levy is based on the budget appropriation, b) any amount carried forward from the previous year is deducted and c) part of the expenses are covered by the National Insurance Scheme Fund through refunds of maternity and sick pay outlays. The levy proposed by Kredittilsynet for 2007 was approved by the Ministry of Finance on 5 June 2008 after prior consultation with the trade organisations concerned. Supervised entities liable to pay the amount levied for 2007 number 11,823, of which 71 are foreign branches. The largest category of supervised entities is accountants, numbering 7,941. The overall figure in 2007 was 11,324 entities. The apportionment of the levy among the various categories of supervised entities is shown in chart 3. Foreign branches pay 3.9 per cent of the levy.

**Chart 3: Levy distributed by supervised groups**

Percentage of total levy


**Table 3: Total levy as a percentage of the calculation base**

Supervised groups	Calculation base	Percentage of calculation base		
		2005	2006	2007
Credit institutions	Total assets	0.0022	0.0022	<b>0.0023</b>
Insurance	Premium income	0.0291	0.0315	<b>0.0360</b>
Investment firms	Income from investment and ancillary services	0.1500	0.1015	<b>0.1261</b>
Management companies	Assets under management	0.0025	0.0020	<b>0.0018</b>
Estate agency	Commission income	0.1216	0.1200	<b>0.1499</b>
Debt collection	Debt collection proceeds	0.1628	0.1461	<b>0.1692</b>
Auditors	Turnover	0.2356	0.2634	<b>0.2319</b>

Table 3 shows the size of the levy as a percentage of the calculation base for various groups of supervised entities. External accountants are omitted from the table since they pay an identical annual levy irrespective of turnover (NOK 1,254 at the assessment for 2007). Expenditure on financial reporting supervision is in principle met by Oslo Børs, which then recovers its costs from the listed companies. The levy burden rose slightly from 2006 to 2007 for most groups apart from management companies for securities funds and auditors. The levy burden has shown little change in recent years despite a substantial increase in Kredittilsynet's expenditure: 15.5 per cent from

2006 to 2007 and 23.3 per cent from 2005 to 2007. The small changes in the levy burden relate to a strong financial trend in the industries under supervision.

#### Resource input by area of supervision

Table 4 shows an increase in resource input from 2007 to 2008 equivalent to 12 full-time positions. This was 11 fewer than planned, the reason being that some new positions were filled later than envisaged, and that vacancies and long-term sickness absence both rose. The table shows resource input in the various areas.

Table 4: Resource input by area of supervision

	2006		2007		2008	
	FTEs	%	FTEs	%	FTEs	%
Banks	40.5	21.8	41.7	21.5	<b>44.7</b>	<b>21.7</b>
Finance companies	2.4	1.3	2.5	1.3	<b>2.3</b>	<b>1.1</b>
Mortgage companies	1.8	1.0	2.4	1.2	<b>2.7</b>	<b>1.3</b>
Insurers	25.6	13.8	26.3	13.6	<b>25.4</b>	<b>12.3</b>
Holding companies	3.5	1.9	3.5	1.8	<b>3.2</b>	<b>1.6</b>
Pension funds	4.0	2.1	6.1	3.1	<b>7.0</b>	<b>3.4</b>
Securities market	31.1	16.7	30.5	15.7	<b>32.8</b>	<b>15.9</b>
Estate agents	6.3	3.4	7.1	3.7	<b>8.2</b>	<b>4.0</b>
Debt collection	2.5	1.4	2.7	1.4	<b>3.4</b>	<b>1.6</b>
Auditors	7.8	4.2	9.5	4.9	<b>8.8</b>	<b>4.3</b>
Accounting rules et al.	0.1	0.0	0.6	0.3	<b>0.1</b>	<b>0.0</b>
Financial reporting	6.0	3.2	8.0	4.1	<b>9.5</b>	<b>4.6</b>
External accountants	8.3	4.5	6.9	3.6	<b>8.6</b>	<b>4.2</b>
Miscellaneous	2.3	1.2	2.2	1.1	<b>3.3</b>	<b>1.6</b>
Undistributed	43.8	23.5	43.6	22.5	<b>46.3</b>	<b>22.4</b>
<b>Total</b>	<b>186.0</b>	<b>100</b>	<b>193.6</b>	<b>100</b>	<b>206.3</b>	<b>100</b>

## Information and communication

Kredittilsynet views information and communication as a strategic instrument of supervision, above all with a view to preventing breaches of rules and standards.

### Information

The information effort is directed in the first instance at institutions and sectors under supervision, and is based on the principles guiding the central government information policy. Kredittilsynet attaches importance to contact with sectors under supervision, and holds regular meetings with trade organisations. Similar meetings are held with collaborating public authorities. Collaboration with the Consumer Council is formalised in a special agreement. Information and communication initiatives in the various areas are dealt with in greater detail in the respective chapters.

### Substantial increase in media interest

Kredittilsynet received much media attention in 2008, and coverage of the agency's areas of operation was in general extensive. Much

of the attention related to Kredittilsynet's role in handling the financial crisis. According to figures from the media monitoring service Retriever, Kredittilsynet was mentioned 13,675 times in the media in 2008 compared with 8,119 times in 2007, an increase of close to 70 per cent. Kredittilsynet's decision in October to report DnB NOR Markets to Økokrim (The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime) on suspicion of misuse of inside information received particularly extensive coverage. A good 4,000 articles concerning Kredittilsynet in 2008 related to this case.

### Seminars and presentations

Kredittilsynet participates widely in seminars for trade organisations and institutions under supervision, and numerous presentations are given about the agency's activities and tasks, as well as on rules and guidelines affecting supervised entities. Representatives from Kredittilsynet give presentations on the agency's activities in teaching programmes organised by education institutions. In 2008

## Organisational set-up and resource use

Kredittilsynet, in cooperation with Oslo Børs, organised seminars for investment firms on the advice they provide when marketing financial instruments and on the transaction reporting system. The agency also gave presentations at nine seminars organised by the Norwegian Association of Authorised Accountants (NARF). The seminars were attended by about 600 accountants.

### Circulars and press releases

Fourteen circulars were issued in 2008 compared with 37 in 2007, and superseded or obsolete circulars were removed. An overview of removed circulars was published in Circular 1/2008. Kredittilsynet also issued 53 press releases, compared with 45 in 2007. One press conference was held at the end of February, to present the report *The Financial Market in Norway 2007: Risk Outlook* and the annual report.

### Launch of new intranet

Kredittilsynet's new intranet, *Innsi'a*, was launched on 25 February

2008 following extensive development work, with the aim of integrating services and applications and improving internal communication across the organisation. The intranet will be further developed in the period ahead.

### Development of new website continues

Work on developing a completely new website for Kredittilsynet, a primary channel for information from the agency, started in 2007 and is scheduled to go live early in 2009. Given its large information content, the development process focused on devising a user-friendly solution to enable users to quickly locate what they are looking for.

### Website use

The website received 231,000 unique visitors in 2008, who accounted for a total of 640,000 visits. This is an increase of 30 per cent in unique visitors compared with 2007 and an increase of 26 per cent in total visits compared with 2007.

Table 5: Visits to Kredittilsynet's website

	2006	2007	2008
Unique visitors	121,000	177,000	231,000
Total visits	429,000	506,000	640,000

### Document access

Kredittilsynet received a total of 620 requests for document access involving orders for 2,916 documents in 2008. Of these, 2,336 were in

the public domain, 151 were distributed as public versions, while 429 were not released since their entire content was barred from publication. The great majority of access requests are e-mailed.

Table 6: Requests for document access

	2006	2007	2008
Orders placed	2,501	2,894	2,916
Not released	237	428	429

## Key figures and data on supervisory activities

Table 7: Figures for supervised entities as of 31.12.

	2004	2005	2006	2007	2008
<b>Banks and financial institutions</b>					
Savings banks	127	126	124	123	121
Commercial banks	13	14	15	16	18
Finance companies and mortgage companies	39	41	41	41	46
Foreign branches of Norwegian banks and other credit institutions	12	13	16	16	13
Norwegian branches of foreign banks and credit institutions	31	27	29	32	46
<b>E-money institutions</b>					
E-money institutions	5	5	4	3	3
<b>Insurance</b>					
Life insurers	6	6	9	10	11
Non-life insurers	46	46	44	44	45
Local marine insurance associations	13	13	13	13	13
Local fire insurance associations	20	20	20	20	20
Norwegian branches of foreign insurers	33	39	41	46	44
Insurance intermediaries <sup>1</sup>	49	56	73	91	103
Private pension funds	95	93	91	86	81
Municipal pension funds	30	29	28	29	30
Pension funds	33	22	19	17	15
<b>Holding companies</b>					
Holding companies	8	8	9	12	12
<b>Securities institutions</b>					
Investment firms <sup>2</sup>	78	75	85	132	154
Norwegian branches of foreign investment firms	10	11	9	10	13
Management companies for securities funds	21	21	23	23	22
Clearing houses	2	2	3	3	3
The Norwegian Central Securities Depository	1	1	1	1	1
Regulated markets, incl. stock exchanges	3	3	3	6	5
<b>Auditors</b>					
Auditors	5,358	5,495	5,567	5,670	5,777
Audit firms	518	569	730	789	825
<b>External accountants</b>					
External accountants	6,724	7,179	7,472	7,699	8,340
External accounting firms	2,542	2,632	2,652	2,691	2,676
<b>Estate agency</b>					
Estate agencies	572	642	682	717	611
Lawyers' practices incl. estate agencies	1,178	1,213	1,355	1,324	1,307
Cooperative building associations	41	39	38	37	24
<b>Debt collection</b>					
Debt collection agencies	114	121	117	112	110
Debt purchase businesses	10	8	6	8	5

Kredittilsynet also oversees the financial reporting of some 280 listed companies.

BBS (Banking and Business Solutions) and EDB Business Partner ASA are not under the direct supervision of Kredittilsynet, but are relevant to Kredittilsynet's supervisory activities as providers of technical solutions to Norwegian financial institutions.

Table 8: Number of on-site inspections by type of institution (including IT inspections)

	2004	2005	2006	2007	2008
Banks/finance	61	52	49	49	<b>37</b>
Insurers	11	9	5	6	<b>6</b>
Insurance intermediaries	3	1	5	3	<b>3</b>
Pension funds	4	1	1	2	<b>6</b>
Investment firms	14	22	18	20	<b>19</b>
Other securities institutions (incl. management companies for securities funds)	7	14	7	6	<b>1</b>
Auditors	65	52	52	22	<b>29</b>
External accountants	15	56	46	41	<b>60</b>
Estate agencies	18	22	40	51	<b>66</b>
Debt collection agencies	25	7	5	6	<b>13</b>
Data processing centres	2	5	3	4	<b>4</b>

Table 9: Number of IT inspections (on-site) by type of institution

	2004	2005	2006	2007	2008
Banks/finance	4	9	7	5	<b>7</b>
E-money institutions	–	–	1	–	–
Holding companies	2	1	–	–	–
Insurers	2	1	2	2	–
Insurance intermediaries	–	–	–	–	–
Pension funds	–	–	–	–	–
Investment firms	4	5	2	3	<b>4</b>
Other securities institutions (incl. management companies for securities funds)	4	6	3	2	<b>1</b>
Auditors	–	–	–	1	<b>1</b>
External accountants	1	1	1	1	<b>1</b>
Estate agencies	1	1	–	1	<b>1</b>
Debt collection agencies	1	2	1	1	<b>1</b>
Data processing centres/IT providers	2	5	3	4	<b>4</b>
Other	1	–	1	–	–

20 IT inspections were conducted, either separately or in conjunction with ordinary on-site inspections. Kredittilsynet also conducted 35 simplified IT inspections and handled eight notifications received under the Payments Systems Act.

Table 10: Cases handled after delegation from the Ministry of Finance

	2004	2005	2006	2007	2008
Cases pursuant to Savings Banks Act (of 24 May 1961 No. 1)	69	71	71	53	46
Cases pursuant to Commercial Banks Act (of 24 May 1961 No. 2)	32	21	27	7	7
Cases pursuant to Financial Institutions Act (of 10 June 1988 No. 40)	130	131	149	119	140
Cases pursuant to Insurance Activity Act (of 10 June 1988 No. 39)	45	50	71 <sup>3</sup>	2	–
Cases pursuant to Act (of 10 June 2005 No. 44) on Insurers, Pension Trusts and their Activities <sup>4</sup>	–	–	–	58	208 <sup>5</sup>
Cases pursuant to Guarantee Schemes Act (of 6 December 1996 No. 75)	–	–	–	–	–

**Notes to the tables:**

- <sup>1</sup> The number of insurance intermediaries has increased since the Act on Insurance Mediation came into force on 1 January 2006. Insurance agents who distribute policies for Norwegian insurers are not included in this overview.
- <sup>2</sup> The number of investment firms with licences has greatly increased since the new Securities Trading Act came into force on 1 November 2007.
- <sup>3</sup> This figure includes decisions pursuant to both the new and the old Insurance Activity Act.
- <sup>4</sup> This Act came into force on 1 July 2006, but parts of the earlier Insurance Activity Act were in force until 1 January 2008.
- <sup>5</sup> The large number of decisions in 2008 is due mainly to the licensing requirement imposed on pension funds by the Insurance Activity Act.



## Banking and finance

Banks are key actors in the financial system. Regulation and supervision are important contributors to confidence in the financial system and to financial stability. Supervision of the banking and financial sector promotes solid financial institutions with good risk awareness, management and control. Financial services providers' compliance with the regulatory framework is in the best interest of society and the users of financial services.

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## Impacts of the financial crisis

2007 and 2008 were marked by turbulence and crisis in international financial markets. The international financial crisis was triggered by the crisis in US housing markets in 2007. Higher interest rates and falling house prices brought defaults on loans that had been granted to borrowers with poor debt servicing ability. Securitisation of large volumes of subprime mortgages kindled much uncertainty about which institutions had exposures and losses, and triggered a crisis of confidence among banks. Risk premiums rose significantly in money markets and capital markets alike, making it very difficult for banks to obtain funding. When the US investment bank Lehman Brothers was denied a bail-out in September, the situation in international markets deteriorated dramatically, and further international financial institutions experienced solvency problems. In the course of autumn 2008 growth forecasts for the international economy were significantly lowered, stock markets slumped, and large parts of the Western economy fell into recession.

Many governments have launched measures to improve conditions in financial markets and counteract a weaker economic climate. Central banks have supplied large volumes of liquidity and eased collateral requirements to improve banks' liquidity situation. In many countries guarantees for bank deposits and for bank borrowing have been raised, and many banks have been recapitalised by government and private schemes. Central banks have lowered their key policy rates to stimulate the economy, and fiscal action has been taken in many countries.

Norwegian financial institutions had very little direct exposure to US subprime mortgages, but incurred substantial losses on their

securities holdings as a result of the general increase in risk premiums. The principal conduit from the international financial crisis to the Norwegian financial markets is the money and capital markets. For Norwegian banks, as for banks elsewhere, funding is now difficult as a result of the financial crisis, and funding costs rose significantly in 2008. In October the Norwegian government launched measures to improve the banks' funding situation, and Norges Bank lowered its key policy rates substantially in the year's last quarter. The deterioration in the international economy brought the Norwegian economy to the brink of a downturn, and in late autumn 2008 the government announced that stimulatory fiscal measures would be taken early in 2009.

Kredittilsynet intensified its monitoring of Norway's financial markets, keeping a particularly close eye on credit institutions' liquidity situation. Weaker economic conditions, sluggish real estate markets and much uncertainty in share and other securities markets as a result of the international financial crisis also necessitated closer follow-up of banks' credit risk.

The international financial crisis created major problems for Icelandic banks and Iceland's economy. When several Icelandic banks were placed under public administration in October, the Norwegian Banks' Guarantee Fund and Kredittilsynet cooperated to find a solution for the crisis-stricken Glitnir Bank's subsidiary in Norway and for Kaupthing Bank's branch in Norway. The successful outcome showed that the guarantee scheme and crisis management served their purpose.

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## Supervision and monitoring

### Monitoring and analyses

Monitoring and analyses of developments in the economy and markets and of the situation in the financial sector are prerequisites for ongoing supervision of liquidity and financial strength of individual institutions. The analyses form the background for Kredittilsynet's assessment of the general state of the financial sector and for supervision of individual institutions.

As part of the macroeconomic surveillance, half-yearly analyses and assessments are made of possible stability problems in the financial sector. The banks are crucial to financial stability. Quarterly reports on the situation of banks, finance companies and mortgage companies are also produced with emphasis on the trend in results, liquidity and financial position. Press releases in February, May, August and November summarise these analyses. Overall assessments of

the situation and various risks for Norwegian financial institutions in the light of developments in the economy and markets are published in the report *The Financial Market in Norway 2008: Risk Outlook*.

Kredittilsynet intensified its monitoring of credit institutions' liquidity situation in 2008. Particular attention was given to institutions' reporting of liquidity to Kredittilsynet. Banks with substantially increased liquidity risk were followed up through feedback on steps expected to be taken to reduce risk or improve management in the liquidity area. In addition, two special surveys were conducted in 2008 in which all banks, finance companies and mortgage companies were asked to detail their present funding situation and large liabilities maturing ahead. Individual institutions were also subject to further follow-up based on these reports.

After the collapse of the Lehman Brothers in September, Kredittilsynet asked for information from the largest Norwegian banks on their exposure to foreign financial institutions. This survey was designed to provide an overview of which Norwegian banks would be affected if a large foreign financial institution were placed under administration or encountered serious problems. Compared with banks in other countries, Norwegian banks' exposure to Lehman Brothers was negligible.

Kredittilsynet also conducted a special follow-up of results in the third quarter of 2008. All financial institutions were asked for an assessment of their financial situation in the run-up to publication of results for the third quarter, and to explain any problems that would influence the results particularly in the light of the situation in the markets.

Kredittilsynet also met regularly with the largest banks in connection with the quarterly results through 2008. Themes dealt with were the liquidity situation, the credit risk picture and accounting results.

Profitability at Norwegian banks proved weaker in 2008 than in 2007, partly due to increased risk premiums and losses on securities. Changes in the right to reclassify portfolios classified as trading portfolios to the "held to maturity" category checked the decline in results. In November similar changes were made for banks following ordinary Norwegian accounting rules. Net interest revenues were on a positive trend, and showed an increase, largely as a result of higher lending volumes, although interest margins remained at an historically low level. High market interest rates throughout the year raised banks' funding costs and this, together with a weaker economic climate, fuelled defaults and impairment write-downs on banks' loan portfolios in the second half of 2008. The result was a marked increase in loan losses towards year-end. In terms of loan volumes, losses were still moderate.

The cyclical peak in the Norwegian economy was passed in 2008, after a period of expansion lasting since 2003. Higher interest rates and rising debt burdens have affected household purchases of, inter alia, dwellings. The deterioration in financial markets put a brake on activity in housing markets, and house prices fell sharply in 2008. Demand for home loans was on a downward trend in 2008 which,

together with somewhat tighter credit practice, slowed growth in bank lending to the household sector. Equity release loans secured on dwellings as an alternative to ordinary repayment loans showed stronger growth than traditional repayment loans in 2008. Since 1994 Kredittilsynet has conducted an annual survey of banks' practice in regard to home loans. The 2008 survey, conducted in September, showed that the volume of loans granted with a high loan-to-value ratio remained substantial.

Kredittilsynet has since 2004 commissioned TNS Gallup to conduct a survey among banks' home-loan borrowers. This was also the case in 2008. The intention is to gain an impression of the extent to which borrowers receive information considered important when taking out a loan, and how borrowers view the information given by their bank in the process leading to the granting of the loan.

Corporate profits and equity ratios increased through the period of economic expansion, and accounting figures for 2007 showed very good results for all industries. Developments in 2008 worsened corporate prospects. The number of bankruptcies rose, and firms' interest burden climbed as a result of both higher interest rates and indebtedness. In autumn 2008, as in previous years, Kredittilsynet conducted a survey of banks' exposures and risk assessment of loans to various industries, including shipping, aquaculture and property management.

Kredittilsynet has for several years followed the banks' debt financing of securities transactions. This was also the case in 2008. The survey maps the volume, and banks' treatment, of loans backed by financial instruments. The volume of such lending is traditionally low in Norway, and overall exposure limited. The report includes the extent of forced selling of collateral. Fluctuating securities prices may result in banks having to make good the lost value of collateral items by selling the items concerned.

### **Changes in reporting by firms under supervision**

Basel II has brought a major reorganisation of capital adequacy reporting by banks, finance companies, mortgage companies and holding companies. The new reporting regime is based on EU-wide Guidelines on Common Reporting COREP, developed by the Committee of European Banking Supervisors (CEBS). The new

reporting regime, which was introduced for all banks, finance companies, mortgage companies and holding companies as from the first quarter of 2008, was a demanding process for reporting entities and Kredittilsynet alike. The final technical solution for COREP reporting, in which the XBRL reporting standard will be implemented, will be brought to completion in 2009.

### **Follow-up of the capital adequacy rules**

The capital adequacy framework (Basel II) which went into force on 1 January 2007 underlies Kredittilsynet's assessment of banks' financial strength. The framework is designed to improve banks' risk management and ensure better balance between risk and capital. All banks are subject to the new rules as from 2008.

### **Calculating minimum regulatory capital**

The new capital adequacy framework brings new rules for the calculation of minimum capital charges in respect of credit risk and market risk, and introduces a new capital charge in respect of operational risk. Where credit risk is concerned, banks can calculate the charge either using a standardised method with given risk weights or apply to Kredittilsynet to use an internal ratings-based (IRB) approach. IRB applications are processed in accordance with procedures and assessment criteria prepared by CEBS.

In 2007 Kredittilsynet authorised the following banks to use the foundation IRB approach: DnB NOR Bank ASA, DnB NOR Boligkreditt AS, Nordea Bank Norge ASA, SpareBank 1 Nord-Norge, SpareBank 1 SR-bank, SpareBank 1 Midt-Norge and Sparebanken Vest. In 2008 Bank 1 Oslo AS was authorised to use the foundation IRB approach.

As expected, the IRB approach produces lower, in some cases far lower, capital requirements than the standardised approach. Up to 2010, however, the reduction in regulatory capital is limited by the fact that in 2008 own funds must make up at least 90 per cent of the minimum capital required under the Basel 1 framework, and in 2009 at least 80 per cent. The reduction in the capital charge for credit risk is also offset to some extent by the introduction of a capital charge for operational risk.

In 2009 Kredittilsynet plans to follow up on the use of models that have already been approved.

### **Banks' assessment of actual capital needs (ICAAP)**

In addition to calculating the minimum own funds required under Pillar 1, institutions are required under Pillar 2 to conduct an Internal Capital Adequacy Assessment Process (ICAAP) to determine their actual need for capital.

The ICAAP capital requirement is designed to cover risks not included in the capital requirement calculated under Pillar 1. It also covers risks arising from the fact that risk and capital needs are quantified using inherently uncertain methods and data. Institutions must recognise that capital needs have to be future-oriented and take into account business plans, growth and access to capital markets. The capital base must be sufficient to live through economic downturns with negative results and problems in obtaining fresh capital. All Norwegian banks conducted an ICAAP in 2008. The results of the process, comprising information on risk assessments, capital levels and capital targets, were reported to Kredittilsynet.

### **Kredittilsynet's supervisory review (SREP) of banks' capital assessment processes**

Supervisory authorities are required to evaluate banks' ICAAP and the results arrived at by the individual bank. In 2008 Kredittilsynet gave its response to 137 banks/banking groups and 14 independent finance companies and mortgage companies. Evaluation focused inter alia on whether capital level targets established by bank boards and banks' actual capital level were appropriate to the risks faced, and on whether the ICAAP was integrated in the banks' risk management systems. Where compliance with the rules is inadequate, Kredittilsynet can set individual capital charges, require reduction of risk levels or improved governance and control.

In Kredittilsynet's assessment, the ICAAP documentation indicates that many banks have underestimated the need for internal capital. Understating this need may in the next instance cause a bank's board to set too low a capital target for the business. Kredittilsynet asked many banks to raise their tier 1 capital and total capital adequacy targets. In addition, some banks were asked to consider steps to strengthen their actual capital adequacy, and the boards have been requested to consider reducing dividend payments.

Kredittilsynet also drew attention to many banks' failure to adequately document that capital levels were sufficient to withstand a sharp economic downturn. Further, that capital levels could be crucial to obtaining long-term funding under difficult market conditions. It was also pointed out that the financial crisis has prompted banks in the international arena to strengthen their capital base.

In their subsequent communication with Kredittilsynet, most banks were agreed on the need to strengthen tier 1 capital adequacy, a view also reflected in the market assessments of a range of market participants.

### Disclosure of financial information

The new capital requirements regime also regulates institutions' publication of information on their capital and risk exposures (Pillar 3). In 2008 Kredittilsynet scrutinised reports from banks authorised to apply the foundation IRB approach; see page 31. Its conclusion was that these reports provided a good basis for compliance with the regulations, although several lacked information on some key points. Further development of the reports will raise their information value to the market, in part because they still contain much information on banks' risk exposures and risk profile which is not competitively sensitive and could therefore be included in Pillar 3 reporting.

### On-site inspections

Kredittilsynet applies a risk-based supervisory methodology based on international supervisory standards. Thirty-seven inspections, including seven IT inspections, were carried out at banks, finance companies and mortgage companies in 2008. On-site inspection is based on the use of risk modules, which are a framework for determining risks and risk level in the firm and the firm's management and control of risks. In the case of banks use is made of modules for credit risk, market risk, liquidity risk, operational risk and a module for overall governance and control. The modules can be accessed on Kredittilsynet's website.

### Thematic inspection of commercial properties

In the first half of 2008 Kredittilsynet conducted a thematic examination of 11 large banks'/banking groups' lending practice in regard to commercial properties. The main purpose was to map the banks'

exposure to various commercial property segments, and to examine their lending strategies and guidelines, including any changes in strategy or lending practice in the past three years. Kredittilsynet also checked whether credit practice was in accordance with adopted strategies and guidelines.

The thematic inspection revealed that many banks had not stress tested their property portfolio, and they were instructed to do so. Moreover, many banks have liberalised their in-house lending guidelines over the past three years by raising exposure limits, expanding market areas and reducing requirements on customers' equity ratios. The banks have also adjusted the parameters used to determine property values. This has pushed up the value of properties and hence loan disbursements. The inspection also revealed many deviations from adopted guidelines in cases where banks' systems for monitoring and following up deviations were inadequate.

A report summarises results from the examination and presents Kredittilsynet's view of what is 'best practice'. It is assumed that banks not included in the thematic inspection will also find the report useful. The report is available on Kredittilsynet's website.

### Hjelmeland Sparebank

In autumn 2008 Hjelmeland Sparebank notified Kredittilsynet that it had overstepped the limit on large exposures. The overstepping resulted from breaches of personal authorisations and was in conflict with the bank's credit policy. After an on-site inspection in November Kredittilsynet called for an accounting write-down of the exposure, which required subsequent strengthening of tier 1 capital. The bank was censured as a result of poor internal control in the credit granting process and poor follow-up systems in relation to securities services. The bank's capital situation was resolved by a primary capital certificate flotation.

### Handling of banks in crisis

#### Glitnir Bank Norge ASA

Islandsbanki hf. acquired Kredittbanken ASA and BNbank ASA in 2005 and 2006. The group renamed itself Glitnir in 2006, and Kredittbanken concurrently changed its name to Glitnir Bank Norge. BNbank retained its original name until the merger of the two banks in March 2008 under the name Glitnir Bank ASA.

On 7 October 2008 the bank encountered acute liquidity problems when the parent bank in Iceland failed to honour its commitments to the bank. On the following day the Norwegian Banks' Guarantee Fund posted a liquidity guarantee of NOK 2 billion to enable the bank to complete settlements to the end of 9 October. The Guarantee Fund subsequently raised its liquidity facility to 5 billion, on condition that steps were taken to find new owners for the bank. On 21 October 20 banks in SpareBank 1 Gruppen acquired the bank for NOK 300 million, and received the requisite licence from the Ministry of Finance on 4 December 2008. The purchase amount was placed on deposit pending clarification of the seizure of the Icelandic parent bank. After the bank passed into new ownership, its name was changed back to BNbank ASA as from 12 January 2009.

Early in 2008 Kredittilsynet began to monitor the bank closely, mindful that the parent bank's predicament would cause liquidity problems for the business in Norway. To this end the bank was required as from April 2008 to report its liquidity position to Kredittilsynet on a weekly basis.

#### **Kaupthing Bank hf.**

In October 2008 the Norwegian branch of Kaupthing Bank hf. was

no longer able to redeem customer deposits. On Sunday 12 October 2008 the Ministry of Finance decided, on Kredittilsynet's recommendation, to place the branch under public administration. The decision applied to Kaupthing's banking and securities business in Norway. Kredittilsynet appointed a board of administration on the same evening to secure an orderly wind-up of the Norwegian business.

The Norwegian government decided on 13 October to issue a guarantee in respect of the deposits in the Norwegian branch to be covered by the Icelandic deposit guarantee scheme: the equivalent of about EUR 20,000 per depositor. The guarantee was capped at NOK 400 million. By mid-November almost all deposits below NOK 2 million had been transferred to other banks or redeemed.

#### **Preparing for public administration of banks**

In 2008 Kredittilsynet monitored the work done by the Norwegian Banks' Guarantee Fund and the two banking associations in following up a report entitled *Administrasjon av banker i krise* ("Administration of Banks in Crisis"). Issues addressed include the complexity of data processing systems and challenges faced in reopening a bank that has been placed under administration.

### **Bank deposit guarantee**

Deposits in Norwegian commercial and savings banks are covered by the Norwegian Banks' Guarantee Fund. All banks holding a Norwegian licence have the right and obligation to be a member of the Guarantee Fund. In addition, Norwegian branches of banks outside the EEA can, on a voluntary basis, join the Norwegian fund if the coverage available in their home country is lower than in Norway. A list of the scheme's member banks is available on the Guarantee Fund's website at [www.bankenessikringsfond.no](http://www.bankenessikringsfond.no).

The Norwegian deposit guarantee scheme covers a maximum of NOK 2 million per depositor per bank. Where a depositor has two or more accounts in the same bank, the limit applies to that person's aggregate deposits. In general all types of deposit with a named depositor are covered.

A bank is considered Norwegian if its licence was granted by Norwegian authorities, even if it is partly or entirely in foreign ownership. A foreign bank operating in Norway through a branch does not hold a licence from Norwegian authorities. Deposits in such banks are not covered by the Norwegian guarantee scheme unless the bank concerned has joined the Norwegian scheme. A bank domiciled elsewhere in the EEA is required to be a member of the deposit guarantee scheme in its home country. The size of the guarantee varies from country to country. Under EU rules the minimum guarantee cover is EUR 20,000, rising to EUR 50,000 as from 30 June 2009. The banks provide information on what deposit guarantee applies to their business.

In December 2008 the European Parliament adopted changes in the deposit insurance schemes, one of which enables schemes to disburse claims within 20 working days. See page 36.

The Norwegian Banks' Guarantee Fund has produced a strategy paper describing assessments that should be made in a situation where consideration is given to providing support to avoid placing a bank under public administration. A public version of the paper is available on the Guarantee Fund's website at [www.banknessikringsfond.no](http://www.banknessikringsfond.no).

### Competition in the banking market

Banks have posted good results and high return on equity in recent years, prompting the question of whether competition in the banking market is sufficient. A report entitled *Konkurransen i bankmarkedet* ("Competition in the Banking Market") illuminates the current competitive situation in this market in Norway. The Ministry of Finance asked Kredittilsynet to prepare the report which was also described in Report to the Storting no. 19 (2007-2008) – *Kredittmeldinga* ("Credit Report 2007"). The report is available on Kredittilsynet's website.

### Easier to change banks

In 2007 the Ministry of Finance initiated consideration of measures making it easier for customers to change banks with a view to promoting customer mobility in the banking market, and thereby also competition between the banks. Its conclusion was that the banking

industry itself should draw up recommendations with effect from 2008. Kredittilsynet, on commission from the Ministry of Finance, observed the measures taken by the industry in this area, and all recommendations given have been acted on.

### Survey of bonus schemes

In autumn 2008 Kredittilsynet updated its survey of bonus schemes from 2004. Bonus schemes at Norwegian financial institutions are still of moderate proportions. Some increase was noted in payments compared with 2003, but in light of the fact that 2007 was a very good year for the Norwegian financial industry, the increase cannot be said to be unreasonable. Financial institutions let it be known in the survey and by other means that bonus payments for 2008 will be appreciably lower than for 2007. In the current situation public confidence in financial institutions will be best served by restraint in regard to bonus schemes and other managerial remuneration.

### Follow-up of the money laundering legislation

Inspections in 2008 prompted critical observations related to compliance with the money laundering legislation at six institutions. The observations were of varying gravity, the most serious relating to inadequate ID checks despite repeated reminders. That case resulted in an order to check the identity of customers who joined the bank after 1 January 2007. A further observation related to serious breaches of in-house credit guidelines designed to combat financial crime.

## Licensing

### Licence applications and dispensations

Kredittilsynet prepares a number of cases relating to licence applications and dispensations on behalf of the Ministry of Finance, which is also the appeal body in respect of decisions made by Kredittilsynet. Information on individual cases is published on both the Ministry of Finance's and Kredittilsynet's websites. Cases considered by Kredittilsynet in 2008 included the following:

- The Terra Group was granted dispensation from the regulations governing large exposures when DnB NOR ASA requested a guarantee in respect of DnB NOR's financing of the Terra Group's subsidiaries.

- The Ministry of Finance turned down the DnB NOR Group's application to change its group structure.
- Folkia AS was authorised to offer small short-term loans.
- Landkreditt Finans AS was authorised to operate as a mortgage company.
- Centigo Bank AS was authorised to operate as a commercial bank.
- Two limited partnerships, NMI Frontier Fund KS and NMI Global Fund KS, were authorised to provide financing services under dispensations from the Financial Institutions Act since their businesses lie outside the area this Act is intended to regulate.
- DnB NOR ASA was authorised to establish a branch in Chile.

- The Ministry of Finance authorised 20 SpareBank 1 banks to take over Glitnir Bank ASA.
- Sandsvær Sparebank and Sparebanken Vestfold were authorised to merge under the name SpareBank 1 Buskerud-Vestfold.

As a result of the package of measures offered by the Ministry of Finance and Norges Bank in autumn 2008, several banks/groups applied to set up special purpose vehicles (SIVs) able to issue preferential bonds. The following mortgage companies received such authorisation in 2008:

- Sparebanken Vest Boligkreditt AS, established by Sparebanken Vest
- Møre Boligkreditt AS, established by Sparebanken Møre
- Sør Boligkreditt AS, established by Sparebanken Sør
- Nordea Eiendoms-kreditt AS (formerly Norgeskreditt AS), established by Nordea Bank Norge ASA
- SSB Boligkreditt AS, established by Sandnes Sparebank
- SSF Bustadkreditt AS, established by Sparebanken Sogn og Fjordane
- Pluss Boligkreditt AS, established by Sparebanken Pluss

Five such mortgage companies have previously received authorisation.

### Supervision of ownership of financial institutions

In 2008 the following authorisations were issued pursuant to the Financial Institutions Act's rules on supervision of ownership of financial institutions:

- Sparebanken Hedmark's acquisition of a stake of up to 20 per cent in Toten Sparebank
- AS Ferncliff's acquisition of up to 15 per cent of the shares of Bank2 ASA
- Gjensidige Forsikring's acquisition, in the course of three months, of up to 25 per cent of the shares of Storebrand ASA
- Sparebanken Sør's acquisition of a stake of up to 10 per cent in Frende Holding AS
- PBS International A/S's (a Danish company) acquisition of a 100 per cent stake in PBS International AS (a Norwegian company)
- ARAG AG's acquisition of a stake of up to 49.9 per cent in Help Forsikring AS

See also authorisations granted to mortgage companies. Kaupthing Bank hf's application to acquire up to 25 per cent of the shares of Storebrand ASA was turned down by the Ministry of Finance on Kredittilsynet's recommendation.

### Protection of deposits in cooperatives

Kredittilsynet oversees the establishment of satisfactory collateral for deposits in all cooperatives that accept deposits from an unrestricted range of depositors. Kredittilsynet considers cooperatives affiliated to Coop NKL (the cooperatives' umbrella organisation) to be protected through their membership in Samvirkelagenes Garantifond (the cooperatives' guarantee fund), while other cooperatives have to set up their own guarantee scheme or take out credit insurance. Kredittilsynet will draw up guidelines for Samvirkelagenes Garantifond and Coop NKL.

### Hawala banks

In 2007 Økokrim (The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime) produced a report on informal money transfer systems including Hawala banks. Kredittilsynet, on commission from the Ministry of Finance, looked into what can be done to better enable migrants to transfer money to their home country by legal means. Kredittilsynet has a particular eye to the Payments Services Directive, to be implemented in Norwegian law in the course of 2009, which will have a large bearing on the regulation of money transfers to other countries.

### Equity release loans

Kredittilsynet's supervision has focused on risks banks incur in granting an ever-increasing share of loans as equity release loans. In 2008 Kredittilsynet dialogued with the Norwegian Financial Services Association (FNH) and the Norwegian Savings Banks Association on preparing an industry standard, which is regarded as a preferable to framing regulations. In November 2008 the FNH issued a circular on equity release loans to its member banks which pointed to factors that banks should consider when handling applications for such loans.

## Regulatory development

### Capital adequacy framework

In 2008 the European Commission presented its final proposal for amendments to the Capital Adequacy Directive. The proposal deals with the following five areas:

- Large exposures
- Supervisory collaboration in respect of financial institutions engaged in cross-border activities
- Hybrid capital
- Management of liquidity risk
- Changed requirements on securitised products

See comment on Kredittilsynet's website – "Endringer i EUs kapitaldekningsdirektiv, 2006/48/EC og 2006/49/EC".

### New weighting rules

Coordinating individual countries' measures to remedy the financial crisis was a challenging task in 2008, and some measures taken in individual countries may have had undesired, competitively distorting effects. As recommended by Kredittilsynet, the Ministry of Finance adopted regulatory changes on 19 December 2008.

### Norwegian Banks' Guarantee Fund and the deposit guarantee

Kredittilsynet, on commission from the Ministry of Finance, will propose changes to the rules governing the Norwegian Banks' Guarantee Fund as regards premium calculation. Norges Bank and the Guarantee Fund will be consulted. The work is expected to conclude in spring 2009.

EU decided in December 2008 to amend the Deposit Guarantee Scheme Directive after negotiations between the member states, the EU Commission and the EU Parliament. The minimum amount of deposit insurance is to increase to EUR 50,000 as from 30 June 2009. As from December 2010 countries have a maximum of 20 working days in which to ensure payment of the guaranteed amount to affected bank customers. Further, a Europe-wide limit of EUR 100,000

will apply unless the Commission deems this to be inappropriate and not financially viable. Total harmonisation of deposit guarantee schemes would compel a reduction of Norway's current level of NOK 2 million unless a derogation can be negotiated when the Directive is incorporated into the EEA Agreement. Denmark has obtained a derogation enabling it uphold full coverage of special deposits such as pension saving accounts. See also pages 33–34.

### Accounts

Kredittilsynet has proposed changes to the annual accounts regulations for banks and finance companies; see an account of the body of accounting rules applying to the financial industry in *Financial reporting supervision*, page 61.

### Disclosure requirements in relation to offers for purchase of structured products

Kredittilsynet adopted tighter rules, effective from 1 March 2008, on offers for purchase of structured products. Regulations on the disclosure obligation in relation to such offers were amended, and Kredittilsynet issued a circular (4/2008) to banks, finance companies and mortgage companies with guidance on how the new rules are to be practised.

The rules make selling structured products more difficult by imposing new requirements on financial institutions. Kredittilsynet considers that selling structured products to retail customers will be problematic since non-professional customers normally lack the experience and knowledge needed to understand the risk inherent in such products. Kredittilsynet also points out that where such products are sold with no advice given, an assessment needs to be made of the product's suitability for the customer, and that structured products are not suitable for non-professional customers. Furthermore, Kredittilsynet advises financial institutions not to offer debt financing when selling structured products. This is based on historically low return on equity and the risk of substantial losses to customers that opt for this form of finance. See also discussion of structured products on page 37.

## Structured products and Kredittilsynet's follow-up

Structured products have been marketed by investment firms and banks for a decade or so. Structured products are savings products comprising a deposit or bond component and a derivative component. The return to the client is linked to indices or other defined market variables such as equities, bonds, commodities, currency or portfolios of individual equities.

In January 2009 the Banking Complaints Board concluded its consideration of a complaint against advice given in connection with the sale of such products by DnB NOR. In October 2000 the complainant invested NOK 500,000 in two index-linked bonds issued by the bank with terms from 2000 to 2006. The investments and up-front fees were financed by a fixed interest loan of NOK 520,500 with a nominal interest rate of 7.95 per cent p.a. The complainant alleged that at the time of subscription the bank neither informed him, nor gave him the possibility to understand, that the expected return was negative. The Banking Complaints Board appointed Professor Thore Johansen at the Norwegian School of Economics and Business Administration as its independent expert in the case. The Banking Complaints Board issued a statement under dissent. A majority of the Board found that the bank had failed to discharge its evidential burden of demonstrating that, given the debt finance offered, the product had a sufficiently high expected return, and that formalising these agreements with the complainant was counter to good banking practice. The majority concluded that *"the complainant is entitled to be positioned as if the investment agreements and the loan agreement had not been entered into"*. DnB NOR announced that it did not wish to abide by the Board's opinion, which is of an advisory nature, and informed the media that the bank looked forward to an independent judicial consideration of the matter. The Consumer Council conveyed its readiness to conduct the case on behalf of the customer. A law firm announced that it would consider class action on behalf of customers in similar cases heard by the Banking Complaints Board.

Kredittilsynet first delivered critical comments on marketing and information related to sales of structured products in autumn 2003. In February 2004, in circular 4/2004, Kredittilsynet imposed concrete information requirements on vendors of such products. The requirements were designed to enable customers to compare and choose between index-linked bonds/deposits and other financial investments, but also to compare and choose from among the various index-linked products. To this end Kredittilsynet enjoined vendors to provide the customer with information on the product's price, remuneration and additional costs.

In 2005 Kredittilsynet conducted a survey of compliance with the information requirements, which revealed a number of shortcomings.

The requirements from 2004 were further restricted by new regulations on disclosure obligations applying to offers for sale of structured products, and by a new circular issued in September 2006 (15/2006). The new regulations and the circular aimed to give consumers better information about return, the real risk involved and the costs of structured products. The information requirements were in some respects highly detailed and included guidelines on the advice to be given.

In 2007 a survey of structured products was conducted among 15 large banks accounting for a significant share of such products. The survey covered 350 products, of which 218 were debt financed, and looked at securities from 2001 to the third quarter of 2007. Survey themes included return history, selling and marketing, in-house coaching of advisers/salespersons, revenues generated by the product, and advisers'/sales persons' financial benefits related to sales of structured products. The survey showed that saving or investing in structured products yielded a moderate annual return averaging 4 per cent. Few of those without debt finance incurred direct losses on such investments. In cases where debt finance funded the investment, many of the products yielded an overall loss for the customer, and average annual return was a mere 2 per cent. When up-front fees are included, return on equity-financed investments fell to 3 per cent, while return on debt-financed investments was negative.

In response to the above, Kredittilsynet issued clear advice to banks not to grant loans to consumers in order to invest in structured products. Also where other investments in structured products were concerned, Kredittilsynet urged banks to adopt more balanced advice that gave more prominence to the costs and the likely return potentials. This advice was formalised in a change to the regulations on disclosure obligations applying to offers for sale of structured products, and in a new circular issued in February 2008 (4/2008). The rules now make it more difficult to sell structured products by imposing new requirements on financial institutions. Kredittilsynet considers structured products to be unsuited to non-professional clients. All major market participants stopped offering debt financing of such products.

The latest constraint on the sale of structured products, announced in February 2007, is in the shape of amendments of 1 November 2007 to the Securities Trading Act with a basis in the Markets in Financial Instruments Directive (MiFID). One upshot is that investment advice is now a licensable investment service. The changed framework gives Kredittilsynet a far better basis on which to oversee that investment firms' and banks' advice and sales are in accordance with customers' interests.

### **Framework conditions for primary capital certificates and savings bank structure**

In December 2007 the Ministry of Finance circulated for comment a proposal for legislative changes related to profit distribution at 'self-owned' and customer-owned financial institutions that have issued primary capital certificates. In a submission, Kredittilsynet commented on the proposal's complexity and recommended the government and the industry to discuss the rules further. The Ministry of Finance referred the development of this body of rules to the Bank Law Commission.

The Bank Law Commission proposed a new body of rules for primary capital certificates in NOU (Norwegian Official Report) 2009: 2 entitled *Kapital- og organisasjonsformer i sparebanksektoren mv.* ("Forms of capital and organisation in the savings bank sector"). In the same report the Commission proposes new legislation for savings bank structure, including mergers and takeovers of savings banks.

### **Naming provisions – financial institutions' use of another name**

At the request of the Ministry of Finance, Kredittilsynet submitted in April 2007 a proposal for new statutory rules for financial institutions' use of names. New statutory rules were thereafter drafted by the Ministry of Finance and circulated for comment in February 2008. In its consultation document Kredittilsynet commented that the draft produced by the Ministry of Finance was disproportionately stringent, and that Kredittilsynet's original draft entailed adequate tightening. The Ministry of Finance forwarded the matter to the Bank Law Commission for further consideration.

### **Report on a debt register in Norway**

The Ministry of Children and Equality is studying the pros and cons of a common debt register in Norway. The ministry circulated the matter for comment, and Kredittilsynet responded in August 2008. Kredittilsynet is concerned that consumers should not take out larger loans than they can service, and is in principle in favour of systems that prevent excessive borrowing by private individuals. However, Kredittilsynet cannot endorse a debt register as described by the report.

### **Regulations on risk management and internal control**

Kredittilsynet prepared new regulations on risk management and internal control which came into force on 1 January 2009. The regulations replace earlier regulations on responsibility for internal control and on documentation and confirmation of internal control (internal control regulations). See page 83.

### **Supervision of holdings in financial institutions**

The Bank Law Commission drafted amendments to the Financial Institutions Act's rules on supervision of holdings acquired in financial institutions. The changes are needed in order to implement in Norwegian financial legislation EU Directive 2007/44/EC on the procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector. Kredittilsynet examined the proposal and considers it to be broadly in accordance with established practice at the Ministry of Finance and Kredittilsynet.

### **Adjustments to the Savings Banks Act to enable exchange of preferential bonds with government securities**

The stimulus package offered by the Ministry of Finance and Norges Bank in response to last autumn's financial turbulence offered banks the opportunity to swap preferential bonds for government securities. Section 23 of the Savings Banks Act prevented savings banks from utilising the arrangement on an equal footing with commercial banks. In November 2008 Kredittilsynet issued regulations enabling savings banks to post government securities as collateral for their own commitments and to post their assets as collateral for their commitments vis-a-vis the government.

### **Rating agencies – a theme at the EU level**

Kredittilsynet, on commission from the Ministry of Finance, drafted comments on the EU's consultation document on rating agencies. In September the Ministry of Finance submitted Norway's response which supports the principle that rating agencies should be subject to regulation and supervision.



## Information and communication

The Ministry of Finance, Norges Bank and Kredittilsynet hold regular meetings with the emphasis on financial stability, crisis preparedness and crisis management.

Kredittilsynet has regular contact with institutions under supervision and with their trade organisations. Kredittilsynet strives for transparency in discussing relevant issues and aims to promote debate and understanding in relation to the financial market by actively participating in seminars and conferences, inter alia by giving presentations.

Kredittilsynet communicates much of its work on supervision and analysis of the financial market through results reports and *The Financial Market in Norway: Risk Outlook*. Public versions of various reports, including thematic inspections and information about decisions concerning matters of principle, are available on Kredittilsynet's website.

In 2008 there was extensive contact between the parties in the financial market and public authorities on monitoring and handling of crises in the wake of the international financial turbulence. Kredittilsynet stepped up the frequency of its meetings with institutions under supervision, Norges Bank and the Ministry of Finance.

As a result of the change made to the division of responsibilities for the financial market statistics, a new cooperation agreement was established between Kredittilsynet and Statistics Norway. The agreement regulates cooperation between Kredittilsynet and Statistics Norway on the system for public financial reporting by banks, finance companies and mortgage companies (ORBOF).

### Mandatory reporting of payment difficulties to Kredittilsynet

The Guarantee Schemes Act requires banks, insurance companies and pension funds etc., to notify Kredittilsynet of payment difficulties. This duty applies where there is cause to fear that:

- the institution may be unable to meet its commitments as they fall due,
- the institution may be unable to meet the minimum requirements as to own funds or other capital adequacy and prudential requirements set out in laws or regulations,
- circumstances have arisen that may entail serious loss of confidence or losses that will substantially weaken or threaten the institution's financial position.

The board, chief executive and auditor are required, each separately, to give such notification.

The Guarantee Schemes Act describes Kredittilsynet's powers in detail and sets forth rules to be followed when a bank is placed in public administration.



## Insurance and pensions

Regulation and supervision are important in safeguarding customers' short- and long-term rights under insurance and pension contracts, and in instilling public confidence in the market. The supervisory regime aims to foster financially sound and risk-aware companies and sound management and control. Supervision of the insurance industry also encompasses insurance intermediaries.

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## Effects of the financial crisis

2007 and 2008 were marked by turbulence and crisis in international financial markets. In autumn 2008 there were clear signs that the turbulence in financial markets was spreading to the real economy, and much of the western economy was in recession. Growth forecasts for the Norwegian and international economy for 2009 were lowered significantly. The financial turbulence has brought declining share markets, highly volatile fixed income markets and great uncertainty in regard to developments in the property market. Markets were particularly negative in the second half-year, with steep falls in share and fixed income markets and declining commercial property prices.

The international financial turbulence affected life insurers' and pension funds' results, in the first instance through the share market slump which brought reduced financial revenues and weaker profits. Non-life insurers also saw a substantial decline in financial revenues in 2008, albeit accompanied by improved technical results.

In view of the market trend, life insurers and pension funds gradually adjusted the share risk present in their balance sheets in the course of 2008. The equity component was consequently reduced in many companies, mainly through divestment, and the freed resources were

placed in fixed interest paper. The low equity component reduced many companies' vulnerability to further share market falls, but limited their ability to build up new reserves. Some life insurers and several pension funds attempted to curb divestment from shares by bringing in fresh capital. The new balance sheet mix means that many life insurers' and pension funds' risk ahead relates mainly to developments in the property and fixed interest markets.

Most life insurers and pension funds now have a large holding of fixed interest paper, and are required by law to provide a guaranteed minimum return to their policyholders. Hence a persistent low interest rate will pose a substantial challenge ahead.

In 2007 the companies revised up their property portfolio valuations. Values were written down somewhat in 2008, and further write-downs can be expected in light of the market trend.

In view of their poor results, life insurers will need to devote much of their supplementary provisions to meet their guaranteed minimum interest return to their policyholders. Moreover, they entered 2009 with low buffers, having exhausted their fluctuation reserves in 2008.

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## Supervision and monitoring

### Monitoring and analyses

Monitoring and analyses of developments in the economy, markets and the situation in the financial sector is a prerequisite for oversight of individual institutions' liquidity and financial strength. The analyses provide the background for Kredittilsynet's assessment of the general state of the financial sector and its supervision of individual institutions.

Quarterly reports are prepared on profitability, financial strength and balance sheet composition at life insurance companies and non-life insurance companies, while reports for pension funds are half-yearly. Press releases in February, May, August and November summarise these analyses. Overall assessments of the situation and various risks Norwegian financial institutions face in light of developments in the economy and markets are published in the report *The Financial Market in Norway 2008: Risk Outlook*.

As from 2008 almost all insurance companies, and the largest pension funds, report stress tests to Kredittilsynet on a quarterly basis. In view of the share market slump and much uncertainty about developments ahead, these entities have also reported extraordinary stress testing to Kredittilsynet in the period.

After the collapse of Lehman Brothers in September, Kredittilsynet asked for information from the life insurers, the largest non-life insurers and the largest pension funds about their exposure to foreign financial institutions. The purpose of this survey was to ascertain which Norwegian insurance companies and pension funds would be affected should another major foreign financial institution be declared bankrupt or run into serious problems.

Kredittilsynet also conducted a special follow up of results for the third quarter 2008. All insurance companies were asked to briefly assess their financial situation in the run-up to publication of the results and to account for any problems that would affect their results, particularly in light of the market situation.

Kredittilsynet met regularly with the largest life insurers in connection with accounts presentations in 2008. Themes addressed were the risk situation and accounting results.

### Changes in reporting by entities under supervision

An important basis for supervision and analysis is the reports regularly submitted by the entities themselves. Major reporting changes were made in the insurance and pensions area in 2008, the changes

in relation to insurers requiring resource input by supervised entities and Kredittilsynet alike. Pension funds now report using the same system as insurers. Reporting by insurance intermediaries had been reorganised in 2007, with practical implementation largely taking place in 2008. Pension funds and insurance intermediaries report through the Altinn internet portal.

### Follow-up of the solvency regime

#### Stress testing

The Ministry of Finance adopted on 17 December 2007 regulations on life insurers' and pension trusts' asset management and regulations on non-life insurers' asset management. The two sets of regulations essentially widen insurers' and pension trusts' space for action as regards management of assets to cover insurance obligations. The regulations' requirements on management and control systems are accordingly tightened to ensure proper asset management. An important element here is the requirement for stress testing.

Kredittilsynet has also developed a new supervisory methodology to improve its monitoring of insurers' and pension trusts' financial strength, which will also highlight factors to which Kredittilsynet gives emphasis when assessing these entities' management and control systems.

Kredittilsynet adopted on 22 February 2008 regulations on reporting of stress tests by insurers and pension trusts. All insurance companies and the three largest pension funds report quarterly. Kredittilsynet emphasises that concrete capital adequacy or investment limits will not be inferred from the reports. The intention is to provide Kredittilsynet with a better basis on which to monitor entities' financial position. The reports will also be an important aspect of the preparations for a new solvency framework (Solvency II).

#### Examination of pension trusts' buffer capital situation

In September 2008 Kredittilsynet asked pension trusts to submit their latest stress tests. Three entities were followed up for not meeting the minimum capital adequacy requirement. Just over 20 entities were contacted because Kredittilsynet considered they were at substantial risk of failing to meet the solvency requirement in the near future. An identically worded letter concerning stress testing was dispatched in October, reminding the entities of their notification obligation if

there was reason to fear that they would no longer meet the minimum requirements on own funds. In October about 25 per cent of pension trusts either did not meet the minimum capital adequacy requirement, or Kredittilsynet presumed that they would fail to do so in the near future. Kredittilsynet dialogues continuously with these institutions and many have received, or will receive, capital injections putting them in compliance with the capital adequacy requirement. Even so, several pension trusts could find it difficult to meet the minimum requirement. It is unlikely that many pension trusts will achieve significant surpluses in 2008, and a number of them will have low buffers against possible future losses.

#### On-site inspection

Kredittilsynet monitors insurance companies by means of on-site inspections, stress tests and analyses. Assessments are conducted of the largest insurers' risk exposures, management and control.

Risk-based supervisory methodology based on international supervisory standards is employed when selecting entities for on-site inspection. In 2008 on-site inspections were carried out at four non-life insurers, four life insurers, six pension trusts and five insurance intermediaries.

All in all, the number of on-site inspections rose substantially from 2007 to 2008. However, the negative trend in the securities market meant that inspection activity was given somewhat lower priority in the second half-year since more resources needed to be devoted to investigations and to following up on individual institutions where the impacts were particularly large.

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## Licensing

### Licence cases

Kredittilsynet prepares a number of licence cases and dispensations for the Ministry of Finance. This ministry is also the appeal body for cases decided by Kredittilsynet. Information on individual cases is published on the websites of both the Ministry of Finance and Kredittilsynet. The following licences were granted in 2008:

- DnB NOR Skadeforsikring was authorised to engage in non-life insurance.
- Netfonds Livsforsikring was authorised to provide individual annuities and life insurance policies.
- Gabler & Partners AS was authorised to engage in life insurance. The firm changed name to Norske Folk Pensjonsforsikring ASA.

The Insurance Activity Act introduced a licensing obligation for pension funds as from 1 January 2008. By the end of 2008 Kredittilsynet had issued licences to 103 pension funds.

Drammen Kommunale Pensjonskasse, a municipal pension fund, appealed against a decision not to approve the pension fund's statutes. The appeal was referred to the Ministry of Finance for review. The outcome is of interest to other entities, and a number of pension funds asked to have their applications placed in abeyance pending the ministry's decision on the appeal. Health trusts that had been members of Buskerud county authority pension fund since before the public health reform ultimately agreed with Buskerud county authority to withdraw from the pension fund.

A list of licensed entities can be found on Kredittilsynet's website. Kredittilsynet also processes applications to operate as insurance broking firms. Eleven such firms were licensed in 2008. Of these, six were insurance broking and reinsurance broking firms and five were insurance agent firms. In 2008 several insurance agent firms applied for permission to establish branches abroad. Further, several hundred notifications of border-crossing operations into Norway from other EEA states were considered. Moreover, following a new assessment, foreign insurance companies with their head office in the EEA that have established a place of business in Norway may now use the same system for agent registration as Norwegian insurers, i.e. they can maintain their own agent register.

#### **Minimum guaranteed interest rate in life insurance**

Kredittilsynet is required on solvency grounds to stipulate the highest interest rate available to life insurers and pension funds when calculating premiums and technical provisions. The responsibility for utilising a prudent calculatory interest rate rests with the individual company.

As from 1 January 2006 the maximum guaranteed interest rate was lowered to 2.75 per cent for new life insurance contracts. The interest rate for accrual on already established collective pension schemes is 3 per cent. These rates were reviewed both in 2007 and 2008, but have been retained unchanged.

#### **Disclosure obligation upon renewal of insurance contracts**

A survey conducted by Kredittilsynet in spring 2008 showed that non-life insurers largely comply with the disclosure obligation towards policyholders when insurance contracts are renewed. Policyholders receive sufficient information, and in a timely manner, to enable them to consider the pros and cons of renewing of their insurance contracts. The survey was instrumental in getting entities to review their routines and their compliance with the disclosure obligation.

#### **Insurance Complaints Board**

A complaints board for insurance broking activities and reinsurance broking activities was established on 1 December 2007. The board handles disputes between principals and brokers. Private individuals or firms using an insurance and/or reinsurance broker can complain against their broker and the broker's execution of the broker assignment. Kredittilsynet acts as secretariat to the board. General provisions on the complaints board are published on Kredittilsynet's and the Norwegian Insurance Brokers Association's websites. No complaints were received by the board in 2008.

#### **Oversight of pension schemes under the pension legislation**

A working group prepared a proposal for control routines for pension schemes offered by foreign entities. The Ministry of Finance asked Kredittilsynet to comment on the report. In Kredittilsynet's view oversight should be assigned to the tax authorities, and recommends that if supervision is to be based on some form of declaration, entities should be required to confirm in an enclosure to their self evaluation that their pension scheme complies fully with the requirements of the Defined Benefit Pension Schemes Act or the Defined Contribution Pension Schemes Act.

## Regulatory development

### Follow-up of the new Insurance Act

A new Insurance Act entered into force in July 2006, although Chapter 7 of the Act (on pension funds) and Chapter 9 (on collective and individual life insurance) only came into force on 1 January 2008. Under the new legislation, life insurers and pension funds are subject to new rules on product pricing, division of managed assets between owners and policyholders and on profit sharing.

In 2008 Kredittilsynet prepared several new sets of regulations to the Insurance Act. These are described below. Changes in the annual accounts regulations are described in *Financial reporting supervision*, page 61.

### Work on new actuarial regulations

Work on new actuarial regulations was initiated in autumn 2008. The regulations will be adapted to the new Insurance Activity Act and Solvency II.

### New regulations on account keeping

Kredittilsynet is drafting regulations on account keeping in life insurance with a view to completion in autumn 2009. A transitional arrangement will apply for 2008 allowing use of the old regulations with some adjustments to the new Act.

### Increase of technical provisions and new calculation base at life insurers and pension funds

Life insurers introduced new calculation bases on 1 January 2008. These are based on the K2005 pension tariff comprising the Norwegian Financial Services Association's new mortality base and civil status elements (including cohabitation probabilities) which are the basis for new net tariffs in collective pension insurance. The paid-up policy portfolio arising from collective pension insurance was covered by the transitional arrangement. The rationale was that K2005 starts out from observed mortality in the insurance portfolio in 1999. Statistics Norway's mortality statistics for the years after 1999 show a stronger decline in mortality than that underlying K2005. For that reason Kredittilsynet called for prudential margins relative to K2005 of 10 per cent for women and 15 per cent for men in respect of deferred pensions and disability pension benefits in payment. Life insurers were authorised to utilise surpluses to increase technical

provisions. The largest companies made full use of the opportunity to increase technical provisions in 2007.

Approval of new calculation bases and of increases of technical provisions for pension funds follows the same pattern as for life insurers. Almost 80 per cent of pension funds saw their calculation bases approved in 2008. Half of these made full use of the opportunity to increase technical provisions in 2007. The remainder are opting for a stepping-up plan starting in 2009 at the latest.

Kredittilsynet considered in 2008 a number of complex questions concerning transfer of pension schemes from one life insurer to another. Some were circulated for comment within the industry. The backdrop was a number of major changes that became law on 1 January 2008. First, the business rules in Chapter 9 of the Insurance Activity Act were given effect, making the turn of the year a transition point between the new and the old provisions. Second, new calculation bases were introduced. Third, much of the surplus posted in 2007 was devoted to increasing technical provisions.

### Norwegian Natural Perils Pool

In 2007 the Ministry of Finance asked Kredittilsynet to review the Norwegian Natural Perils Pool's proposal for an illustrative overall set of accounts for this insurance scheme. Kredittilsynet did not endorse the proposal, and in June 2008 recommended the appointment of a working group to consider factors related to natural disaster insurance in general. The Ministry of Finance forwarded the mandate proposed by Kredittilsynet to the Ministry of Justice and the Police.

### Prohibition of commission – insurance mediation

As from July 2008, accepting commission or other remuneration for insurance broking from an insurance provider was no longer permitted. The prohibition is incorporated in the Act on Insurance Mediation. The Insurance Activity Act contains a similar ban on insurers paying commission to insurance brokers. As a transitional arrangement up to 1 July 2009, insurance brokers may accept commission on the basis of agreements entered into before 1 July 2008. Insurance broking firms are required to ensure that remuneration payable for insurance broking services is agreed with the client before the assignment is carried out.

### **Asset management regulations for insurance**

The Ministry of Finance adopted on 17 December 2007 regulations on life insurers' and pension trusts' asset management and regulations on non-life insurers' asset management.

Numerous enquiries have been received about correct understanding of the regulations. In April 2008 Kredittilsynet wrote to the Ministry of Finance proposing technical, more substantive changes. The matter is still under consideration by the ministry. Kredittilsynet has issued a number of dispensations pending clarification.

### **New legislation on individual pension schemes**

The Act on Individual Pension Schemes entered into force in June 2008. The Act is a direct follow-up of the pension reform agreement and the Storting's decision in April 2007. It allows NOK 15,000 to be paid into an individual pension scheme each year as a tax-deductible payment conferring entitlement to old-age pension. A pension scheme may in addition include insurances providing payment protection in case of disability and insurances conferring the right to disability pension or other disability benefits, the right of a spouse, registered partner or cohabitant to survivor's benefit, as well as the right to children's pension.

### **Work on new solvency framework for insurance companies – Solvency II**

After several years of preparations the European Commission has proposed a new Directive containing solvency rules for insurance companies (Solvency II). Final adoption of the Directive by the EU is scheduled for April 2009. Kredittilsynet has participated in the preparatory work together with other insurance supervisory authorities in the EU/EEA under the auspices of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).

Like the banks' capital adequacy framework (Basel II), the Directive builds on three pillars. Pillar 1 contains all quantitative solvency requirements. Pillar 2 contains rules on supervisory oversight and monitoring. This pillar also includes provisions on internal control and rules for insurers' own assessment of risk and solvency/financial strength. Pillar 3 contains rules on market discipline including insurers' disclosure obligation towards the general public and the supervisory authorities.

In 2008 a fourth Quantitative Impact Study (QIS 4) of the proposed new solvency framework was carried out in the EU/EEA. Kredittilsynet was responsible for Norway's contribution in which four Norwegian life insurers and 16 Norwegian non-life insurers participated.

The results and comments regarding the Norwegian insurers are published on Kredittilsynet's website which also provides a link to a CEIOPS report.

A final Quantitative Impact Study (QIS 5) of the new framework is scheduled for 2010.

The Directive proposal entails a complete upgrading of rules related to the supervision of insurance groups, in particular insurance groups including companies in two or more EU/EEA states. The intention is to make a substantial transfer of supervisory tasks and competence to the supervisory authority in the insurance group's home state.

Provided the schedule holds, EU/EEA countries can put the Solvency II regime to use with effect for the financial year 2013.

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## **Information and communication**

Kredittilsynet's supervisory effort has a keen focus on maintaining a fruitful dialogue with entities subject to supervision and their trade organisations. In 2008 Kredittilsynet had extensive contact with insurance companies and pension funds in connection with the financial crisis. There was also extensive contact on new accounting rules and on adjustments to the regime for entities' reporting to Kredittilsynet. Courses and seminars devoted to insurers' and pension funds' reporting were held in conjunction with Statistics Norway.

Kredittilsynet regularly gives presentations at courses and conferences.

In the insurance sphere substantial resources are expended on international work, particularly within the EU/EEA. Much effort is put into answering questionnaire surveys under EU auspices that are designed to provide a basis for adjustments to EU/EEA rules or supervisory practices in the EU/EEA.

# Securities market

The overarching aim of regulation and supervision of the securities market is to ensure secure, orderly and efficient trading in financial instruments, thereby enabling the securities market to function as a source of capital for business and as a basis for saving and investment. Supervision encompasses actors' financial position and operations, and their compliance with business rules and general rules of conduct.

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## Effects of the financial crisis

2008 was marked by the turbulence in financial markets. In this highly volatile environment many financial actors were under pressure, causing Kredittilsynet to keep the markets under close surveillance.

### **The central securities settlement and how it was affected by the Lehman bankruptcy**

In the course of the weekend 13 and 14 September news broke that the US investment bank Lehman Brothers had filed for bankruptcy protection. Lehman Brothers International (Europe) was a remote member of Oslo Børs and an indirect participant in the central securities settlement with DnB NOR ASA as settlement agent. Lehman Brothers' market share was among the largest on Oslo Børs and at that point the bank had about 20,000 trades outstanding.

DnB NOR Bank settled all Lehman Brothers' matched purchase transactions, i.e. the bank paid for securities delivered for settlement. Stock exchange transactions where Lehman Brothers had sold securities and not delivered them were not settled. These trades were cancelled by the counterparties which then made short covering purchases in the market. Trades executed outside the stock exchange were not registered in VPS (the central securities depository) by DnB NOR Bank and were therefore not settled in the securities settlement system.

DnB NOR Bank contended that the rules governing the central securities settlement do not require the bank in its capacity as settlement agent to deliver securities, a view apparently shared by the other settlement agents in the securities settlement system. VPS, which is responsible for the securities settlement, disagrees. Kredittilsynet was in close touch with VPS and followed developments in the securities settlement process.

In the wake of this situation a working group was set up to consider the future design of rules bearing on the obligations of settlement participants. The working group draws on a broad selection of participants in the securities settlement system. Kredittilsynet asked VPS to ensure rapid clarification and an agreed outcome that will lend predictability to the securities settlement process.

### **Securities activities of the Icelandic-owned institutions**

When Iceland's three largest banks encountered acute problems in autumn 2008, seven institutions in the Norwegian securities market were affected, all Icelandic or owned from Iceland. The Norwegian Glitnir enterprises and the Swedish Glitnir AB retained Oslo Børs membership and continued their direct or indirect participation in the central securities settlement. The securities activity of Glitnir Bank hf. and Landsbanki hf. in Iceland had to cease, and was wound

up in an orderly manner without giving rise to problems in the securities market. The central securities settlement continued as normal. Kredittilsynet was in close touch with VPS and kept an eye on developments.

### **Survey of investment firms' financial fitness**

As part of the effort to identify possible threats to investment firms' financial fitness, surveys of their derivatives trading in equity instruments were initiated by Kredittilsynet in October 2008, and will be repeated for as long as the market situation requires. A total of 23 investment firms were examined to gain an overview of the extent of their derivatives trading and of losses they had incurred or expected to incur on such trading. Firms were also asked to report any other likely losses in relation to their clients.

Several investment firms reported that some clients held trading positions with substantial unrealised losses but had posted satisfactory collateral. In some cases these clients were small limited companies whose principal owner had furnished a personal guarantee or surety. Some of these limited companies are clients of more than one investment firm and held a number of positions with large unrealised losses.

### **Prohibition of short selling**

On 8 October 2008 Kredittilsynet issued a statement to the effect that, in light of the extraordinary market conditions, short selling in financial shares would until further notice be regarded as an unreasonable business method and was therefore prohibited under the Securities Trading Act section 3-9. On 9 October the ban was extended to include primary capital certificates quoted on Oslo Børs. The ban was in response to indications of short selling in particular financial shares by international actors, and followed the exclusion of international funds with short selling strategies from more and more markets in the wake of similar bans imposed in a number of countries. There was now a growing likelihood that the same funds would move to other markets, including Norway. Kredittilsynet has the situation under surveillance.

### **Redemption pressure and valuation problems at securities funds, particularly money market funds**

Poor liquidity in money market instruments, particularly from September 2008 onwards, was a major concern for fixed income funds, above all for many money market funds investing in short-term fixed income paper. Sizeable redemptions coupled with market conditions in which it was difficult to value and realise money market instruments threatened suspension of unit holders' redemption rights, either at the request of management companies or by order of Kredittilsynet.

## Securities market

In November 2008 Kredittilsynet solicited information from a number of management companies on money market funds' portfolio composition since the end of 2007. The survey showed that money market funds (MMFs) had by and large maintained a fairly uniform portfolio composition over the observation period. However, a slight increase was noted in the proportion of securities classified as own funds in MMFs entitled to hold such funds in their portfolio.

Also in November Norges Bank offered banks the opportunity to post units in MMFs as collateral for loans from Norges Bank. This

eased redemption pressure somewhat and improved liquidity in some MMFs.

### Market conduct

Kredittilsynet tightened its surveillance, especially in the second half-year, of possible rumours about financial institutions' financial position. Such rumour spreading is a potentially harmful form of market abuse, particularly in a situation where the market is sensitive to such information. Kredittilsynet has not exposed concrete breaches of this nature while monitoring the market.

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## Investment firms

### Supervision and monitoring

Kredittilsynet's on-site inspections aim to promote an informed attitude to risk among firms and to maintain a high level of client protection in the securities market by ensuring that firms comply with the requirements as to good business practice. Supervision also promotes market integrity. Investment firms vary widely in terms of size, organisational set-up and services provided. Risk-based criteria are used to select firms for on-site inspection. They include liquidity, capital adequacy, changes in revenues, earnings, profitability, client complaints and suspected breaches of conduct of business rules.

Fifteen on-site inspections were conducted at investment firms in 2008. Four IT inspections were also conducted, i.e. inspections specifically targeting investment firms' IT solutions. On-site inspections were somewhat fewer than intended due to the complexity of the inspections carried out and the extensive work involved in connection with licence revocations.

An important aspect of on-site inspections in 2008 was to investigate whether firms that previously operated on a licence-free basis were in compliance with the Securities Trading Act and secondary regulations. The inspections accordingly focused solely on the advisory segment. In the first half-year supervision targeted the largest firms that had received their licences in the course of 2007. In the second half-year supervision targeted main actors along with some smaller firms.

Supervision of the advisory segment resulted in three licence revocations. One consequence is that the actors, or the supervised entities in this segment, have revised their behaviour, as evidenced by the sharp

fall in sales of structured products. Because of standards set and falling demand, a further five firms handed in their licences after negative results brought them below the own funds requirements. One firm had its licence revoked and several others were warned of revocation for the same reason.

Kredittilsynet considers it important to make managements accountable for product choice and product composition in order to minimise the conflicts of interest that are inherent in the business. Kredittilsynet expects firms in this segment to have in place clear guidelines for what product compositions can be sold to defined client segments, and to carefully document any deviation from such guidelines.

Kredittilsynet will in future consider obtaining information on what products are sold, and on the profit margin on such sales, as part of the ordinary reporting by advisory firms. Kredittilsynet keeps a close eye on these firms in its off-site supervision, some having been instructed to file reports more frequently than usual.

### Revocation of Glitnir Privatøkonomi AS's licences to provide investment services

Following an on-site inspection at Glitnir Privatøkonomi AS, Kredittilsynet gave the firm advance warning on 10 March 2008 that its licences to provide investment services under the Securities Trading Act could be revoked. It did so based on a preliminary assessment that the firm had committed serious and systematic breaches of the conduct-of-business rules when providing investment services to its customers. Glitnir Privatøkonomi AS was revealed to have largely

geared its business to selling products at the highest possible profit for the firm, not to protecting clients' interests in terms of risk and expected return. The products' cost elements were consistently so high that clients' opportunity to achieve their investment targets was significantly reduced. Furthermore, clients were generally advised to finance the recommended investments by borrowing against their dwelling. In view of the advance warning the firm opted to hand in its licences on 11 April 2008.

### **Revocation of Caveo ASA's and Totalvekst ASA's licences to provide investment services**

Kredittilsynet decided to revoke Caveo ASA's licence to provide investment services on 24 June 2008 and Totalvekst ASA's licence on 26 June. It did so after discovering during on-site inspections that the firms had almost exclusively recommended products yielding high earnings for the firms and the client advisers. A further reason for revocation was that by recommending and selling financial instruments that were disproportionately costly, poorly put together and of limited liquidity, the firms had failed to take clients' interests into account. Kredittilsynet concluded that the firms had committed serious and systematic breaches of the conduct-of-business rules when providing investment services to their clients.

Caveo ASA and Totalvekst ASA (which subsequently changed its name to Josef K. AS) appealed Kredittilsynet's decisions to the Ministry of

Finance, which gave the decisions suspensive effect pursuant to the Public Administration Act. The ministry rejected Totalvekst ASA's appeal on 19 January 2009 and Caveo ASA's appeal on 5 February 2009. In its rulings the Ministry of Finance clarifies some aspects of the requirement as to conduct of business, and essentially endorses Kredittilsynet's assessment that the firms were in breach of this requirement.

### **Uncovered short sales at Tandberg Data ASA**

Inquiries by Kredittilsynet revealed that in March-April 2008 a number of investment firms had carried out uncovered short sales in the Tandberg Data share in breach of the Securities Trading Act section 10-4. This provision is primarily designed to prevent situations arising where investment firms are unable to settle their accounts. A preliminary report was sent to nine Norwegian firms, four of which were warned of possible rectification orders pursuant to the Securities Trading Act section 15-7 subsection (1). Adequate measures were subsequently taken by the firms responsible for the gravest breaches. These included excluding clients who had traded short in Tandberg Data, strengthening the de facto management, issuing warnings to brokers who were involved in the execution of the transactions, introducing new routines and instructions, increasing the emphasis given to identifying extraordinary market situations, and installing new monitoring systems. All nine investment firms received censure in Kredittilsynet's final observations.

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## Licensing

### **Authorisation process**

The Securities Trading Act that came into force in 2007 imposed as of 1 November 2007 a licensing requirement on a number of new entities intending to provide investment services, including investment advice. Transitional rules deferred credit institutions' deadline for meeting this requirement to 1 May 2008. Kredittilsynet announced that applications received prior to 1 February 2008 would be decided by 1 May 2008. All applications received by the application deadline were decided by the final deadline.

The widening of the licensing requirement meant that Kredittilsynet received in 2008, as in 2007, a large number of applications for a licence to provide investment services. Thirty-eight licences were granted to new investment firms, of which eight were savings banks, while five extended licences were issued to existing investment firms to provide additional investment services.

Seven licence applications were rejected, turned down or withdrawn. A total of 38 licence applications were processed in 2007.

Table 11: Investments firms

	2006	2007	2008
Firms with authorisation	85	132	154
Branches of foreign firms	9	10	13
New firms with authorisation	15	58	38
Firms that handed in their authorisation / had their authorisation revoked	5	9	16

### Fit and proper testing of investment firms' managements

In 2008 as in 2007 a large number of fit-and-proper tests were carried out, both in connection with the processing of licence applications, and with ensuing management changes. In the first half-year Kredittilsynet held 40 interviews with persons appointed as de facto managers of investment-advice and order-transmission services, or as branch managers. Many of the interviews were with managers of the 10 savings banks licensed to provide investment services as of 30 April 2008. Interviews were held in cases where Kredittilsynet, based on written documentation, was in doubt as to whether the fit-and-proper requirements were met and where the interviews provided a better basis for assessment.

As an administrative agency, Kredittilsynet is required to disclose information on a case as far as possible before a licensing decision is reached. According to good administrative practice, an administrative agency should consider obtaining verbal information in cases where written documentation provides a poor factual basis for decision.

The practice of holding interviews in conjunction with the fit-and-proper testing was halted in response to statements by the Ministry of Finance in relation to an appeal in July 2008. Fit-and-proper testing of de facto managers in all types of cases is now based exclusively on written documentation. Kredittilsynet sees that the need for such interviews is receding, for one thing because the number of licence applications has fallen appreciably since 2007 when the new Securities Trading Act came into force.

### Terra Securities ASA's advice to municipal authorities – issue of relinquishment of gain

Kredittilsynet did not order the relinquishment of gain under the Securities Trading Act in connection with advice given by Terra Securities ASA to the municipalities of Narvik, Rana, Hemnes, Hattfjelldal, Vik, Bremanger, Haugesund and Kvinesdal. The municipal authorities had requested Kredittilsynet to order Terra Securities ASA to relinquish NOK 120 million plus interest. The municipal authorities alleged that Terra Securities ASA made a gain of this order of magnitude in the period 2004-2007 from the advice it provided to the eight municipalities.

In view of the process leading to the firm's cessation of business and licence revocation, Kredittilsynet considered that its primary tasks in relation to the serious breaches of good business practice brought to light in November 2007 were at an end. Enforcement of the securities legislation with a view to ensuring confidence in the securities market was considered to have been assured by the revocation of Terra Securities ASA's licences. As the matter stood, ordering relinquishment of gain would in Kredittilsynet's assessment have had little general deterrent effect. Nor did any need for effective rule enforcement justify priority being given to pursuing a case for relinquishment of gain. Moreover, a claim for relinquishment of gain, if successful, would probably reduce dividend payments to non-priority creditors, and Kredittilsynet would face a resource-demanding legal process and extended investigations. Kredittilsynet chose not to pursue the case and did not test whether the conditions for relinquishment of gain were present.

## Regulatory development

### Structured products

Regulations on disclosure requirements in connection with offers for purchase of structured products were amended. The amendments entail that a number of the provisions on investor protection in the securities legislation will apply to financial institutions that sell and give advice on deposit-based structured products, including index-linked deposits. See also *Banking and finance*, page 36 and 37.

### Employees' own-account trading

The new Securities Trading Act includes provisions on employees' own-account trading. The Ministry of Finance is empowered to issue regulations providing for exceptions from the requirements concerning employees' own-account trading, to issue supplementary regulations to the provision concerning tied agents, as well as further rules concerning tied agents and their activity. Kredittilsynet, on commission from the Ministry of Finance, has drafted the requisite provisions which have been circulated for comment by the Ministry of Finance.

### Transaction reporting

Investment firms are required as from 1 November 2008 to report transactions in financial instruments quoted on a regulated market

to Kredittilsynet's transaction reporting system (TRS). The reporting requirement applies both to transactions executed by investment firms for own account and for the account of customers, and applies irrespective of whether the transactions are executed on or outside a regulated market. Thus far the requirement has only been given effect for instruments identified by an ISIN code. Kredittilsynet's transaction reporting system was available to receive transaction reports as from 1 October 2008.

The transaction reporting system used by Kredittilsynet was developed by Finansinspektionen, Sweden's FSA, in collaboration with the other Nordic countries and Lithuania. In 2008 representatives from Kredittilsynet participated in various forums on transaction reporting at the Nordic and European level. The collaboration continues in 2009 with a view to further developing TRS functionality.

Based on a tender competition, Kredittilsynet opted in spring 2008 to take on Verdipapirsentralen (VPS) as external provider to operate the system.

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## Information and communication

As in previous years, Kredittilsynet organised in 2008 two information seminars for investment firms in collaboration with Oslo Børs. Key themes were advice given when selling financial instruments, and the transaction reporting system. Kredittilsynet also participated in two seminars under trade organisations' auspices.

Kredittilsynet has added to its website a page devoted to information on new rules and decisions made by the agency in connection with the new Securities Trading Act. A further webpage has been set up containing information on the transaction reporting system (TRS).

### Market warnings

In 2008, as previously, Kredittilsynet was apprised of numerous foreign firms that had approached Norwegian investors offering financial services without the requisite authorisations. Lacking a licence is one thing. More serious is the scam that is often involved: individuals who transfer money to such firms must in many cases consider the money lost. Kredittilsynet published market warnings on its website, cited warnings given by foreign supervisory authorities and reports in the media to warn consumers against dealing with such firms. Kredittilsynet's website also features information pages devoted to cases of investment fraud where investors are advised on how to protect themselves against fraudsters.

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## Management companies for securities funds

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### Supervision and monitoring

At the end of 2008 22 management companies were licensed to manage securities funds. Ten of these were licensed to carry on business described in the Securities Trading Act section 2-1 subsection (1) no. 4 as “active management of investors’ portfolios of financial instruments”. The number of securities funds managed by the companies rose from 402 in 2007 to 426 in 2008.

Kredittilsynet’s supervision of management companies is carried out both on-site and off-site. No management companies were subject to on-site inspection in 2008, this being confined to investment firms brought under a new, extensive regulatory regime by virtue of the implementation of the MiFID directive in Norwegian law. Hence Kredittilsynet’s supervision and monitoring of management companies were largely off-site in 2008.

Management companies file quarterly reports to Kredittilsynet on their financial situation and their securities funds via an electronic system. The reports showed somewhat weaker earnings among management companies than in 2007, although financial positions remain satisfactory. Management companies are required to report any breaches of investment limits set out in the Securities Funds Act and funds’ statutes. Kredittilsynet noted few investment limit breaches in 2008 and none of these were of a sizeable, serious nature. Further, trustees are required each quarter to inform Kredittilsynet of any management companies and funds where the trustee has uncovered rule breaches, for example breaches of investment constraints that apply to securities funds under the funds’ statutes, and

that management companies are obliged to notify to Kredittilsynet. Although few in number, trustees’ reports of management companies where breaches are brought to light are an important supplement to off-site supervision in general.

At the start of 2008 Kredittilsynet conducted a survey of management companies to gain an overview of Norwegian securities funds’ exposures to the US subprime mortgage market as of August 2007. The survey also included funds’ exposure to shares and fixed income paper issued by enterprises in the financial sector, US financial enterprises in particular and US enterprises in general. The survey, which followed up a similar survey conducted in 2007, showed that Norwegian securities funds had negligible direct exposure to the above risk categories.

In the course of 2008 Kredittilsynet tightened its focus on the trustee function in relation to securities funds. Kredittilsynet had seen a need to analyse, and give trustees guidance on, requirements imposed on their oversight and monitoring of management companies’ fund dispositions. The survey was based on circular 2/2007 from Kredittilsynet which spells out trustees’ responsibility for safekeeping of and oversight over securities fund resources. Kredittilsynet wrote to all non-interviewed trustees asking for a description of the means by which the oversight requirements are met, including the organisation and execution of oversight tasks. Kredittilsynet’s letter also drew attention to trustees’ duty to send Kredittilsynet an overview of management companies found to be in breach of the rules.

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### Licensing

In 2008 Kredittilsynet received five applications for authorisation to establish management companies, all of which are under consideration. No licences were revoked in the course of the year.

Regulations of 19 December 2007 on differentiated management fees came into force on 1 January 2008. Differentiation is based on the value of the individual unit holder’s investment in the particular fund, but the principle of differentiated discount rates applying within their respective intervals is continued. Management companies’ right to

differentiate management fees must in each case be regulated by the fund’s articles of association. Kredittilsynet has not noted a wide tendency for management companies to differentiate management fees.

Kredittilsynet has considered management companies’ limited right to raise loans on behalf of securities funds, and prepared a circular (6/2008) clarifying the right to raise short-term loans. The circular refers to low-liquidity situations in securities funds where the question of borrowing may arise. One clarification is that a securities fund may

only by way of exception raise a short-term loan in order to secure advance receipt of funds from an imminent subscription and thereby debt finance a securities purchase. Another clarification is that in an

ordinary market situation a loan cannot be raised on behalf of a securities fund in order to comply with a request for redemption.

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## Regulatory development

On commission from the Ministry of Finance, Kredittilsynet analysed competition and efficiency in the market for securities funds and other savings products consisting of financial instruments. The task comprised making an economic analysis of the securities funds market in particular and the savings market in general, identifying market shortcomings and proposing regulation to get the market to function more in line with the authorities' aim of protecting non-professional investors.

### Special-purpose funds

In June 2008 amendments were adopted to the Act on Securities Funds to permit the establishment of special-purpose funds. The amendment has yet to come into force. On commission from the Ministry of Finance, Kredittilsynet considered the need for regulations pending the Act's commencement. The amendments contain several clauses authorising the issuance of regulations on special-purpose funds. Kredittilsynet has recommended not utilising these clauses for the time being. Instead of adopting general rules to apply to all types of special-purpose funds, Kredittilsynet is in favour of a more individual approach empowering the agency to impose individual conditions when ratifying a special-purpose fund's articles of association. However, Kredittilsynet proposed in its own draft regulations on special-purpose funds some exceptions from current regulations to the Securities Funds Act, including exceptions from the derivatives regulations. Further, new provisions on special-purpose funds were proposed in regulations governing the marketing of foreign securities funds.

### Proposal for regulations to implement UCITS rules

Directive 85/611/EC (UCITS Directive) with subsequent amendments regulates collective investments through securities funds and is implemented in the Securities Trading Act. The UCITS directive gives

much emphasis to investor protection, and at centre stage is the types of assets that securities funds can invest in. The directive contains definitions of and terms relating to types of assets that constitute permitted categories of investment. Directive 2007/16/EC of 19 March 2007 is a so-called implementation directive issued by the European Commission that supplements and clarifies certain definitions and terms in the UCITS directive, for example the definition of negotiable securities and money market instruments. Kredittilsynet has recommended that Directive 2007/16/EC be implemented by new regulations that clarify securities funds' field of investment and through amendments to the current derivatives regulations.

### Management companies' right to broker insurance products

On commission from the Ministry of Finance, Kredittilsynet considered whether the Securities Funds Act should be amended to allow management companies for securities funds to broker insurance products with units in securities funds as the underlying when these securities funds are managed by other management companies. Kredittilsynet stresses that the insurance products in question are life insurance linked to the performance of a particular investment portfolio or unit-linked life insurance. The starting point is that the Act on Securities Funds provides a narrow framework for business that a management company for securities funds can engage in, beyond its core activity of managing securities funds. The rationale behind the business limitation rules is that management companies should concentrate on their core business and confine the exercise of their skills to securities management. In Kredittilsynet's view there is no weighty reason to amend the business rules, and it will therefore not recommend permitting management companies for securities funds to broker insurance products with securities funds as the underlying when the latter are managed by other management companies.

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## Information and communication

Kredittilsynet maintains close contact with the Norwegian Mutual Fund Association (VFF), which is an important source of information on problems and tasks in relation to the securities market. In

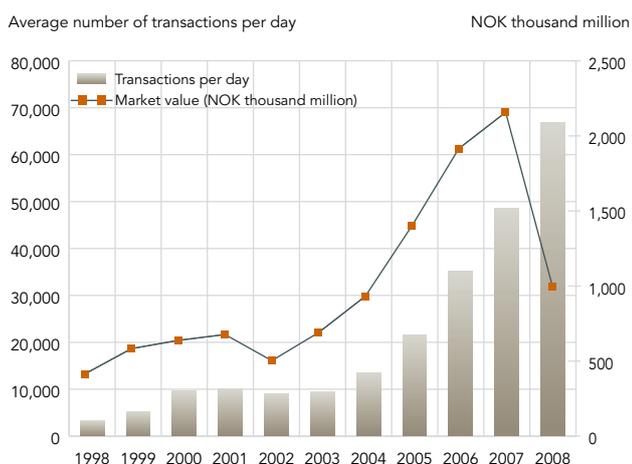
2008 Kredittilsynet attended an information seminar organised by the VFF whose theme was the Norwegian mutual funds industry's potentials for success in an increasingly international market.

## Market infrastructure

### Supervision and monitoring

Kredittilsynet oversees Oslo Børs ASA, the Norwegian Central Securities Depository ASA (VPS), Oslo Clearing ASA, Nord Pool ASA (Nord Pool), Nord Pool Clearing ASA (NPC), NOS Clearing ASA, International Maritime Exchange ASA (Imarex) and Fish Pool ASA. The securities market infrastructure was closely monitored throughout the year. An IT inspection was carried out at Oslo Børs ASA, prompted by faults in the trading system that prevented trading at Oslo Børs on the morning of Monday 2 June and much of 3 June.

**Chart 4: Market value and number of transactions per day on Oslo Børs**



Source: Oslo Børs

The figures for 2008 do not include trading on Oslo Axess.

#### Prospectus control

Pursuant to the Securities Trading Act Kredittilsynet is the overarching supervisory authority in relation to prospectus control. Regulations of 9 December 2005 no. 1423 on the implementation of prospectus control assign the exercise of this control to Oslo Børs. Kredittilsynet has received a written account and confirmation from Oslo Børs that the control tasks have been discharged in conformity with law, regulations and Oslo Børs' in-house guidelines and instructions.

#### Electricity market and electricity derivatives market

Price levels in the electricity market were high throughout 2008 compared with previous years. This was mainly due to instances of higher electricity prices on the continent and somewhat lower reservoir levels in Norway after the summer compared with normal levels for the period. Higher CO<sub>2</sub> quota prices in Europe probably also played a part. It is uncertain whether the turbulence in financial markets has affected electricity and electricity derivative prices, although a substantial price decline was seen after turbulence started. Derivative contracts with delivery in 2009 may indicate that electricity prices will be somewhat lower in 2009 than in 2008. Kredittilsynet has since 2003 collaborated with the Competition Authority and the Norwegian Water Resources and Energy Directorate on supervision of the electricity market. Collaboration with these two agencies will continue.

#### Freight derivatives market

Freight markets are affected by the global market situation. Prices in the dry bulk market in particular fell to a very low level while the tanker market was somewhat less affected, although here too there was a marked fall in prices. Traded volume in the physical freight market appears to have fallen substantially, resulting in thinner derivatives trading in these markets. Market participants are settling their trades through a clearing house to a far greater degree than previously. This applies both to trades in the bilateral market and trades in regulated markets. All in all this indicates that actors consider credit risk in the freight derivatives markets to be far higher now than earlier.

#### Fish derivatives market

Prices in the fish and fish derivatives market were relatively stable throughout 2008 at a level marginally higher than in the second half of 2007. Early in 2008 two regulated markets for fish derivatives were operating in Norway. In the course of the year FishEx ASA closed down, leaving one such market in Norway – FishPool ASA. Volume traded at Fishpool was higher in 2008 than in preceding years. Even so, viewed in relation to other commodity derivatives markets, turnover value in the fish derivatives market was very low.

## Licensing

### **Merger of Oslo Børs Holding ASA and Verdipapirsentralen Holding ASA**

The Ministry of Finance approved in November 2007 the merger between Oslo Børs Holding ASA and Verdipapirsentralen Holding ASA. In 2008 Kredittilsynet expended substantial resources on monitoring compliance with the conditions set for the merger.

### **Sale of parts of Nord Pool ASA's business to OMX AB**

Nord Pool ASA signed on 19 December 2007 a framework agreement with OMX AB for the transfer of a significant part of Nord Pool ASA's business. In the course of 2008 OMX AB became by acquisition part of Nasdaq OMX Group Inc. The transfer of Nord Pool ASA's business comprised Nord Pool ASA's wholly-owned clearing house, Nord Pool Clearing ASA, Nord Pool Consulting ASA and a business area in Nord Pool ASA comprising Nord Pool ASA's international business.

The Ministry of Finance authorised the transaction in October 2008, upon Kredittilsynet's recommendation. The ministry granted dispensation from the rules governing significant holdings for clearing houses and a licence to operate as a clearing house in Norway. The licence was granted in view of the fact that that Nord Pool Clearing ASA's clearing business is to be transferred to a Norwegian branch of OMX Nordic Exchange Stockholm AB in the second phase of the transaction. The licence presupposes the establishment of satisfactory supervisory cooperation with Finansinspektionen, Sweden's Financial Supervisory Authority.

### **NOS Clearing ASA expands its business**

NOS Clearing ASA expanded its business in 2008 to include electricity derivatives. NOS's electricity market products differ somewhat from the products quoted on Nord Pool ASA and are settled through Nord Pool Clearing ASA. The new electricity products are to be traded on the regulated market, Imarex, and Imarex's licence was accordingly extended to include this business.

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## Regulatory development

Throughout 2008 much international activity focused on regulation of trade in commodity derivatives and the underlying physical commodity. This was particularly true within the EU/EEA, but also at the

global level. Kredittilsynet played a part in several of these projects, and will continue to be active in the further process in 2009.

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## Market conduct in the securities market

### Supervision and monitoring

The overarching aim of supervision and monitoring of compliance with the general rules for market conduct 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. Kredittilsynet also oversees compliance with the rules on the drawing up of insider lists, the duty to investigate, the prohibition of unreasonable business methods, notification rules and rules requiring disclosure of acquisitions of large shareholdings. Hence a wide range of supervised entities is involved: investors, advisers, issuers of financial instruments and

their partners, including investment firms. The object is to bring to light and prosecute market abuse in the securities market and, insofar as the market conduct rules are applicable, in the markets for commodity derivatives. Kredittilsynet aims to show potential lawbreakers that contravention incurs risk, and it will also apply other measures to discourage criminal acts.

Many of the large number of cases dealt with by Kredittilsynet in 2008 were referred to it by Oslo Børs. Several cases were reported by investment firms. Kredittilsynet also initiated a number of investigations based on its own observations in the market.

## Securities market

Many of the insider cases handled by Kredittilsynet were time-consuming, especially where the investigations involved other countries. As in 2007, Kredittilsynet availed itself on several occasions in 2008 of cooperation agreements with foreign supervisory authorities when conducting investigations. Kredittilsynet similarly assisted foreign supervisory authorities in their investigations in a number of cases.

### Notifications to the prosecuting authority

Four cases of suspected unlawful insider trading and/or breaches of the duty of confidentiality were reported to the prosecuting authority in 2008, several involving a number of individuals. Three cases of market manipulation were reported as were one breach of the listing requirement, one failure to disclose the acquisition of a large shareholding and nine breaches of the notification rules. Kredittilsynet also issued several warnings after minor breaches in the two last-mentioned areas.

One of the cases attended to by Kredittilsynet in 2008 that received broad media coverage was the Acta affair. Kredittilsynet's investigation prompted suspicion that inside information may have been used in trading in the Acta share and derivative financial instruments. The case was reported to Rogaland police district.

Another case was Kredittilsynet's investigation into DnB NOR Markets' trade in Norwegian government bonds on Thursday 9 and Friday 10 October, shortly before the Government's stimulus package for the financial industry was announced on Sunday 12 October. The investigation prompted suspicion that inside information may have been used in connection with trade in government bonds. Kredittilsynet found cause to report the matter to Økokrim.

### Follow-up of reported cases

Where follow-up of reported cases is concerned, Kredittilsynet assisted Økokrim and the police in 2008 as previously, participating in police operations and assisting the police in interviews and in the review and analysis of share transactions. On request, assistance was also provided to various police districts in cases that had not been referred to them by Kredittilsynet. Kredittilsynet views the assistance it provides to the prosecuting authority in winding up cases of securities crime as money well spent in relation to the agency's overarching goals.

In addition to collaboration in individual cases, emphasis was given in 2008, as previously, to extensive contact between Kredittilsynet, Oslo Børs and Økokrim in the shape of regular meetings and

informal contacts. Kredittilsynet also collaborates fruitfully with Nord Pool. The collaboration is designed to enhance overall market surveillance.

### Transaction reporting

Kredittilsynet's supervisory effort is likely to be improved by the establishment of a transaction reporting system. This presupposes quality assurance of reporting and use of appropriate tools to properly analyse reports received. Customer identification in reports will facilitate checks across investment firms. Information from Oslo Børs and VPS will also be important ahead.

### Court decisions

- Oslo City Court convicted a person for breach of the Securities Trading Act's market conduct rules. The convicted person was a stockbroker, and the violation was committed in the course of his work. The stockbroker was given a suspended 75-day prison sentence and a fine of NOK 40,000 for abetting insider trading. The judgement is unappealable.
- Oslo City Court convicted a fund manager of violations committed in the course of his work. The fund manager was found guilty of violating the provisions concerning market manipulation and market conduct in the Securities Trading Act, and one count of social security fraud. The individual was sentenced to six months' imprisonment, of which 120 days were suspended, and confiscation of NOK 1 million. Økokrim appealed against the sentence handed down by the City Court. The Borgarting Court of Appeal sentenced the fund manager to six months' imprisonment, of which only 60 days were suspended.
- The Borgarting Court of Appeal rejected the appeal in a case where three persons were convicted of violating insider trading provisions, thereby upholding the decision of the City Court. The three accused were sentenced to ten, eight and eight months' imprisonment respectively. Following the City Court hearing, the sentences were appealed to the Supreme Court, which rejected the appeal.
- As part of the case referred to in the above indent, Nord-Troms District Court in October 2008 sentenced two persons for violation of the Securities Trading Act. The two individuals were sentenced to, respectively, 21 days' and 31 days' imprisonment for trading shares while in possession of inside information. One of the accused was also sentenced to confiscation of about NOK 16,000.

## Regulatory development

In 2008, as previously, attention was given to devising practicable case-handling rules in relation to the provision of the Securities Trading Act giving Kredittilsynet access to tele-traffic data, and the Ministry of Finance circulated regulations for comment. This field is demanding from a regulatory point of view inasmuch as the need for efficiency is somewhat at odds with the need for personal protection. Several meetings were held between Kredittilsynet and the Ministry of Finance when drafting the regulations.

In the first half of 2008 Kredittilsynet drafted new regulations on the voice recording of telephone conversations and on the documenting of communication via other technical communication channels. The draft regulations were forwarded to the Ministry of Finance which circulated them for comment.

Kredittilsynet recommended that new provisions giving exemption from the Freedom of Information Act in respect of certain types of market abuse cases regulated by the Securities Trading Act should be incorporated in the Act. The proposal, made in connection with the adoption of a new Freedom of Information Act which entered into force on 1 January 2009, has been forwarded to the Ministry of Finance.

On commission from the Ministry of Finance, Kredittilsynet considered regulations drafted on securities trading subject to a mandatory bid obligation. The proposal, put forward by Oslo Børs, concerned a mandatory bid obligation triggered by the acquisition of rights to/interests in shares. Since the proposed regulations entailed far-

reaching changes, Kredittilsynet recommended that they should not be adopted without further study.

On commission from the Ministry of Finance, Kredittilsynet prepared a consultation document proposing to remove from the provision on notifiable securities trading the obligation of listed companies to notify trades in shares within the same group. In the same consultation document Kredittilsynet recommended making it clear that the notification requirement also includes trades in financial derivatives. It also proposed that Kredittilsynet be empowered to impose administrative sanctions for breaches of the notifiable securities trading provision. The matter is under consideration at the Ministry of Finance.

### **Report on changes in the supervision of Norwegian marketplaces as a result of EU legislation**

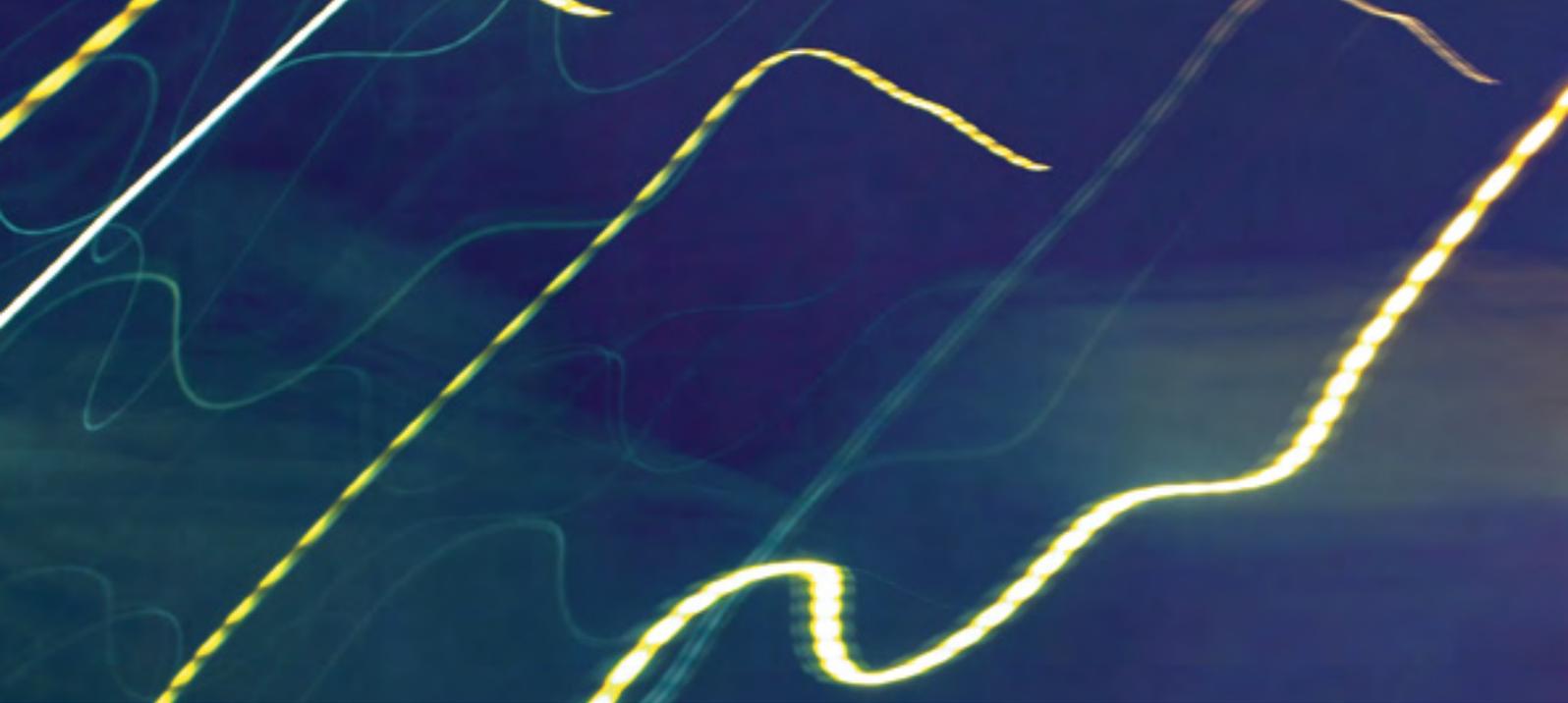
Kredittilsynet decided in November 2007 to set up an in-house working group to study which supervisory and control tasks that are currently assigned to the marketplace, must or should be taken over by Kredittilsynet under EU rules. These tasks relate to market conduct and reporting rules in the securities market, including prospectus control. The report deals broadly with supervisory tasks related to issuers' obligations, supervision of conduct in the securities market and supervision of marketplaces. The report proposes transferring operative prospectus control to Kredittilsynet by the end of 2010. Work on the report was completed in 2008, and the document was forwarded to the Ministry of Finance in November 2008. The ministry decided to circulate the report for comment.

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## Information and communication

A whole-day seminar on market conduct was in 2008 arranged together with Oslo Børs and Økokrim, in addition to the regular meetings that are held. Kredittilsynet also gave a number of presentations to the industry, including one on the new rules prompted by the Transparency Directive and the Market Abuse Directive, and the announced new rules on the voice recording obligation.

The number of individual enquiries regarding interpretation and other inquiries from lawyers, journalists and the market in general, rose considerably in 2008.



All listed companies are required to apply the International Financial Reporting Standards (IFRS) when preparing and presenting consolidated accounts. Kredittilsynet is tasked with ensuring that they do this correctly. The supervision encompasses all Norwegian-registered enterprises that are listed on a stock exchange, an authorised market place in Norway or on a regulated market elsewhere in the EEA, as well as foreign enterprises that have opted for Kredittilsynet as the competent authority. It also encompasses enterprises that do not report under IFRS. The supervision applies to periodic reporting such as annual accounts at group and company level, directors' reports and interim accounts.

## Financial reporting supervision



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## Trends

At the end of 2008 276 Norwegian companies were subject to Kredittilsynet's supervision of financial reporting. Just under 200 were issuers of shares and primary capital certificates. Several issuers of shares and primary capital certificates also issued bonds that are quoted on Oslo Børs. In the course of the year 15 new issuers were admitted to listing (five on Oslo Børs and ten on Oslo Axxess), while 21 issuers were delisted (18 on Oslo Børs and three on Oslo Axxess). Under the new Securities Trading Act Norway is the home state for issuers from the EEA, subject to certain conditions. Thirty-

four foreign companies have opted for Norway as their home state, and communication with most of them is in English. Thus 310 companies are subject to financial reporting supervision.

Kredittilsynet appreciates that the financial crisis may pose greater challenges as regards valuation of companies' assets and liabilities, and underscores the importance of presenting sufficient and precise information in notes to accounts.

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## Supervision of financial reporting

Supervision includes all Norwegian-registered issuers listed on a stock exchange or authorised market place in Norway, or on a regulated market elsewhere in the EEA. Listed issuers as well as issuers that have applied for listing are included. Foreign companies from other EEA countries that are listed on Oslo Børs are subject to the supervision of the regulatory authorities in their respective countries. Up to 31 December 2007, issuers listed on Oslo Børs but not registered in the EEA were not encompassed by the supervision arrangement. Central government, municipalities and county municipalities are not encompassed by the supervision, nor are municipal or inter-municipal enterprises/companies. State-owned enterprises are, however, included.

Supervision covers companies' periodic reporting – i.e. annual accounts (at both group and company level), directors' reports and interim reports – irrespective of what accounting standards have been applied.

A combination of techniques is applied in selecting enterprises for supervision. A three-pronged model has been established in which some companies are selected based on submitted reports, others based on risk assessments. Risk-based analyses are prompted by reports received via the Altinn internet portal. A rotation system is employed to ensure that the financial reporting of all enterprises is checked within a given period.

In 2008 Kredittilsynet reviewed all or parts of the financial reporting of 38 companies. Particular attention was focused on issuers of equity instruments such as shares and primary capital certificates, and some bond issuers. As a result of this review, ten cases were given closer scrutiny; several had yet to be finalised at year-end. No notification was received in 2008 from the companies, 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. Kredittilsynet also reviewed the audit reports of all listed companies.

### Major individual issues

#### Recognition of MoUs by Fast Search & Transfer ASA

Kredittilsynet questioned the revenue recognition principle applied in the annual accounts of Fast Search & Transfer ASA (FAST) for 2006. FAST recognised revenue on the date an MoU was signed. The goods were delivered on the date of the MoU, which also specified the products and services involved. The MoU also contained a clause to the effect that if the MoU had not been finalised by a set date, all obligations under the MoU would lapse. In other words the MoU was not binding. Kredittilsynet's conclusion was that recognising revenue on the date the MoU was signed was counter to IAS 18 *Revenue*.

Further, Kredittilsynet was informed that other transactions were being investigated in-house, and that many of the company's customers had been approached asking for confirmation of accounts receivable. Kredittilsynet was kept informed of the in-house investigations.

FAST decided in January 2008 to prepare new accounts for 2006 owing to errors brought to light in previous years' accounts. The new 2006 accounts, in which revenue recognition of MoUs was rectified, were presented in June 2008. A number of other transactions were also rectified, and the amended accounts showed 18 per cent lower revenues than the original accounts. Whereas the original accounts showed a post-tax profit of USD 3.5 million, the amended accounts showed a deficit of USD 38.1 million. The company's accounts for the full year 2007 were also significantly changed compared with the quarterly reports in 2007.

Kredittilsynet reported FAST in April 2008 for suspicion of breaches of the Accounting Act and the Bookkeeping Act. The case is under investigation by Økokrim.

### Business combinations – AGR ASA

When reviewing AGR ASA's annual accounts for 2006 and interim accounts for 2007, Kredittilsynet questioned the company's application of IFRS 3 *Business Combinations*. The company made several substantial acquisitions in 2006 and the first half of 2007.

Kredittilsynet questioned inter alia the allocation of acquisition cost in two of the acquisitions. Substantial excess values were present. 91 and 86 per cent respectively were allocated to goodwill, while only 9 and 14 per cent were allocated to other intangible assets. AGR had distributed the business combinations' acquisition costs on the basis of the value that the acquiree's assets represented for the acquiring

company. The latter had on that basis not allocated value to some customer relationships. Under IFRS the fair value of intangible assets that are not traded in an active market must be established by reference to the amount the buyer would have paid for the asset in an arms-length transaction between knowledgeable and willing parties based on the best available information. Kredittilsynet's conclusion was that AGR's allocations of acquisition costs in the two acquisitions were not based on 'fair value' as defined in IFRS 3. The company took due note of Kredittilsynet's assessment. A new acquisition analysis of the two companies, incorporated in the company's accounts for 2007, allocated just over NOK 40 million of the excess values to customer relationships.

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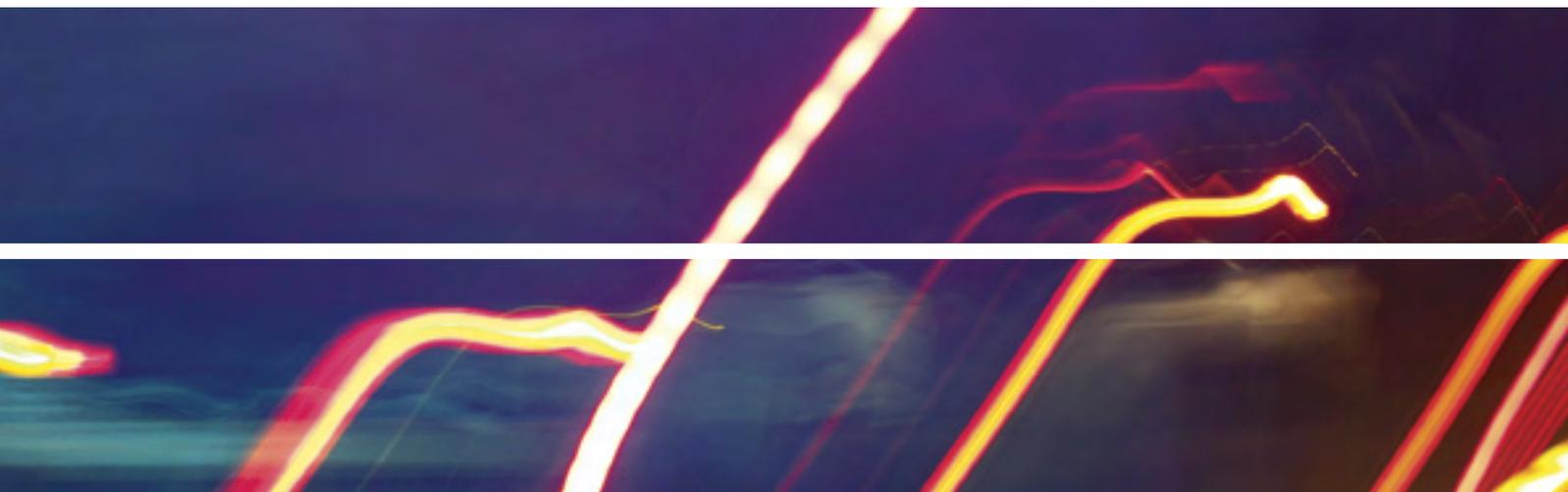
## Expert Panel on accountancy

An important complement to Kredittilsynet's resources is the Expert Panel on Accountancy. The panel was appointed by the Ministry of Finance on 13 October 2005 based on Recommendation to the Odelsting No. 17 (2004–2005) submitted by the Standing Committee on Finance and Economic Affairs. Kredittilsynet is secretariat to the Expert Panel.

The Expert Panel met four times in 2008, and had eight matters referred to it for comment or discussion, some of which were considered on two or more occasions. Its advice is announced as a part of Kredittilsynet's final letters as and when the letters are made public. The letters are available at Kredittilsynet's website.

### The Expert Panel as at 31 December 2008:

Frøystein Gjesdal (chair)  
Aase Aa. Lundgaard (deputy chair)  
Ståle Christensen  
Stig Enevoldsen  
Bjørgunn Havstein  
Erik Mamelund  
Signe Moen  
Karina Vasstveit Hestås (alternate)  
Jørgen Ringdal (alternate)  
Elisabet Sulen (alternate)



## Regulatory development

### Accounting legislation for the financial industry

The Annual Accounts Regulations for insurance companies were largely brought into line with IFRS by amendments of 4 April 2008. However, some options available under IFRS are not permitted. The amendments did not include IFRS requirements as to information in notes to accounts inasmuch as insurance companies that are not part of a listed group are to some extent entitled to depart from IFRS recognition and measurement rules. The regulations are also largely adapted to new business rules in life insurance, the chief repercussions being for the set-up of profit and loss accounts and balance sheets. Kredittilsynet is preparing a guidance document on the amendments.

In September 2008 Kredittilsynet sent a consultation document to the Ministry of Finance proposing changes to the Annual Accounts Regulations for insurance companies to bring requirements on notes to accounts into line with IFRS. A further consultation document sent by Kredittilsynet to the Ministry of Finance in October 2008 proposed changes to the Annual Accounts Regulations for banks, finance

companies and mortgage companies. The proposal is essentially an adjustment to regulations of 28 January 2008 on simplified application of international accounting standards. The ministry circulated the documents for comment on 5 November 2008.

Kredittilsynet has drafted a consultation document proposing changes to the companies legislation. The amendments aim for identical treatment of dividends and contributions from intra-group subsidiaries for the purpose of calculating the dividend base for the parent company, irrespective of whether IFRS or simplified IFRS is applied in the parent company's accounts.

The financial crisis has focused increased attention on accounting rules in Norway as elsewhere. Kredittilsynet is keeping abreast of the international discussions and has, in consequence of changes in the international arena, assisted the ministry in amending the accounting rules (i.e. introduce the category 'held to maturity') for banks not using IFRS.

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## Information and communication

Information to and communication with the market and important user groups are highly important, not least for confidence in the capital market. Kredittilsynet provides information through a combination of its website, circulars, press releases, seminars and oral presentations, as well as yearly reports.

Kredittilsynet also publishes letters to listed companies on its website to give an idea of its practice when reviewing companies' financial reports. All final letters are published on Kredittilsynet's website.

# Auditing

Kredittilsynet's tasks in relation to auditors comprise approval or licensing of individuals and firms in accordance with the legal requirements applying to this profession, as well as registration and supervision. Supervision includes checking that auditors maintain their independence, and that they discharge their assignments in a satisfactory manner and in compliance with law, regulations and good auditing practice.

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## Trends

The auditing profession features a bipartite structure: a small number of international audit firms that audit the majority of listed companies, and a large number of smaller audit firms that mainly audit small and medium-sized clients.

Any widening of small firms' exemption from the statutory audit obligation is likely to impact heavily on the audit industry. Challenges also attend the monitoring of compliance with audit standards established by the industry which are being developed and tightened, particularly with respect to documentation. Additional obligations apply to the auditing of public-interest entities.

The financial crisis poses challenges as regards valuation of accounting items and going-concern assessments. Further, auditors have to

square up to accounting rules requiring discretionary judgements and to rapid changes in the legislation. They are required to carefully document their assessments of whether circumstances are present requiring reservations or clarifications in the audit report. An auditor must also see to it that reporting obligations under the Financial Supervision Act, Guarantee Schemes Act and Securities Trading Act are complied with.

There were meetings between audit supervisory authorities of several countries with a view to possible measures to be addressed to the audit industry as a result of the financial crisis. Kredittilsynet has until further notice opted to judge the adequacy of measures taken by the industry itself.

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## Supervision and monitoring

Kredittilsynet checks compliance with the requirements on auditing activities as such, that requirements on auditor independence are met and that the quality of audits performed is satisfactory. Checks are also made to ensure that the money laundering legislation is complied with, and that auditors and audit firms submit their accounts and tax returns on time.

Kredittilsynet carries out supervision based on its own risk assessments, reports received and signals emerging, for example in the media. Matters that come to light in other areas supervised by Kredittilsynet may also prompt scrutiny of the work of an auditor. Kredittilsynet gives special attention to the four large international audit firms, one reason being that they audit listed companies. Confidence in financial reporting by these companies is key to achieving well functioning markets, and good quality auditing supports that confidence.

Periodical quality assurance of auditors of entities subject to statutory audit is required at least every sixth year. Since 2002 Kredittilsynet has coordinated its supervisory activity with the quality assurance conducted by the Norwegian Institute of Public Accountants (DnR) in respect of its members. Should DnR bring to light circumstances that may prompt withdrawal of an auditor's licence, the matter is referred

to Kredittilsynet for further action. DnR's report for 2008 is reproduced on page 67. Kredittilsynet checks non-members, ensuring that all statutory auditors are reviewed in the same period.

Kredittilsynet received 43 reports on auditors in 2008 from DnR, the tax authorities and bankruptcy administrators, in addition to other signals possibly indicating defective auditing practice. Since Kredittilsynet's resources are largely applied at cases where it appears clear that the audit was not performed in conformity with the Auditors Act, most cases checked by Kredittilsynet conclude with critical observations on the conduct of the audit or withdrawal of the auditor's licence. Cases not given priority by Kredittilsynet may be concluded by the auditor being asked to submit a documented personal assessment of whether the auditing practice displayed should be modified for the future.

146 cases were concluded in 2008 after on-site inspections. The conduct of audits is also checked by requesting audit documents for scrutiny or by obtaining other information.

Of a total of 12 withdrawal decisions in 2008, eight were based on failure to reply or respond to the off-site supervision carried out in 2007.

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Table 12: Revocation of auditors' licences

	2005	2006	2007	2008
State authorised auditors, licence revoked	2	5	3	3
Registered auditors, licence revoked	2	9	4	9
Audit firms, licence revoked	0	1	0	0

### **Follow-up of the largest audit firms and the audit of listed companies**

The guidelines and routines adopted and applying at any time to an audit firm, and followed by the statutory auditors and others in the audit team, will be crucial to the quality of all audit assignments taken on by the firm. As part of the priority given to the supervision of large audit firms, Kredittilsynet inspected Ernst & Young AS in 2007. The inspection was concluded in January 2009. Kredittilsynet had no observations on the firm's organisational set-up or in-house guidelines. The agency reviewed the audit of two conglomerates to check compliance with the guidelines and drew attention in their observations to areas for improvement.

In December 2008 Kredittilsynet conducted a similar on-site inspection at Deloitte Statsautoriserete Revisorer AS (Deloitte). The inspection was conducted together with the Public Company Accounting Oversight Board in the US (PCAOB). The rationale for the joint inspection was that Deloitte audits companies listed in the US, and a significant subsidiary of such a company. In order for a company to be registered on a stock exchange in the US, its auditor must subject to PCAOB oversight.

### **Other individual cases**

In one case Kredittilsynet found clear flaws in an auditor's attestation and audit of subsidy revenues. This was rooted in information from Økokrim to the effect that a transport company was suspected of having given incorrect information in discussions with the transport authorities on subsidies to the company's ferry and bus services. The subsidy accounted for about 40 per cent of the ferry service revenues. Accounting information forwarded to the transport authorities was a key basis for the annual subsidy allocation. In Kredittilsynet's view the auditor had not verified the management's financial statement assertions regarding subsidies for ferry operation, and had based the audit in too large measure on trust in the company's management

and inadequately tested internal controls. In Kredittilsynet's opinion a natural and necessary aspect of the audit, quite apart from the auditor's specific attestation responsibility, was to reconcile accounting information sent to the transport authorities with the financial accounts.

In another case the auditor was reported by an audit client who had engaged an external accountant who was not authorised. Kredittilsynet's conclusion was that the requirement of the Auditors Act to the effect that the audit must be conducted in conformity with good auditing practice requires the auditor, when assessing a firm's internal control to check that the external accountant has the requisite authorisation. Where this found not to be the case, the auditor must take up the matter with the management of the audited entity.

Kredittilsynet has started a review of the audit of Fast Search & Transfer ASA, which it expects to be completed early in 2009.

### **Thematic inspections**

Kredittilsynet conducted a thematic inspection of audits of foundations with emphasis on auditors' compliance with their particular obligations under the Foundations Act. Auditors were selected for inspection after contact with the Norwegian Gaming and Foundation Authority. On-site inspections were carried out at 12 audit firms at which 19 auditors were checked. The inspections covered the audit of 31 foundations of varying size. A synoptic report will be published on Kredittilsynet's website early in 2009.

### **Off-site supervision**

All auditors and audit firms are subject to off-site supervision every second year. In the supervision programme conducted in autumn 2007 auditors filed their responses via the Altinn internet portal. The report on the supervision, published in 2008, is available on Kredittilsynet's website. The reported figures show an increase of

more than 20 per cent in the number of audit assignments, primarily due to the numerous limited company start-ups in the period. Overall turnover posted by audit firms and sole proprietors for the financial year 2006 was about NOK 7.2 billion, an increase of 21 per cent over 2004. When advisory and ancillary services are excluded, turnover came to NOK 4.5 billion, an increase of 28.6 per cent over 2004. In addition to the increase in the number of companies subject to the audit obligation, the increased turnover is probably due to an increase in the scope of auditors' work, one reason being the introduction of IFRS for all listed companies. The four largest audit firms' share of the auditing market in terms of gross income was just over 50 per cent, and they covered about 25 per cent of all audit assignments. These figures are unchanged from 2004. 16 per cent of all

audit reports issued in 2006 contained clarifications or reservations, also unchanged since 2004, despite the increased number of audit assignments.

The answers elicited by off-site supervision are also used to check and follow up individual auditors' and audit firms' compliance with statutory licensing requirements. This applies inter alia to auditors who reported having had responsibility for an assignment without posting collateral or meeting minimum requirements as to continuing education. Audit firms lacking articles of association as required by the Auditors Act and entities required to pay additional tax or a late-filing penalty were also followed up. Kredittilsynet will not accept auditors' and audit firms' late filing of their own accounts and tax returns.

## Licensing

Table 13: Number of authorised auditors and audit firms

	31.12.2005	31.12.2006	31.12.2007	<b>31.12.2008</b>	<b>Approved in 2008</b>
State authorised auditors	2,469	2,554	2,642	<b>2,728</b>	<b>96</b>
Registered auditors	3,026	3,113	3,028	<b>3,049</b>	<b>66</b>
Audit firms	569	730	789	<b>825</b>	<b>61</b>

The figures do not include authorisations handed in during the year.

Kredittilsynet authorises auditors as either registered or state authorised auditors. State authorised auditors are subject to higher education requirements than are registered auditors. Students who entered the education programme in 2000 or later are also required to pass a practical examination in order to qualify for authorisation. The examination is prepared by an examination board and is organised by Agder University College. A total of 157 of 162 candidates passed the examination when it was held for the fourth time in autumn 2008. About 250 candidates are expected to take the examination each year

once the transitional provision ceases to apply.

Kredittilsynet has worked on upgrading the Register of Auditors to enable more data to be fed into this electronic register. All auditors who take on statutory audit tasks will be assigned an auditor register number once the law amendments called for by the Audit Directive have been adopted. The stage has also been set for registration of auditors who audit companies domiciled in countries outside the EEA and listed on a stock exchange in Norway.

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# Regulatory development

Implementation of the Audit Directive into Norwegian law, with a deadline 1 July 2008, was delayed. Kredittilsynet's proposed law amendments to implement the Directive were circulated for comment in 2007. The EU Commission has issued two recommendations related to the Audit Directive. One deals with public oversight of auditors that audit public-interest companies. In Kredittilsynet's view, auditor supervision in Norway conforms to this recommendation. The other recommendation deals with limitation of auditors' liability for damages.

Kredittilsynet contributes a secretary and a member to the committee reviewing the statutory audit obligation.

At the request of the Ministry of Finance, Kredittilsynet proposed amendments to the Auditor Act to implement Directive 2005/36/EC on the recognition of professional qualifications. Kredittilsynet's proposal continues the right of auditors from other EEA states to be authorised in Norway. It also enables auditors authorised elsewhere in the EEA to operate on a temporary or occasional basis in Norway subject to notification. Under Kredittilsynet's law amendment proposal such auditors cannot assume responsibility for auditing the annual accounts of entities subject to statutory audit. Setting up an auditing business in Norway requires authorisation.

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# Information and communication

Kredittilsynet enjoys a fruitful working relationship with the Norwegian Institute of Public Accountants and the Tax Administration as regards auditor supervision.

International cooperation in the audit sphere continues to increase significantly at the Nordic level, within the EEA and globally. See *International activity*, page 92, for further details.

Kredittilsynet also responds to numerous enquiries from the media with regard to auditing. In major cases investigated by the Tax Administration, Økokrim and other bodies, much attention has been given to auditors' role and to Kredittilsynet's follow-up.

With reference to the “Guidelines for collaboration between Kredittilsynet and Den norske Revisorforening (DnR – the Norwegian Institute of Public Accountants) regarding quality reviews of statutory auditors”, the Board of DnR hereby presents a summary of the results of the quality assurance reviews conducted in 2008.

### Organisation of quality assurance reviews in 2008

The assurance reviews regime is described in “Details of the quality control set-up 2008” as posted at [www.revisorforeningen.no](http://www.revisorforeningen.no). It is designed with a view to checking compliance with good auditing practice, including standards on auditing, and focuses on the provisions of the Auditing and Auditors Act concerning auditors’ finances, independence, indemnity and continuing education.

The reviewer team comprised 39 state authorised and registered auditors, all with a broad professional background.

### Selection of auditors for quality assurance reviews

The quality assurance programme in 2008 encompassed 1,511 statutory auditors. 292 statutory auditors were selected for ordinary review, including two ordinary reviews deferred from 2007. Upon being notified that they had been selected for ordinary review, ten of these 292 auditors announced their intention to wind up their business or to retire as statutory auditors in the course of 2008, leaving 282 statutory auditors to undergo ordinary quality assurance reviews in 2008. Three of these ordinary reviews were deferred to 2009 and will be included in next year’s statistics. A further 23 statutory auditors were subject to follow-up reviews, while one follow-up review was deferred to 2009.

### Result of the quality review process

In our opinion Norwegian statutory auditors maintain a high professional standard, and their work is of high quality. Nevertheless, a continuing aim of DnR is to reduce the number of cases in which follow-up measures are required. We will seek to achieve this through technical information and guidance to our members.

	Number	%
Approved	248	82.1
Audit flaws and/or other shortcomings – action plan and new reviews	48	15.9
Referrals to Kredittilsynet for further action	6	2.0
Total number of reviews conducted	302	100.0



Yours sincerely

(sign.)

Arne Frogner

Chair

Norwegian Institute of Public Accountants



## External accounting services

Kredittilsynet's tasks in relation to external accounting services comprise authorisation of individuals and firms in accordance with the legal requirements applying to this profession as well as registration and supervision. Supervision includes checking that the activities of providers of external accounting services comply with laws and regulations and with good accounting practices.

## Trends

The industry comprises just under 20 large external accounting firms and groups along with a large number of small firms. Given the industry's development of good-accounting-practice standards and the complexity of the legislation in general, staying updated is a challenge for external accounting firms, especially the small ones.

External accountants are making more use of electronic tools in their business. System errors may cause accounting material to be lost, and business shutdowns can cause problems for clients who are dependent on simultaneous accounting, for example in the case of integrated sales and invoicing processes. The risk attending external accounting firms' ICT systems is therefore increasing.

## Supervision and monitoring

Kredittilsynet checks compliance with the requirements applying to external accounting firms. This includes examining firms' quality control of the work of staff who are not authorised external accountants, their compliance with duties under the Bookkeeping Act and the money laundering legislation, and external accountants' and external accounting firms' timely submission of their own accounts and tax returns.

In view of the large number of external accountants and external accounting firms, the quality control performed by the Norwegian Association of Authorised Accountants (NARF) is a priority for Kredittilsynet. NARF membership or non-membership is a criterion employed when selecting external accountants for inspection. See NARF's quality control report for 2008, page 71.

In addition to reports from NARF, Kredittilsynet's inspections are normally based on reports received from sources such as the Tax Administration, liquidators of bankruptcy estates, clients of accountants and the media. Some checks are carried out without being prompted by suspicion of rule breaches.

Kredittilsynet processed a total of 103 supervisory cases in 2008. The agency's resources are largely deployed to cases where it seems clear that external accounting services are not in conformity with applicable rules. A large proportion of supervisory cases accordingly resulted in critical observations or withdrawal of licences.

Table 14: Revocation and suspension of authorised external accountants' licences

	2005	2006	2007*	2008
External accountants, licence revoked	18	11	49	19
External accounting firms, licence revoked	0	1	19	0
Suspension**	–	0	1	1

\* Of 68 revocations in 2007, 53 were due to non-compliance with off-site supervision requests.

\*\* Applies from 30 June 2006

Kredittilsynet has a particular focus on the largest external accounting firms and groups, and meets with several of them on an annual basis. In 2008 on-site inspections were conducted at Mirror Accounting AS (formerly Lindorff AS), Visma Services Norge AS and Kvestorgruppen.

As a follow-up to steps taken by the eastern region of the Tax Administration (*Skatt Øst*) against the taxi trade, Kredittilsynet inspected several firms that provide accounting services for the taxi trade in Oslo. The project, yet to be completed, brought to light flawed accounting practices, and several firms were warned that they

would have to step down as external accountants if their clients fail to come into line with the applicable rules. This region of the Tax Administration also carried out further checks on some segments of the hairdressing trade. Kredittilsynet followed up external accountants in cases where the accounts and other returns filed by clients had been found by the tax authorities to contain significant errors and deficiencies.

Every second year all authorised external accountants and external accounting firms are subject to off-site supervision. In autumn 2008 they submitted their reports via the Altinn internet portal. Failure to

## External accounting services

respond to the questionnaire is a ground for licence revocation. This time fewer entities delivered after the deadline, also when compared with auditors. This is a favourable development. The answers received will be used to develop statistics and to provide a basis for further analysis of the external accounting services industry. The answers also provide a basis for follow-up of individual external accountants. The report will be completed in spring 2009. Given the large number of supervised entities, off-site supervision is a convenient means for reaching all authorised external accountants and maintaining a well-ordered Register of External Accountants. About 150 supervised entities opted to hand in their licences instead of answering the questionnaire.

### Unlawful external accounting activity

Kredittilsynet investigates entities reported to be carrying on business in violation of the Authorisation of External Accountants Act. Nineteen written reports of unlawful accounting activities were received in 2008. After further investigations Kredittilsynet issued seven orders to halt licensable activities.

Kredittilsynet has limited resources available to investigate unlawful external accounting activities. It is in clients' own interests to ensure they obtain the competence and security inherent in the authorisation scheme. Users of external accounting services should therefore check that the external accountant they are using is duly authorised and is registered in Kredittilsynet's register, which is available on the agency's website.

Table 15: Unlawful external accounting activity

	2005	2006	2007	2008
Reports received	29	47	33	19
Activities suspended	12	18	9	7
Reports to the police	0	2	0	0

## Licensing

Standard application forms for external accountants and external accounting firms were drawn up and will be published on Kredittilsynet's website early in 2009. The aim is to ensure more complete applications, enabling processing time to be reduced. It is

also made clear that the experience required in order to become an authorised external accountant includes year-end accounting for at least one limited liability company and preparing a tax return for at least one sole trader.

Table 16: Number of authorised external accountants and external accounting firms

	31.12.2005	31.12.2006	31.12.2007	31.12.2008	Approved in 2008
External accountants	7,179	7,472	7,966	8,340	597
External accounting firms	2,632	2,652	2,691	2,676	188

The figures do not include authorisations handed in during the year.

## Regulatory development

In 2007, at the request of the Ministry of Finance, Kredittilsynet examined whether the external accounting legislation should be amended to conform to the Services Directive (2006/123/EC). The directive is not incorporated in the EEA Agreement, and the deadline for possible implementation is 28 December 2009. Kredittilsynet concluded that the Norwegian authorisation requirement for providing external

accounting services on a commercial basis does not conflict with the directive. Inasmuch as accountancy is a profession regulated by law, Directive 2005/36/EC on the mutual recognition of professional qualifications will apply. Kredittilsynet forwarded to the ministry its proposal for amending the external accounting legislation to bring it into line with Directive 2005/36/EC.

## Information and communication

Kredittilsynet enjoys a fruitful working relationship with trade associations and the Tax Administration as regards follow-up of external accountants. Kredittilsynet attends seminars and handles enquiries from the media and others concerning external accountants and licensing.

In 2008 Kredittilsynet gave presentations at nine seminars under NARF auspices. About 600 external accountants attended. The body of rules with which authorised external accountants are required to comply was reviewed and supplemented with practical advice. Kredittilsynet also highlighted the obligations and duties consequent on authorisation and being under supervision.

### NARF Quality Control – Annual Report 2008

The Norwegian Association of Authorised Accountants (NARF) conducted its quality control programme in 2008 with a basis in the cooperation agreement in effect with Kredittilsynet, in keeping with adopted guidelines and in accordance with the plan for its operations forwarded in 2007. We hereby present an overview of controls conducted in 2008.

#### Number of controls

A total of 362 quality controls were conducted in 2008, of which 54 were follow-up controls. This is on a par with 2007 when the corresponding figures were 360 and 52 respectively.

#### Level of control and implementation

As part of a continuing aim to improve members' service quality, 10 quality control seminars were held in autumn 2008. The focus was on statutory requirements and good accounting practices. Kredittilsynet played a contributory role.

The control programme for 2008 was based on previous control programmes, but focused to a greater degree than previously on assignments related to invoicing and payroll services.

Thirty-three controllers were engaged in the 2008 control programme, the great majority having attended a two-day seminar in advance. The seminar focused on requirements applying to the conduct of the profession, judging the quality of controlled members and guidelines on conducting quality controls with a view to achieving a uniform control procedure.

#### Result of the quality control programme

The 2008 quality control programme produced the following results:

	Ordinary controls				Follow-up controls			
	Individuals	%	Firms	%	Individuals	%	Firms	%
Approvals	542	90.5	268	88.2	60	74.1	36	68.0
Follow-up controls	57	9.5	36	11.8	21	25.9	17	32.0
<b>Total</b>	<b>599</b>	<b>100</b>	<b>304</b>	<b>100</b>	<b>81</b>	<b>100</b>	<b>53</b>	<b>100</b>
Control results yet to be processed	3		3		1		1	



A high proportion of followed-up entities require further follow-up. NARF will maintain a focus on quality improvement at firms to be followed up in 2009 with the aim of enhancing quality levels in the industry.

Nine cases were referred to Kredittilsynet in 2009 for further action.

Yours sincerely

(sign.)

Sandra Riise

Managing Director

Norwegian Association of Authorised Accountants



## Estate agency

Supervision of estate agents encompasses the activities of firms licensed to practise estate agency and lawyers who have put up security for estate agency, as well as housing cooperatives licensed to provide estate agency services and ordinary housing cooperatives' sale of cooperative flats. Firms, lawyers and housing cooperatives are checked for compliance with the requirements of the law and regulations, including observance of good estate agency practice. Kredittilsynet is also assigned administrative and consultative tasks and information tasks under the Estate Agency Act.

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## Trends

### Slump in the housing market

Activity levels in the industry have risen substantially since 2003, a period of stable and largely good conditions in the estate agency market. A slight decline was recorded in 2007, however. This intensified sharply in 2008, the first half of which saw 11,000 fewer properties change hands than in the same period in 2007 – a fall of 15.5 per cent.

### Poor finances at many agencies

For several years a fairly large proportion of estate agency firms have reported negative operating profit. An important reason is a strong increase in the number of agencies, and probable over-establishment in some areas. This put a tight squeeze on estate agency fees, and therefore poorer earnings at many agencies. Inertia in the housing market has an immediate impact on earnings in the industry, which in turn may cause problems in maintaining positive equity. In 2007 41 per cent of agencies ran a negative operating profit, rising to 47 per cent for the first half of 2008. This, combined with weak capitalisation, often leads to a negative equity situation and hence non-compliance with one of the conditions for carrying on estate agency. About 9 per cent of agencies reported negative equity at 30 June 2008.

### Drop in the number of estate agency firms

Up to 2008, each year since 1993 has seen an increase in the number of estate agency firms. The increase was most marked in the years 2005–2007. This trend reversed in 2008. Whereas in 2007 there was a net increase of 35 firms licensed to engage in estate agency, and a total of 717 estate agency firms at end-2007, the year 2008 saw a net decline of 106 in the number of agencies, leaving the number of firms licensed to engage in estate agency at 611 by end-2008. The financial problems arising in the estate agency chain Notar compelled as many as 61 of franchisees in this chain to halt estate agency activity in 2008. Further firms in the Notar chain closed down early in 2009; see page 74. Most of these firms went into bankruptcy.

Many estate agency firms have a significant branch network. At the end of 2008, 325 branches were registered, bringing the number of localities in Norway where estate agency services were offered under the auspices of specialised estate agency firms to 936 at the start of 2009. At the same point 24 housing cooperatives brokered sales of their own flats, and 1,307 lawyers had posted the security required to engage in estate agency.

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## Supervision and monitoring

### Inspections in 2008

Kredittilsynet carried out 66 on-site inspections of estate agency firms and lawyers in 2008. The inspections focused particularly on estate agents' and lawyers' compliance with the new Estate Agency Act that came into force on 1 January 2008. Thirty-six of these inspections were addressed to pre-defined, strictly delimited themes. Themes included agencies' conformance to the provisions of the new Act, follow-up of firms specialised in real estate settlement services, and checks of the settlement function at a number of agencies that do not outsource this function.

### Checks on property-for-sale descriptions

Random checks of selected agencies' property descriptions were made to verify compliance with the obligation to obtain and disclose information as set out in the Estate Agency Act and the obligation to prepare an offer based on an hourly rate. The checks showed that most property descriptions were deficient in relation to the legislation. Although it will take a while for all entities in the industry to adapt to the new rules, it is important for this to be done quickly in view of new and important particulars that agents are required to disclose under the new legislation.

### Checks on the settlement function

Providing intermediary services in relation to settlement of real estate transactions involves substantial economic assets for sellers, buyers, lenders and other third parties. Sometimes complex legal issues arise in connection with this aspect of the agency assignment, for example disagreement between buyer and seller on exchange of performances, or on the establishment of priority for the parties' transactions. For this reason Kredittilsynet has in recent years subjected agencies specialised in settlement, and in several cases the settlement function at agencies that do not outsource this function, to special checks. In 2007 seriously flawed routines were identified at five of 13 checked 'settlement agencies', which were followed up by subsequent checks in 2008. The conclusion was that the agencies had by and large taken the steps needed to rectify poor routines etc.

### Revocation of the right to carry on estate agency

The Estate Agency Act empowers Kredittilsynet to revoke the licence of an agency or lawyer in cases where it is inadvisable to allow the business to continue, for example where an agency or lawyer has grossly or repeatedly breached his duties pursuant to the rules. The same applies where an agency or lawyer is guilty of irregularities that

## Estate agency

give cause to fear that continuation of the business may be detrimental to public interests.

Kredittilsynet revoked four agency licences in 2008 in cases where one or both of the above criteria were present. In one case revocation was primarily due to serious breaches of the prohibition of own trading by estate agents. In the second case gross breaches had been committed both of the own-trading prohibition and of rules governing treatment of client assets, and in the third and fourth cases breaches had been committed of the rules governing treatment of client assets. Three persons had their estate agency certificates revoked: one for failure to discharge his control function in his capacity as estate agent in charge, and two for embezzlement of client assets. In addition, a lawyer had his right to carry on estate agency revoked as a result of serious formal and material rule breaches.

Two cases concerning estate agency carried on by branches of estate agency firms resulted in strong censure from Kredittilsynet which stated that the branches' right to carry on estate agency would have been questioned had they not already been closed down. In one case this involved an estate agent's highly censurable advice to a buyer on the buyer's rights in connection with the purchase of a flat in a project. In the other case the estate agent had failed to ensure written records and verifiability, both as regards the signing of purchase agreements in a project and subsequent follow-up of the transactions. In Kredittilsynet's view this was a highly censurable and gross breach of estate agents' duties when carrying out an assignment.

In other cases, critical observations were directed at several checked agencies, some prompted by deficient routines, related for example to internal controls at the agency and deficient property descriptions.

Kredittilsynet's impression is that a number of estate agency firms have an inadequate understanding of the role assigned to the estate

agent by the law, and therefore in some situations lack the necessary independence and integrity needed to safeguard the rights of both seller and buyer. The estate agent's ability to perform his fundamental role of intermediary appears to be particularly tested in major assignments involving multi-unit projects and powerful developers.

### Closure of the estate agency chain Notar

The estate agency chain Notar, in which Ekko Eiendom AS was the franchiser and whole or part owner of the estate agency firms in the chain, has been one of the largest actors in the industry in recent years. When house sales fell sharply in autumn 2008, many Notar agencies experienced cash-flow problems. In contrast to previously, Ekko Eiendom AS was no longer in a position to supply liquidity in the form of loans to franchisees that experienced financial problems. Ekko Eiendom AS went into bankruptcy on 2 December 2008. Kredittilsynet revoked 61 licences to carry on estate agency held by agencies in the Notar Group in 2008, either because of negative equity or bankruptcy proceedings, or in some cases because there was no 'estate agent in charge' at the agency.

Uncompleted agency assignments at these agencies were taken over by Glitne Oppgjørssentral AS, which is owned by Gjensidige Forsikring. The rapid establishment of the winding up arrangement for the Notar estate agency firms came about thanks to effective cooperation between Gjensidige, the Norwegian Mapping Authority and Kredittilsynet, and has clearly had a damage prevention effect. For one thing, major delays in settlement and property takeovers were largely avoided. As far as Kredittilsynet is aware, no agency client has sustained any financial loss. Moreover, the fact that the Notar chain consisted of independent firms each of which had furnished a guarantee for their estate agency business worth NOK 20 million was in this case clearly beneficial. This substantially increases the chances of claim recovery in cases where rule breaches of a more massive nature give rise to damages.

## Licensing

### Licences awarded under the new Estate Agency Act

Kredittilsynet has up to 1 January 2008 only issued qualification certificates in the form of estate agency certificates to persons who meet the requirements as to estate agency education, experience and fitness and propriety, and who therefore qualify for the position of 'estate agent in charge' at firms that are licensed to carry on estate agency. In 2008 133 estate agency certificates were issued compared with 141 in 2007. A total of 1,944 persons held such certificates as at 31 December 2008.

The new Estate Agency Act introduced in 2008 two further types of competence certificate for persons filling certain positions at estate agency firms. The Act requires estate agency firms to designate an estate agent responsible for each assignment who will perform the most essential elements of the agency work. Only persons holding an estate agency certificate or lawyers with the requisite experience and who are otherwise fit and proper may be a 'responsible estate agent'. Lawyers with estate agency experience may also be the 'estate agent in

charge' at estate agency firms. Such authorisations were issued to 23 lawyers in 2008.

However, the requirement that a responsible estate agent should hold an estate agency certificate or be a lawyer will only apply as from 1 January 2011. In a three-year transitional period from the entry into force on the Act, persons with at least three years' practical experience of estate agency, and who in addition pass an examination approved by Kredittilsynet and otherwise meet the conditions for being issued with an estate agency certificate, will also qualify as responsible estate agents. Kredittilsynet issued just 37 such licences to 'transitional estate agents' in 2008. In light of the fact that a large

number of persons have been operating as estate agents without the requisite training, a significant increase will probably be seen in the number of such applications in both 2009 and 2010. The increase is likely to be particularly large in 2010 which is the final transitional year before the competency requirement for responsible estate agents comes into force.

Kredittilsynet approved five education institutions for the purpose of holding examinations for 'transitional estate agents' in 2008. Since these examinations are of some scope, it would be natural to allow some time to elapse before a large number of persons are allowed to take and pass the examinations.

## Regulatory development

### Regulations to the Estate Agency Act

The new Estate Agency Act which was adopted on 29 June 2007 and entered into force on 1 January 2008 makes provision for secondary legislation necessitating the framing of a fairly extensive body of regulations. On commission from the Ministry of Finance, Kredittilsynet drafted regulations in the areas of foreign estate agency business, rental broking and continuing education. It also reviewed

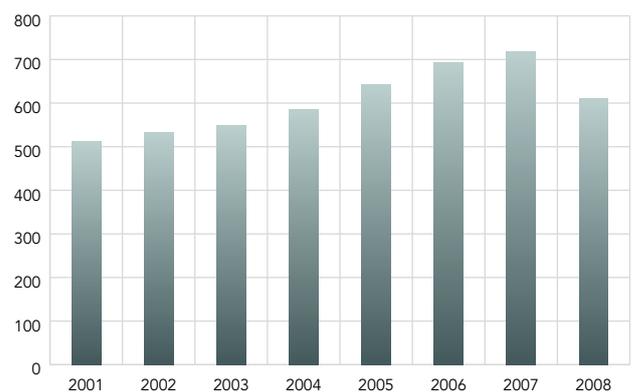
current bidding rules regarding the minimum acceptance period and proposed a change to prevent estate agents from mediating a bid with a shorter acceptance deadline than noon on the first working day after the last announced viewing. Kredittilsynet's proposal is being considered by the ministry.

## Information and communication

### Substantial need for information on the new Estate Agency Act

The new Estate Agency Act has sparked a very large number of enquiries from estate agents and the public on how the Act should be understood. The bulk of the questions relate to the transitional rules and the competency requirements for 'transitional estate agents', in addition to estate agents' duty to obtain and disclose information. This applies particularly to the information estate agents are required to provide on flats in housing cooperatives and on the new calculation of hourly rates. Kredittilsynet has commented on the issues in observations published after inspections at estate agency firms and in presentations at trade meetings, and has provided direct guidance to individual estate agents and members of the public who have contacted Kredittilsynet.

Chart 5: Number of estate agencies as of 31.12.



Source: Kredittilsynet



## Debt collection

Supervision of the debt collection industry encompasses agencies' financial position and their treatment of client funds, agencies that collect overdue debt on behalf of other businesses and organisations as well as agencies that purchase overdue debt and collect it themselves. Collection of own claims and lawyers' debt collection activities lies outside the scope of Kredittilsynet's supervision. At on-site inspections Kredittilsynet checks in particular that recovered funds are properly handled and that the business in general is conducted in accordance with good debt collection practices.

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## Trends

### Stable industry structure

110 ordinary debt collection agencies were registered at the end of 2008 compared with 115 at the start of the year. Just a few of these were sizeable actors. As at mid-year eight agencies accounted for about 70 per cent of ongoing cases, while just six accounted for almost 80 per cent of claims for recovery. The largest actors are Lindorff AS / Lindorff Obligations AS, Aktiv Kapital Norge AS, Kredinor and Intrum Justitia AS.

Of firms that purchase overdue debt and collect it themselves under a special licence, only five were left at the end of 2008 compared with eight at the start of the year. These firms held about 15,000 claims for recovery worth a total of NOK 1.2 billion. However, such activity is also engaged in by a number of finance and mortgage companies that do not need a debt collection licence since they hold a special financial services licence.

### Substantial increase in the number of debt collection cases

About 2.3 million new cases were referred to debt collection agencies in the first half of 2008, an increase of about 7.5 per cent or 160,000 cases over the same period of 2007. Between the first half of 2006 and the same period of 2008 the increase was 18 per cent or 345,000 cases.

Debt collection agencies had about 2.9 million cases in process as at 30 June 2008, representing claims for recovery totalling NOK 49.2

billion, including interest and debt collection expenses. This was an increase of about 100,000 cases and NOK 3.3 billion in claims for recovery compared with the same point in 2007.

### Poor earnings at a number of debt collection agencies

Debt collection earnings came to about NOK 1 billion in the first half of 2008, an increase of NOK 72 million or 7.8 per cent over the first half of 2007. Reports from the agencies showed that 16 agencies had negative operating profits at mid-year 2008 compared with 22 at end-2007.

Agencies may see more cases referred to them as a result of the weaker economic climate. However, since, under the law of torts, the costs of debt collection in Norway are borne in full by the debtor, debt collection agencies are dependent on debtors' ability to settle their accounts. If this does not happen, agencies may experience revenue problems since they normally work on the principle of 'no cure no pay' towards their clients.

In a consultation document issued in December 2008 the Ministry of Justice and the Police recommended changes that could greatly reduce debt collection fees. One calls for fee reductions of 20 to 50 per cent, depending on the size of the claim; the other will add 14 days to the period that must elapse before the maximum rate for the particular claim can be applied.

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## Supervision and monitoring

### Inspections in 2008

Kredittilsynet conducted 12 on-site inspections at ordinary debt collection agencies and one at a smaller debt purchase agency in 2008. In addition, several investigations were conducted based on correspondence with relevant agencies to look into debtors' allegations of flawed debt collection procedures.

The inspections revealed that a number of debt collection agencies have charged fees in conflict with the debt collection legislation. This is mainly due to system errors causing agencies to apply increased fees at an earlier stage than permitted under the debt collection regulations, a further reason being lack of control and review of new clients' routines. Moreover, poor oversight of the treatment of client funds was brought to light, along with legally incompliant claim letters and a number of other faults and deficiencies of a formal nature.

Cases where treatment of client funds was subject to poor oversight were particularly likely to be brought to light at smaller agencies.

These included both minor formal deficiencies and more serious cases where agencies were unable to document the relationship between client liability and client funds. In other words these agencies were unable to set up an overview of their liability for clients' credit balances.

In two cases the cooperation agreement with clients incorporated a clause to the effect that portions of fees that had been charged and paid were to be returned to the client in greater measure than permitted by Kredittilsynet's circular 26/2001 on 'pay back'.

### Revocation of licences

Kredittilsynet's supervision led to the revocation of two personal debt collection licences. One was revoked on account of improper treatment of client funds. The other was revoked in part because the holder in two separate periods abetted a firm's pursuit of debt collection activity without Kredittilsynet's approval, in part owing to financial malpractices. Further, a small debt collection agency voluntarily

ceased debt collection activity after serious findings were made during an on-site inspection.

#### Reversal of Kredittilsynet's decision to revoke the licence of Intrum Justitia AS

Kredittilsynet revoked Intrum Justitia AS's debt collection licence on 28 November 2007 owing to serious flaws in Intrum Justitia AS's case-processing system which led to the company to demand excessive fees from a large number of debtors. The errors brought to light in 2007 dated back to the start of 2006, shortly after Kredittilsynet in 2004/2005 discovered major deficiencies in the firm's case-processing. The firm was allowed to keep its licence since it had taken thorough steps to rectify the situation. When the latest defects came to light, Kredittilsynet considered it inadvisable to allow the debt

collection business to continue. Intrum Justitia AS appealed against Kredittilsynet's revocation of its licence, and the decision was given suspensive effect for the period of the appeal.

The Ministry of Justice and the Police decided on 30 June 2008 to reverse Kredittilsynet's decision. Like Kredittilsynet, the ministry took a very serious view of the defects brought to light, but accepted that extensive changes had been made in terms of personnel and systems in the company. On this basis the ministry concluded that there was no reason to fear that Intrum Justitia AS would, after completing these measures, run its business in such a way that the applicable rules, including the obligation of good debt collection practices, would not be complied with.

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## Licensing

### Complaints/approaches related to the requirement as to good debt collection practice

Kredittilsynet received 291 written complaints/approaches concerning firms licensed to carry on debt collection in 2008 compared with 221 the previous year. About four out of five complainants were consumers, the remainder businesses. The complaints targeted a large number of circumstances. Complaints from consumers often related to debt collectors' treatment of objections, their calculation of debt collection fees and conditions for imposing such fees, and addressing

of claim letters. Businesses complained above all over debt collectors' registration on, and failure to expunge from, the debtors list as well as their handling of objections.

A small number of approaches led to supervisory review. Other cases were referred to the Debt Collection Complaints Board if the complainant was a consumer. Businesses are required to take their own steps to resolve a dispute, possibly with the help of a lawyer. However, rejected approaches can form a basis for further investigation at a later stage.



Most approaches that prompted further investigation were resolved by a statement from the debt collector, usually because there was no basis for confirming that the debt collector had shown censurable conduct, or because the debt collector had committed a minor error which he rectified on his own initiative.

In a number of cases that were closely scrutinised, the debt collector was censured and ordered to alter his practices. In some cases Kredittilsynet found it necessary to follow up information brought

to light by conducting an immediate on-site inspection, or by reviewing the personal debt collection licence of the person effectively in charge.

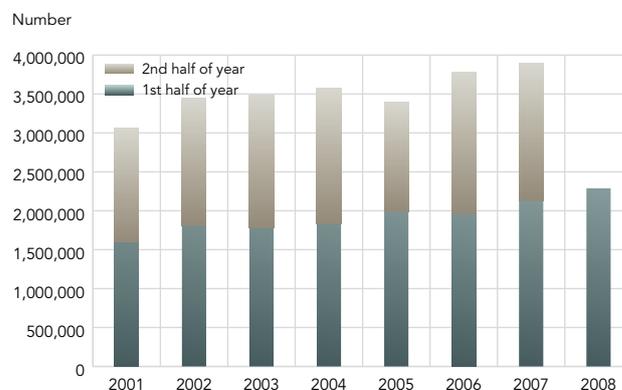
Kredittilsynet received some approaches from members of the public who suspected that debt collection was engaged in without a licence. Such approaches are invariably followed up by asking the firm to give an account of its business, and in the event ordering a halt to unlawful business.

## Regulatory development

### Debt collection agencies encompassed by the Internal Control Regulations

Debt collection agencies come under the new Internal Control Regulations which came into force on 1 January 2009. Debt collection agencies' case-handling processes are largely based in ICT systems, and it is highly important that automated collection processes should be accompanied by routines ensuring regular and systematic assessment of risk and established control measures.

Chart 6: Number of debt collection cases received



Source: Kredittilsynet

The background of the page is an abstract composition of light trails. The top half features a dark green background with several bright yellow and white streaks that curve and flow across the frame. The bottom half is dominated by a large, bright yellow and white light trail that curves from the bottom right towards the center. Interspersed among these are several red streaks, some of which are thicker and more prominent. The overall effect is one of dynamic movement and energy, suggesting a digital or technological theme.

## Supervision of ICT infrastructure and other issues

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## IT supervision

IT supervision covers financial institutions' use of information and communication technology (ICT) and is carried out in close cooperation with the respective supervisory departments at Kredittilsynet. Payment systems are also under supervision, the main task being to ensure their proper operation. The regime includes checking institutions' compliance with the ICT regulations, the Payment Systems Act and other relevant regulations.

As part of the follow-up of the Norwegian branch of Kaupthing Bank hf., Kredittilsynet's IT supervision unit was involved when payments to customers were halted and failed to reach Norges Bank's settlement system due to insufficient funds at Kaupthing. The halt to payments between remitting and receiving bank stopped ATM withdrawals, electronic funds transfer, point of sale payments and other transactions. Prompted by the financial crisis, Kredittilsynet also worked on securing data from an IT service provider outside Norway in relation to Kaupthing's Norwegian branch.

Kredittilsynet conducted 20 IT inspections in 2008 at banks, insurers, finance companies, mortgage companies, securities institutions, debt collection agencies, real estate agencies and external accountants. IT inspections were also carried out at IT service providers and data processing centres under the ICT Regulations section 12 on the outsourcing of ICT operations. A further 35 simplified IT inspections were carried out as part of ordinary inspections and one auditor inspection involving scrutiny of the IT audit. Many of the inspections focused particularly on internet bank solutions and internet-based services.

The IT inspections conducted in 2008 drew particular attention to the following:

- Absence of, or incomplete, risk and vulnerability (RAV) analyses, potentially jeopardising an institution's overview of its risk situation
- Deficient compliance with the institution's own change processes, potentially causing poor-quality changes to be implemented, leading to operational faults
- Inadequate quality goals and quality follow-up, potentially leading to deficient management and control and defective quality with ensuing consequences
- Incomplete continuity and disaster recovery testing, potentially leading in a worst case scenario to the catastrophe solution being rendered ineffective in a situation where this solution is crucial
- Inadequate configuration management, potentially leading to faulty operation of ICT solutions

- Shortage of available resources and key personnel risk, in a worst case scenario impairing the ability to deal satisfactorily with the current situation or anomalous situations
- Lack of basis documentation on the ICT strategy, RAV analysis and security policy, hindering adequate management and control and hindering verification of rule compliance

### ICT regulations

Kredittilsynet administers the ICT regulations. An important task in 2008 was to prepare a new guidance document on the ICT regulations section 3 on RAV analyses. A new guidance document to small banks on compliance with the ICT regulations was also issued and is available on Kredittilsynet's website and in a printed version. There are clear indications that institutions are now complying to a greater degree with the regulations in important areas.

### Payment systems

The Payment Systems Act requires institutions under supervision to notify Kredittilsynet of changes to their payments system or if they establish new systems. The notification obligation is part of Kredittilsynet's risk surveillance. In 2008 Kredittilsynet received eight such notifications. Work was also started on charting and evaluating individual functions in payment service systems related to logging on, authentication and authorisation. The object is to ensure that the solutions used by institution conform to the applicable rules. Kredittilsynet works closely with Norges Bank in the payment systems field, inter alia on the annual report on payment systems.

### Risk and vulnerability analysis

In 2007 an arrangement was set up for reporting events to Kredittilsynet. It requires institutions in the financial sector to report events of some seriousness that arise in their ICT systems, enabling Kredittilsynet to rapidly take the measures necessary. This type of event reporting was first introduced on a trial basis for savings and commercial banks, Oslo Børs, the Central Securities Depository (VPS) and the Banks' Payments and Central Clearing House (BBS). Kredittilsynet prepared an evaluation report in autumn 2008 whose conclusion was that the reporting arrangement had functioned well, and that it should continue. The trial period was accordingly extended, and a move has been made to incorporate event reporting in the ICT regulations. A reception system has been set up to which institutions can direct notifications by email to [hendelse@kredittilsynet.no](mailto:hendelse@kredittilsynet.no).

Early in 2009 Kredittilsynet is to publish an RAV analysis of the use made of ICT in the financial sector in 2008. Based on the analyses and data sources available to the agency, the following areas of risk

and vulnerability have been identified as particularly important with a view to implementing risk-mitigating measures:

- Failure to implement catastrophe testing – violates the ICT regulations and creates high risk
- Inadequate configuration management – may lead to detrimental error situations
- Inadequate control of the use of networks and infrastructure – may lead to high risk and error situations
- Poorly developed web applications resulting in vulnerability – could have been avoided by taking account of known problems and following best practice and advice
- Incomplete testing and deficient change management – leading in the worst case to shutdowns with possible major consequences for the business

### **Crisis preparedness in the financial sector**

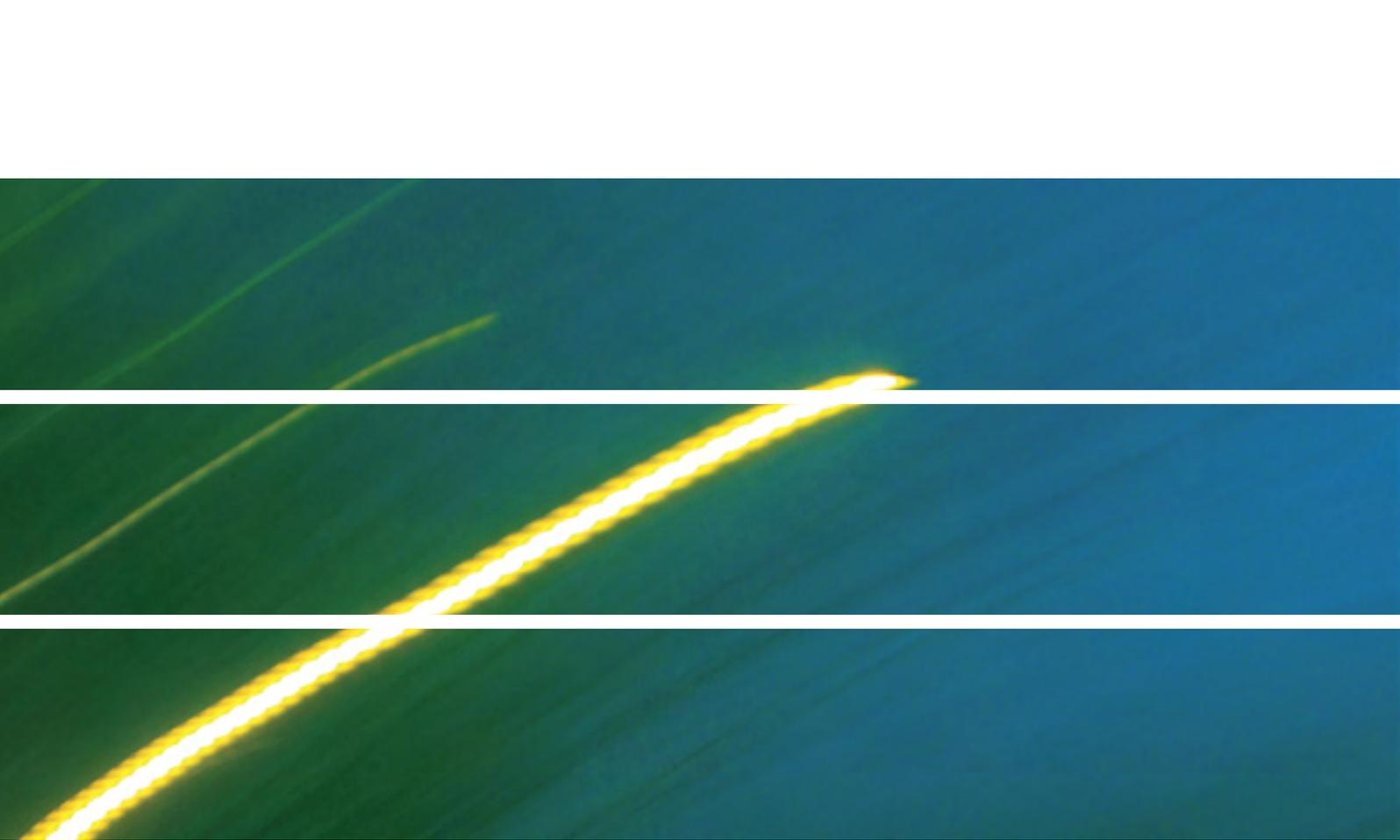
In 2008, at the initiative of the Directorate for Civil Protection and Emergency Planning (DSB), a joint exercise was held in relation to ICT. The exercise was delimited to the financial, telecommunications and energy sectors. Designated ICT-08, the exercise focused on attacks via the internet and tested inter alia communication between government authorities and institutions. Kredittilsynet participated as representative of the financial sector in various preparatory meetings under DSB auspices, and also played its part in the exercise itself.

### **Cooperation**

As part of the ICT security effort at financial institutions, Kredittilsynet is a member of the body responsible for coordinating information security and of the Financial Infrastructure Crisis Preparedness Committee (BFI). Cooperation has been established with Norges Bank, the National Security Authority (NSM), the Norwegian Post and Telecommunications Authority and trade organisations. Further, IT supervision cooperation has been established with the other Nordic supervisory authorities, and the agency participates in an international cooperative body (Information Technology Supervisors Group, which has a European sub-group). Kredittilsynet also participates in the development of international standards through groups working on banking and security standards, electronic signature standards (ETSI ESI) and the committee dealing with security issues under the International Federation for Information Processing (IFIP). Kredittilsynet is Norway's representative in the European Security Research and Innovation Forum (ESRIF).

### **Research and development**

In 2008 Kredittilsynet joined an inter-European project focusing on internet security and notification (Communication Middleware for Monitoring Financial Infrastructures). The project, financed partly under the EU's Seventh Framework Programme for research and development, lasts 2½ years. In this project Kredittilsynet represents competence requirements imposed by supervisory authorities in the financial sector, and cooperation has been established with other European IT supervision authorities.



## Internal control

Kredittilsynet adopted regulations on risk management and internal control on 22 September 2008. The regulations went into force on 1 January 2009, superseding the previous internal control regulations. The regulations apply to all supervised entities that are not the sole

traders, with the exception of audit firms. The regulations give greater emphasis to coherent risk management than did the internal control regulations. A circular to the regulations, formulated with small firms specifically in mind, has been prepared.

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## Appeal processing – Register of Company Accounts

Kredittilsynet is the appeal body in respect of decisions by the Register of Company Accounts to turn down applications for remission of penalties imposed for late filing of annual accounts, annual reports and audit reports to the Register of Company Accounts. Kredittilsynet has asked the Ministry of Finance to consider transferring this task to a body other than Kredittilsynet. The ministry has circulated for comment a proposal to assign this task to the Norwegian National Collection Agency.

In 2008 penalties were also imposed for the financial year 2007 on entities other than private limited companies, public limited companies, mutual insurance companies and savings banks. Stricter enforcement of the filing deadline brought an increase in appeals.

518 appeals were processed in 2008 compared with 262 in 2007. Kredittilsynet completely or partly waived the late filing penalty in 80 cases, i.e. in about 15 per cent of cases compared with about 18 per cent in 2007.

Imposition of late filing penalties prompted reactions from elected officers in foundations, among others, since such penalties make it more difficult for foundations to discharge their function. In Kredittilsynet's view, organisational form is not in itself a basis for penalty remission. To bring that about would require a change in the rules that provide for the imposition of such penalties on foundations or groups of foundations.



## Consumer protection and information – Kredittilsynet's role and mandate

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## Consumer protection through continuous supervision

The financial industry creates value for its users either as financial adviser or as intermediary for various transaction-based services (securities trading, currency trading and payment transmission). Whereas advice is based on relevant and objective competence, transaction-based services ensure correct implementation of a secure operational structure. Kredittilsynet's responsibility for consumer protection is based in the Financial Supervision Act and various other acts, regulations and circulars that regulate the financial industry.

Kredittilsynet's main goal is to promote financial stability and well functioning markets through its supervision of institutions and markets. Behind this goal lie important economic considerations and a desire to protect consumers and investors. Bank crises and securities market collapses can spark heavy economic losses for society and costs for the consumer. Hence financial stability, and confidence in banks' and insurance companies' ability to discharge basic functions related to redistribution of capital and risk, are a prerequisite for good consumer protection. Supervised entities manage client assets in important areas – for bank depositors, insurance policy holders and securities market investors. Where uncertainty arises about the position of banks and insurers, the result may be larger costs and higher prices of financial services to consumers, and, at worst, loss of capital. Hence a significant portion of consumer protection has to be assured through regulations and supervision of supervised firms' solidity and through various public guarantee schemes such as the one that guarantees bank deposits. Protection of consumer interests through continuous supervision is therefore largely indirect, but in some cases also direct through oversight of compliance with concrete regulations. Some central consumer-oriented statutes in the financial area (Financial Contracts Act and Insurance Contracts Act) are administered by other bodies (Ministry of Justice and the Police).

Supervision of institutions focuses on their financial position and operations and their compliance with business rules and general rules of conduct. Continuous supervision of financial institutions' solvency means that deposits are safe, and that ongoing agreements with institutions are upheld. Supervision of companies that manage securities funds and of insurers/pension funds also involves 'product control' of benefit to consumers. Some of the supervisory tasks that highlight the consumer aspect are detailed below.

Kredittilsynet receives many inquiries related to consumers' interface with institutions under supervision and agreements made with them. While not taking a stand on private law obligations, Kredittilsynet uses these inquiries as a 'signal' when selecting institutions for closer

attention. Complaints are referred to relevant bodies established by the industry concerned and ultimately belong with the law courts.

### Supervision of financial advisers

Kredittilsynet oversees that investment firms that are licensed to provide investment advice related to financial instruments comply with detailed conduct-of-business rules. The emphasis is on making advisers accountable for the choice and composition of products that are particularly recommended to consumers.

A number of the provisions of the securities trading legislation that bear on investor protection also apply to financial advisers at banks who advise on deposit-based structured products. See the box article on structured products in *Banking and finance*, page 36 and 37.

### Supervision of brokers

Supervision of investment firms focuses on their compliance with the conduct of business rules. Kredittilsynet emphasises managements' responsibility for minimising conflicts of interest and safeguarding the interests of their clients. The aim of assessing the qualifications of senior employees is to ensure that those in charge of the business have sufficient competence and experience in addition to good repute.

Supervision of insurance brokers focuses on their compliance with the requirement to provide information to clients. Insurance broking firms' obligation to document their assessment of senior employees' qualifications indirectly promotes consumer protection. The firms are routinely asked how they select and check on insurers.

Supervision of estate agents focuses on their compliance with rules of good estate agency practice, and priority is given to residential property broking over commercial property broking. Kredittilsynet checks their observance of mandatory contract rules designed to protect the consumer.

### Supervision of payment systems/internet banks

Consumer interests in a well functioning system for trade in goods and services are assured through efficient, well functioning payment systems. Kredittilsynet oversees that payment systems are organised and operated in accordance with law. Norges Bank has corresponding oversight over interbank systems.

### Follow-up of listed firms' compliance with the disclosure obligation, including financial reporting

Kredittilsynet oversees listed firms' periodic financial reporting, helping to ensure that small savers and other investors receive relevant

information as a basis for their share investment decisions. The same applies to Oslo Børs' oversight of listed firms' compliance with the requirement for continuous disclosure to the market. Kredittilsynet has no direct oversight in relation to the latter requirement, but rather a sanction role in the event of breaches.

### Follow-up of occupational pension schemes

Follow up of occupational pension schemes is two-pronged. First, Kredittilsynet sees to it that employers establish mandatory occupational pension schemes. The agency may order the establishment of such schemes and can impose a cumulative daily fine in the event of non-compliance. Kredittilsynet does not visit employers, but follows up employees' and other parties' reports if no such scheme is in place.

Second, pursuant to the legislation on defined-contribution and defined-benefit pension schemes, Kredittilsynet oversees that pension schemes are managed in accordance with law. Kredittilsynet can require an entity to ensure that any calculation or distribution of assets that is at variance with the rules is rectified within a set period.

If the deadline is overstepped, the agency is empowered to lay down guidelines for the business, appoint a new board or new management team for the pension scheme or decide that it should be wound up.

### Supervision of compliance with other contractual rules

Kredittilsynet also oversees insurers' and pension funds' compliance with the rules of the Insurance Activity Act in the area of private law, e.g. the rules on the right of transfer. However, Kredittilsynet has done little to check insurers' compliance with the rules of the Insurance Contracts Act. Responsibility for enforcing this Act rests with the Ministry of Justice and the Police, and policyholders' complaints are referred to the Insurance Complaints Board.

The Financial Contracts Act also belongs under the Ministry of Justice and the Police. Complaints received by Kredittilsynet from bank customers are referred to the Banking Complaints Board. Under both the above Acts, complaints indicating systematic offences on the part of an institution give grounds for supervisory follow-up by Kredittilsynet.

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## Consumer information

Kredittilsynet's website is a key channel for information from the agency. Consumer-oriented information is largely communicated via this channel, accessed directly from *Forbruker* on the website's

front page. It gives users of financial services an overview of rules, rights, complaint arrangements, guarantee schemes etc., and provides links to laws, rules and complaints bodies.



Investor warnings are a special website service addressed to small savers and other investors. Experience gained in Norway as elsewhere suggests that a number of firms offering unsolicited investment advice lack the requisite licence. If Kredittilsynet learns of named entities operating in the market without a licence, it publishes investor warnings on its website. Some such investment offers have turned out to be pure scams. Recurrent features are an aggressive salesman, an allegedly highly profitable investment at negligible risk, and the importance of a quick decision by the customer. Kredittilsynet advises anyone receiving such an offer to be wary. All Norwegian firms with a licence to offer this type of service are listed in Kredittilsynet's register. A separate list is available of firms licensed elsewhere in the EEA who have notified Kredittilsynet of their presence in Norway.

### **Finansportalen.no**

Finansportalen.no is an information service catering to private individuals in Norway. Thus far Finansportalen.no has concentrated on compiling and comparing information on non-life insurance, the most important banking services and saving and investment. The portal also contains a functionality that assists the consumer in the process of changing bank or in obtaining better terms from their present bank. Other product and business areas in the financial industry will be included in later versions of Finansportalen.no.

Kredittilsynet contributed heavily to the planning of Finansportalen.no, and provided advice and input during the development process.

Responsibility for developing and operating the portal rests with the Consumer Council until further notice.

### **Secretariat to complaints board**

The Insurance Mediation Directive requires member states to encourage the establishment of suitable and effective complaint and redress procedures with a view to settling disputes between insurance intermediaries and customers out of court. A complaints board has duly been set up to handle complaints against insurance and reinsurance intermediaries. Kredittilsynet is secretariat to the board.

# International activities

Kredittilsynet's international activities in 2008 were increasingly influenced by the financial market crisis. In addition to the usual scheduled meetings centred on regulatory development and supervisory standards, closer cooperation was needed among supervisory authorities of many countries. This enabled them to inform one another about crisis responses at the national level and to coordinate actions to dampen the impact of the financial crisis.

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## International cooperation on crisis management

The financial crisis has highlighted the need for improved communication and coordination between governments, supervisory authorities and central banks, and for better harmonisation of rules and practice in relation to crisis management. Many meetings and telephone conferences were held in autumn 2008 to discuss the impacts of the crisis and mitigating measures. The collapse of Lehman Brothers and of Icelandic banking operations established in Europe heightened the need for supervisory authorities to dialogue about decisions made and to exchange experiences and solutions.

Cooperation between supervisory authorities was close, and concerted political pressure was applied to strengthen supervisory convergence. Nonetheless most crisis measures were shaped and implemented at the national level, with limited international coordination. One experience gained was that supervision of financial

conglomerates operating in many countries had functioned poorly, prompting current efforts to strengthen this area of supervision. More harmonised rules for crisis management and wind-up of individual institutions are a prerequisite for resolving future crises in a smooth and fair manner that does not inhibit competition among market participants and that ensures equal treatment of customers regardless of nationality. More than ever before, improved cooperation and coordination are highlighted as key to the effective and efficient functioning of the single financial market.

EU's supervisory committees are working to coordinate and increase the efficiency of cross-border supervision. Coordination also needs to be assured across sectors in order to avoid regulatory arbitrage and to promote a level playing field for the industry across the entire EEA.

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## More international cooperation on consumer protection and consumer information

The crisis has directed attention to the information given to the consumer and to how far consumers understand financial products and the investments they embark on. EU institutions have consumer issues and consumer information high on the agenda, and in the financial sector Commissioner McCreevy in particular has sought to induce the financial authorities to take more responsibility for consumer education and information.

In May Kredittilsynet attended the International Conference on Financial Education in Washington, D.C., co-organised by the OECD and the US Department of Treasury. The conference – part of the

OECD's ongoing project on consumer-oriented financial information – presented international projects in financial education and enabled exchange of experience and knowledge in this field. The OECD's new website, International Gateway for Financial Education ([www.financial-education.org](http://www.financial-education.org)), was launched in April 2008.

The conference was preceded by a meeting of the International Network on Financial Education whose purpose is to discuss themes including rules and programmes to raise consumer competence in the financial sphere.

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## Integrated supervision

The integrated supervision model entails joint supervision of banks, insurance companies and securities businesses. Kredittilsynet was the first integrated supervisory body to be established in Europe. More and more countries are opting for this organisation model, especially after the UK set up its Financial Services Authority in 1997. Finland, the last Nordic country to do so, merged its supervisory authorities in the financial sector on 1 January 2009, as did Switzerland on the same date.

Since 1999 a number of supervisory authorities with an integrated approach to supervision have met informally each year to discuss administrative and technical matters of common interest. In 2008 the Integrated Financial Supervisors Conference was held in Vienna, attended by representative of supervisory authorities from 16 countries. Topics discussed included the financial turbulence, corporate governance and internal governance, communication strategy and performance indicators for supervisors.

## Regulatory development in the financial sector in the EU – the Lamfalussy procedures

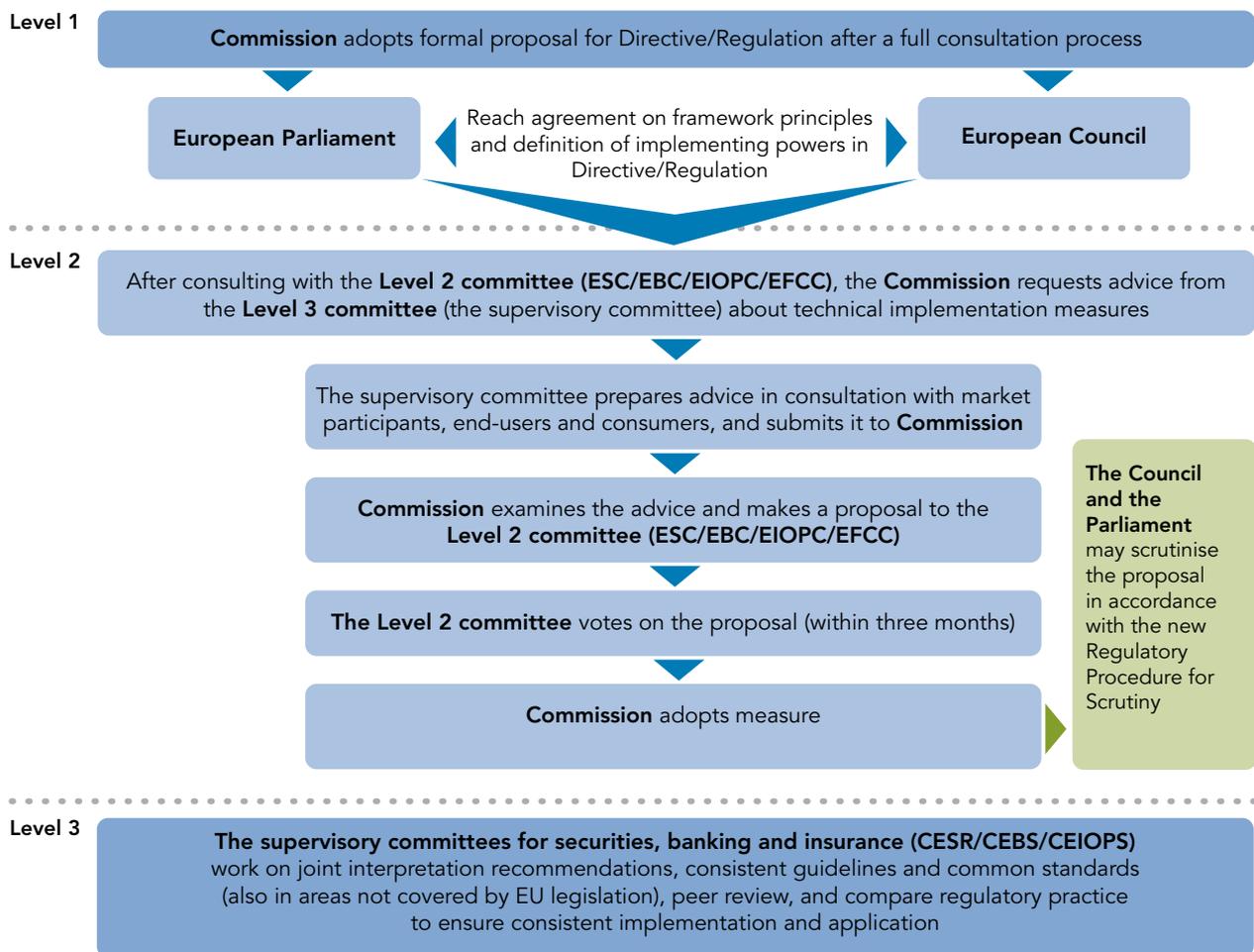
Since Norway does not have access to the decision-making process in the European Council and the European Parliament, it is all the more important for Kredittilsynet to attend meetings under the European Commission and take part in the EU supervisory committees. Kredittilsynet accordingly prioritises participation in these committees and expert groups since it is here that Kredittilsynet has the best opportunity to influence regulatory development in the EU.

Within the financial sector (banking, insurance and securities) regulatory development in the EU follows the Lamfalussy procedure (see following illustration). The Ministry of Finance participates as an observer at meetings of the following Level 2 bodies: European Securities Committee (ESC), European Banking Committee (EBC), European Insurance and Occupational Pensions Committee (EIOPC)

and European Financial Conglomerates Committee (EFCC). Kredittilsynet participates as an adviser to the Ministry of Finance at the EBC, EIOPC and EFCC. Kredittilsynet participates in all supervisory committees at Level 3, and in several of the subcommittees and working groups. Kredittilsynet also participates in an informal cross-sectoral committee, the Interim Working Committee on Financial Conglomerates (IWCFC), drawing members from the three supervisory committees. IWCFC coordinates matters of common interest, particularly issues related to financial conglomerates.

In addition to the cross-sectoral corporation under IWCFC auspices, importance is attached to cooperation between the three supervisory committees. The committee chairpersons and secretariats meet on a regular basis, and a joint work plan is drawn up each year.

Chart 7: Levels in the Lamfalussy procedure



## Securities market

Kredittilsynet is a member of the International Organization of Securities Commissions (IOSCO) and participated at the annual meeting in May 2008. Under IOSCO Kredittilsynet is a member of the European Regional Committee. IOSCO has drawn up a Multilateral Memorandum of Understanding (MMoU) concerning Consultation and Co-operation and the Exchange of Information to which Kredittilsynet acceded in 2006.

Kredittilsynet participated at a meeting of the Enlarged Contact Group on Supervision of Collective Investment Funds in Vienna in October 2008. The Enlarged Contact Group is a global forum for supervisory authorities overseeing securities funds. The group's main

purpose is to exchange experiences and information related to supervision of securities funds.

At the EU/EEA level Kredittilsynet is a member of the Committee of European Securities Regulators (CESR). CESR acts as an advisory group to ESC and the EU Commission and works to ensure consistent supervision and enforcement of community legislation in member countries. Kredittilsynet plays an active part in several CESR working groups, and in 2008 focused in particular on the implementation of the Markets in Financial Instruments Directive (MiFID) and on a new transaction reporting system (TRS). CESR is currently seeking a common understanding and application of legal acts adopted at Levels 1 and 2.

## Banks and financial institutions

The Basel Committee on Banking Supervision under the Bank for International Settlements (BIS) adopts international standards for banking supervision and coordinates the global banking supervision collaboration. Although Norway is not a member of the Basel Committee, Kredittilsynet receives relevant documents from the Committee and is invited to comment on them, and to take part in some of the Committee's activities. Every second year the Basel Committee organises the International Conference of Banking Supervisors – ICBS). Kredittilsynet participated at the 2008 conference, held in Belgium in September.

Since 2006 Kredittilsynet has been invited – together with Norges Bank – to attend as an observer a number of meetings of the Banking Supervision Committee of the European Central Bank (ECB). Kredittilsynet and Norges Bank also attend bilateral meetings with ECB representatives.

Kredittilsynet attends all meetings of the Committee of European Banking Supervisors (CEBS) and most meetings of CEBS' sub-groups, including Groupe de Contact (the main working group under CEBS). Work is in progress on implementing the new capital adequacy requirements, new common reporting systems for banks, coordination of supervisory authorities' procedures and routines for publication of items related to capital adequacy etc. Within Groupe de Contact banking supervisors regularly exchange information on problems in the banking sector and identify and attempt to coordinate supervisory methods in EEA member countries. A group has been specifically set up to coordinate operational supervision of banking groups operating in two or more countries. CEBS and Groupe de Contact have played an important coordinating role in connection with the financial crisis, and there were numerous meetings and telephone conferences in 2008.

## Insurance and pensions

Kredittilsynet is a member of the International Association of Insurance Supervisors (IAIS) and participates in the development of international principles for supervision of insurance business. Kredittilsynet is represented on the technical committee, which has overarching responsibility for standard setting. The IAIS held its fifteenth annual conference in October 2008 in Budapest where several standards and guidelines were adopted, including standards related to capital requirements, internal models and risk management and principles for supervision of conglomerates. The IAIS has also developed a Multilateral Memorandum of Understanding

(MMoU) along the lines of IOSCO's MMoU, and has started the accession process.

Kredittilsynet is also a member of the International Organization of Pensions Supervisors (IOPS) and attended IOPS' annual conference in Mombasa, Kenya, in 2008. IOPS develops regulatory and supervisory standards in respect of private pension arrangements.

At the EU/EEA level Kredittilsynet participates at the meetings of the Committee of European Insurance and Occupational Pensions

## International activities

Supervisors (CEIOPS), and also attends most of CEIOPS' working groups and committees. The bulk of CEIOPS' work consists in preparing advice to the European Commission on the reform of EU solvency rules. The proposal for a new insurance directive (the Solvency II directive), which was presented by the European Commission in July 2007, is based on advice from CEIOPS. CEIOPS

is continuing its drafting of technical implementing measures for the Commission in a number of areas. In connection with the new framework, CEIOPS has conducted several Quantitative Impact Studies (QIS). Several Norwegian insurers participated in QIS 4, and the report was made public at the CEIOPS conference in November 2008. See *Insurance and pensions*, page 45.

## Accounting and auditing

The growing importance attached to auditors' role in an increasingly globalised financial market and new, more stringent rules in the US and EU, have heightened the need for cross-border cooperation and information exchange between audit regulators. 2006 saw the establishment of the International Forum of Independent Audit Regulators (IFIAR). IFIAR provides a forum for contact between audit regulators and promotes the sharing of knowledge on the audit industry, practical experience of audit regulatory and supervisory activity, etc. Kredittilsynet is a member of IFIAR and hosted a three-day meeting in Oslo in spring 2008. On the final day a meeting was held with the managements of several major audit firms. The head of Accounting and Auditing Supervision at Kredittilsynet is a member of IFIAR's Advisory Council, which assists and advises the IFIAR officers in their duties. Other countries represented on the Advisory Council are the US, Japan, Germany, Singapore and France.

Norwegian audit firms involved in the audit of issuers listed in the US must be registered with the Public Company Accounting Oversight Board (PCAOB). Kredittilsynet attaches importance to good supervisory collaboration with the PCAOB, and there was much contact between the two bodies in 2008, above all in connection with the planning of a joint inspection of an audit firm in Norway.

Regulatory development in the EU in the accounting and audit field follows the comitology system. Kredittilsynet and the Ministry of

Finance attend meetings of the Accounting Regulatory Committee (ARC) which is assessing the new International Financial Reporting Standards (IFRS) and advising on their implementation in the EU. Kredittilsynet participates actively in the European Enforcers Coordination Sessions (EECS) under CESR, whose duty is to harmonise and coordinate the supervision of the implementation of IFRS in the EEA. All concluded cases are assigned to a common database to ensure that the information is available to accounting and securities supervisors, and to promote harmonisation. The group also meets regularly with the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) – the standard setter and the interpretations body, respectively – to ensure that IFRS standards are consistently applied across the EEA.

Kredittilsynet participates in the development of regulations and standards for auditors in the EU. In consequence of the new Audit Directive the EU Commission set up the Audit Regulatory Committee (AuRC) and the European Group of Auditors' Oversight Bodies (EGAOB). The latter is headed by the Commission, in contrast to the supervisory committees in the financial area which are headed by a supervisory authority and which are attended by the Commission in an observer capacity. Kredittilsynet attends meetings of both committees and several relevant subgroups as an observer.

## Combating money laundering and terror financing

Kredittilsynet plays a part in developing national and international measures against money laundering and terror financing. It attends meetings of the Financial Action Task Force (FATF), which is developing international standards for measures to combat money laundering and terror financing. Kredittilsynet has been a key driver of the effort to follow up anti-money laundering measures in the securities

sector. The agency also participates in the FATF Terror Financing Working Group and collaborates with the UN in this field. At the EU/EEA level participates in the EU Committee on the Prevention of Money Laundering and Terror Financing which was set up in conformity with the Third Money Laundering Directive. In 2008 there was a particular focus on implementing this Directive.

## EFTA cooperation

Kredittilsynet currently chairs EFTA's Working Group on Financial Services and participates in EFTA's Working Group on Company Law. The remit of these working groups – which operate under EFTA's Subcommittee II in the EFTA pillar within the EEA structure – is to coordinate viewpoints and to incorporate into the EEA agreement legislative acts in the financial sector and in the capital movements and

company law areas (including accounting and auditing). The working groups are useful forums for obtaining updates on legislative developments in the EU. At each meeting representatives of the European Commission or other EU institutions are invited to give presentations on a variety of initiatives and to give updates on the decision-making process in the European Council and the European Parliament.

## Nordic cooperation

Nordic cooperation remains a high priority. Kredittilsynet attaches importance to good cooperation, both formal and informal, with its counterparts in the other Nordic countries and has concluded a joint cooperation agreement with its Nordic counterparts, along with individual cooperation agreements on the supervision of specific financial groups. In addition to annual meetings of Nordic financial supervisors at director general level, annual meetings are held at department level within the various sectors and at the administrative level. Kredittilsynet's supervisors representatives attended a number

of meetings with their Nordic counterparts focusing on supervision of Nordic financial groups, and several joint on-site inspections were carried out.

Since 2005 regular meetings have been held between the auditor supervisory authorities in Sweden, Denmark, Finland and Norway. The meetings show the value of closer contact and cooperation in the audit area, as elsewhere, not least in order to discuss issues associated with the implementation of the EU's Audit Directive.

## Other meetings and bilateral cooperation

Kredittilsynet attends meetings of the OECD Insurance Committee and the OECD Capital Markets Committee on a regular basis, in addition to a number of other meetings under OECD auspices.

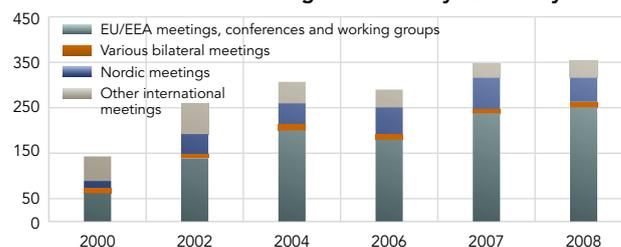
Although much international activity takes place under the auspices of international organisations, notably EU committees and working groups, Kredittilsynet continues to attach importance to good bilateral collaboration with relevant supervisory authorities. In April 2008 Kredittilsynet's Board visited Iceland and met representatives of the country's financial supervisory authority, central bank and largest banks. Kredittilsynet has signed MoUs to facilitate information exchange with other supervisors. The MoUs are designed to strengthen cooperation between Kredittilsynet and the respective parties. Multilateral MoUs are in effect between all EEA countries in the insurance, pensions and securities fields, and Kredittilsynet has also acceded to IOSCO's multilateral MoU. In addition there are several bilateral MoUs.

Kredittilsynet meets each year with representatives of the US Federal Reserve Bank, and in 2008 was visited by delegations from India, Lithuania, Korea and Japan. Kredittilsynet hosted several international meetings in 2008, including IFIAR, IWCF and the Internal Models Expert Group, a working group under CEIOPS.

### IT supervision

Kredittilsynet participates in Nordic IT supervisory cooperation as part of its ICT security effort. It also attends meetings of a number of international organisations. These encompass international IT supervisory cooperation through the Information Technology Supervisors Group (which also has a European subgroup), groups on international standardisation in the banking and security field and on electronic signatures and infrastructures standardisation (ETSI ESI), and in the IT security working group under the International Federation for Information Processing (IFIP). Kredittilsynet is Norway's representative in the European Security Research and Innovation Forum (ESRIF), an EU body working on security. The agency also participates in an EU-sponsored project to develop measures to enhance the ability to discover and respond to security events on the internet.

Chart 8: International meetings attended by Kredittilsynet



Source: Kredittilsynet

Table 17: International organisations and EU/EEA related committees in which Kredittilsynet participates

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#### Cross-sectoral meetings

- Integrated Financial Supervisors Conference
- EFCC (European Financial Conglomerates Committee – Level 2)
- IWCF (Interim Working Committee on Financial Conglomerates – Level 3)
- Nordic supervisory meetings
- BSC (Banking Supervisory Committee under the European Central Bank)

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#### Banking/finance

- International Conference of Banking Supervisors
- OECD Financial Markets Committee
- EBC (European Banking Committee – Level 2)
- CEBS (Committee of European Banking Supervisors), Groupe de Contact – [www.c-eps.org](http://www.c-eps.org)
- Nordic supervisory meetings

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#### Insurance

- IAIS (International Association of Insurance Supervisors) – [www.iaisweb.org](http://www.iaisweb.org)
- IOPS (International Organisation of Pension Supervisors) – [www.iopsweb.org](http://www.iopsweb.org)
- OECD Insurance Committee
- EIOPC (European Insurance and Occupational Pensions Committee – Level 2)
- CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors) – [www.ceiops.eu](http://www.ceiops.eu)
- Conference of European Insurance Supervisory Services
- Nordic supervisory meetings

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#### Securities

- IOSCO (International Organization of Securities Commissions) – [www.iosco.org](http://www.iosco.org)
- ECG (Enlarged Contact Group on Supervision of Collective Investment Funds)
- ESC (European Securities Committee – Level 2)
- CESR (Committee of European Securities Regulators) – [www.cesr.eu](http://www.cesr.eu)
- Nordic meetings

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#### Accounting and auditing

- IFIAR (International Forum of Independent Audit Regulators) – [www.ifiar.org](http://www.ifiar.org)
- ARC (Accounting Regulatory Committee)
- Accounting Contact Committee
- AuRC (Audit Regulatory Committee)
- EGAOB (European Group of Auditors' Oversight Bodies)
- Nordic meetings

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#### Money laundering and terror financing

- FATF (Financial Action Task Force) – [www.fatf-gafi.org](http://www.fatf-gafi.org)
- CPMLTF (Committee on the Prevention of Money Laundering and Terror Financing)
- Nordic meetings

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#### ICT supervision

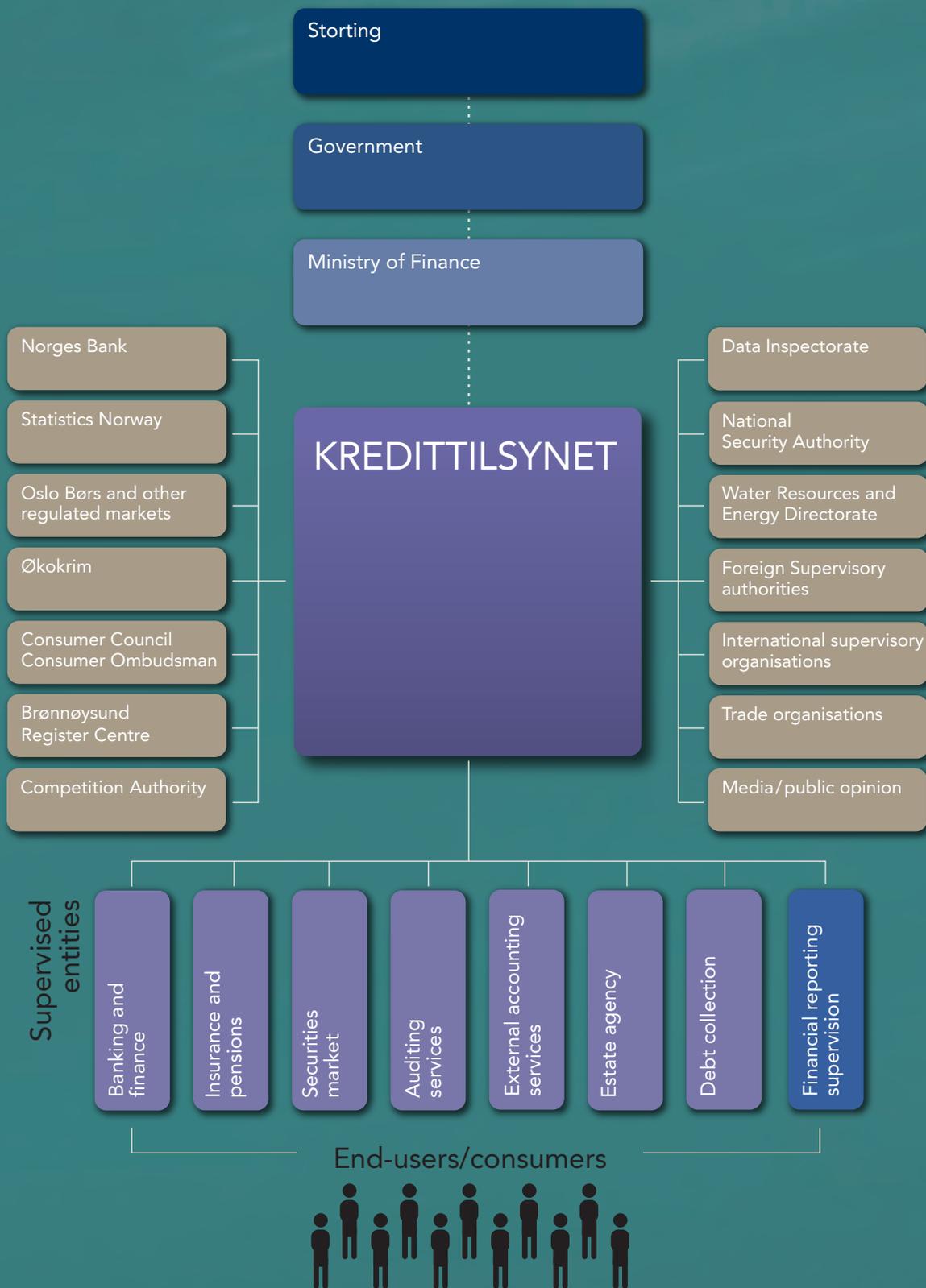
- ESRIF (European Security Research and Innovation Forum)
- ITSG (Information Technology Supervision Group)
- Nordic IT supervisory meetings
- Security working group under the International Federation for Information Processing (IFIP)
- ETSI ESI (groups working on international standardisation in banking and security and on standardisation of electronic signatures)
- CoMiFin (Communication Middleware for Monitoring Financial Infrastructures) – a European collaborative network under the EU's seventh framework programme

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#### EFTA

- EFTA Working Group on Financial Services
- EFTA Working Group on Company Law (includes accounting and auditing)

# Kredittilsynet's key relations



## The Financial Market in Norway 2007: Risk Outlook

Since 1994 Kredittilsynet has systematically analysed and assessed potential stability problems in the Norwegian financial market against the background of developments in the Norwegian and international economy. This is a necessary supplement to Kredittilsynet's ongoing supervision of individual institutions. Much of the assessment of individual institutions' profitability and financial strength needs to be carried out in light of the general state of the financial market. As from 2003 Kredittilsynet has given its view of the state of the financial market in a separate report. The report summarises financial institutions' results for the previous year in the light of general developments in the international and Norwegian economy, and assesses risks facing banks and other institutions in the Norwegian financial market.

The report is available in electronic form at [www.kredittilsynet.no](http://www.kredittilsynet.no).  
Printed version can be ordered from Kredittilsynet.

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