



FINANSTILSYNET

THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

ANNUAL REPORT

2019



Risk Outlook 2019

Analyses of trends in the financial market were covered in the *Risk Outlook* report, which was published in June and December.

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**REPORT BY THE CHAIR AND
THE DIRECTOR GENERAL**

REPORT BY THE CHAIR AND THE DIRECTOR GENERAL

Finanstilsynet's main goal is to promote financial stability and well-functioning markets. Its primary task is to supervise licensable activities. Finanstilsynet seeks to achieve the highest possible overall goal achievement through risk-based supervision and work on regulatory review and enforcement that as far as possible is adapted to the significance of the regulations for goal achievement. Finanstilsynet has largely discharged its tasks in line with the Ministry of Finance's letter of allocation and the plans made for its activities in 2019.

Pan-European financial market legislation and participation in the European supervisory cooperation entail important conditions and obligations for Finanstilsynet. The legislation, which in the main is fully harmonised in the EEA, is continuously being developed and provides limited scope for national discretion. New legislation has also resulted in new, extensive responsibilities for Finanstilsynet. Among other things, Finanstilsynet has been designated as the Norwegian resolution authority for banks in connection with the implementation of the new Banking Recovery and Resolution Directive into Norwegian law and has been given wider supervisory responsibilities in a number of areas, including anti-money laundering legislation.

In the first few years after the establishment of the European Supervisory Authorities in 2011, the cooperation mainly focused on developing supplementary rules to the new European financial market legislation passed in the wake of the financial crisis. Later, efforts have increasingly been aimed at harmonising supervisory practices in the member states. The harmonisation includes working out a common supervisory methodology and reporting requirements, as well as implementing peer reviews and joint supervision activities.

The national supervisory authorities are expected to be strongly involved in the various areas within the supervisory cooperation. Finanstilsynet is obligated to participate in this work. At the same time, the ambitions for participation in the different areas must be balanced against and adapted to Finanstilsynet's available resources in order to ensure optimal goal achievement.

The Financial Supervision Act dates back to 1956. During the period the Act has been in force, financial markets, financial market legislation and supervisory activity

have undergone significant changes. EEA legislation and supervisory cooperation within the EEA have had a particularly strong bearing on Finanstilsynet's activities. Finanstilsynet's obligations and policy instruments are largely covered by the new financial market legislation, where EEA legislation inter alia sets requirements for the supervisory authority's activities and independence. Thus, it is about time to review the Financial Supervision Act to bring it in line with Finanstilsynet's new operating parameters. Finanstilsynet has therefore presented a proposal to the Ministry of Finance to set up a committee to review the Act.

Recruiting, further developing and retaining highly qualified employees is crucial if Finanstilsynet is to discharge its task in a proper manner. Spearhead competence is required in a number of specialist areas, and Finanstilsynet is in some cases subject to strong competition for the expertise it is dependent on. Thus far, Finanstilsynet's workforce has been fairly stable, but experience from other countries shows that supervisory activity is vulnerable to a high rate of turnover. As a government agency, Finanstilsynet has limited opportunities to offer salaries that match what many of our employees may be offered by private sector employers. Finanstilsynet's main advantages in a competitive labour market are its social mission and the tasks and responsibilities this entails. In addition, it is important to be able to offer employees a sound social and professional working environment with good digital tools.

Finanstilsynet has high ambitions for digitalising its operations. Digitalisation is important to further streamline and increase the quality of work through better interaction, information management and analysis. Digitalisation should also help to make reporting to, and communication with, Finanstilsynet easier for institutions under supervision and for members of the general public who use data from Finanstilsynet. Towards the end of 2019, Finanstilsynet adopted a digitalisation strategy with goals, principles and plans for the digitalisation process over the next few years.

The financial industry has long been characterised by the use and development of information technology, which has contributed to the streamlining of operations and a better customer offering. Digitalisation and new business models, often driven by actors outside

the traditional financial industry, contribute to tougher competition for the benefit of customers. However, it may also involve new risk factors for both individual customers and the financial system. Supervisory authorities in many countries are therefore keeping a close watch on developments. As part of its information and guidance initiatives aimed at so-called fintech firms, Finanstilsynet has established a regulatory sandbox where firms are given the opportunity to try out new technologies and services and be followed up by Finanstilsynet. An important purpose of this initiative is also to give the authority better insight into how new technology can be used in the financial industry, as well as the associated opportunities and risks.

Over the past year, the consequences of climate change have received greater attention in the international financial market, both in the financial industry and among supervisory authorities. The financial industry is affected by climate risk in the form of both physical climate change and risks associated with the economic transition to lower greenhouse gas emissions. It is important that the industry captures and manages such risk in a good way in order to maintain adequate financial strength, price relevant risk and safeguard customer interests. In this way, the financial industry will also contribute to the necessary transition to a low-emission society.

In principle, climate risk should be treated as other types of risk in the financial market. However, it is complicated to model and estimate the associated financial risk on the basis of historical data. The financial supervisory authorities, central banks and other affected authorities must therefore be involved in developing analyses and regulations that can capture relevant climate risks in the financial markets. There is currently extensive international cooperation in this field. Finanstilsynet gives priority to the work on climate risk by participating in international initiatives and integrating climate risk in supervisory activities.

There is a benign trend in the Norwegian economy, which is expected to be sustained over the next few years. However, high household debt and high property prices still represent a significant systemic risk for the Norwegian economy and the Norwegian financial market. The increase in household debt has slowed somewhat, but a large proportion of new loans is taken out by households with a very high debt-to-income ratio. House prices are growing moderately, but from a high level. In addition, there is a danger of international trade conflicts and renewed financial turmoil, which poses a significant risk to the Norwegian economy and the financial system. The world economy may also be exposed to other shocks, such as a new, serious viral pandemic. The outbreak of the coronavirus shows that such situations can quickly have negative consequences for the real economy.

Norwegian banks are financially sound and profitable. This is important in the face of a potential financial setback and new financial turmoil with resulting losses. In addition, banks need the strength to face pressure on

margins as a consequence of intensified competition and must be able to manage operational risk associated with digital vulnerability and regulatory non-compliance. Banks that fail to comply with the anti-money laundering legislation and conduct of business rules risk fines and compensation claims, as well as income reductions as a result of loss of reputation. Internationally, there are many examples of banks whose income has been reduced for these reasons.

In the wake of a number of money laundering scandals in the European banking market, European supervisory authorities have increased their supervision of institutions' compliance with the anti-money laundering legislation. Finanstilsynet stepped up its activity in this field considerably throughout 2019. The new Anti-Money Laundering Act places new policy instruments at its disposal that have been taken into use to ensure compliance with the legislation.

After rising sharply for several years, the growth in households' consumer loans slowed markedly through 2019. Regulation of lending practices was introduced, and debt information undertakings came into operation last summer. This will help to keep households from taking out consumer loans they are unable to service. This segment has been highly profitable, which has been an important driving force behind the growth in lending. Although losses have thus far been moderate relative to the interest margin on such loans and lending growth has abated, future losses may be significantly underestimated. The level of default is high and increasing, and extensive losses may be recorded on consumer loans in the period ahead. Finanstilsynet has sought to take this into account when setting the special capital requirements for individual banks.

The role of the stock exchange in the Norwegian securities market has changed significantly since the early 2000s. Securities are largely traded on marketplaces outside the stock exchange where they are listed, and trading and settlement processes have been streamlined. Authority in the securities area which was previously exercised by the stock exchange, has been transferred to Finanstilsynet. However, a well-functioning Oslo Børs is essential to a well-functioning Norwegian securities market where businesses can raise capital and securities can be effectively traded.

In 2019, Oslo Børs was acquired by the European stock exchange group Euronext. The new ownership has no bearing on the significance of the stock exchange in the Norwegian financial market. The supervision of Oslo Børs and the infrastructure of the securities market will therefore still be among Finanstilsynet's priority tasks.

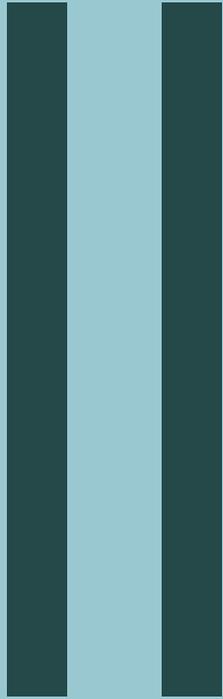
Oslo, 24 February 2020



Finn Arnesen
Board Chair



Morten Baltzersen
Director General



INTRODUCTION AND MAIN FIGURES

INTRODUCTION AND MAIN FIGURES

Finanstilsynet's role and responsibilities

Finanstilsynet is an independent government agency that builds on laws and decisions emanating from the Storting (Norwegian parliament), the government and the Ministry of Finance. Finanstilsynet also participates in extensive international cooperation. Through the EEA Agreement, EU financial market regulation is implemented in Norwegian law.

Through its supervision of enterprises and markets, Finanstilsynet promotes financial stability and well-functioning markets and helps to instil confidence that financial contracts will be honoured and services performed as intended.

Finanstilsynet supervises how the institutions operate in the financial markets, whether they are financially sound and able to cope with changing economic conditions, and whether they have an acceptable risk level.

Basis in law

Finanstilsynet's mission is set out in the Financial Supervision Act (section 3):

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

Strategy

Every four years, Finanstilsynet reviews the strategy underlying its activities. The strategy is an important basis for ongoing prioritisation and management of the authority's activities. Along with the letter of allocation from the Ministry of Finance, the strategy forms the basis for the annual plans for these activities. Finanstilsynet adopted a new strategy for the period 2019–2022 which was approved by its Board of Directors on 18 December 2018. The Board adopted a digitalisation strategy for Finanstilsynet on 16 December 2019. See account in chapter IV *Management and control of Finanstilsynet's operations*, page 82.

Main goal

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

Operational goals 2019–2022

In the strategy for 2019–2022, six operational goals were formulated to simplify operationalisation of the main goal and evaluation of activities. The operational goals have been used in the reporting of goal achievement in 2019, see account on pages 24–29. The operational goals are:

1. Financially sound and well-capitalised financial institutions
2. Robust infrastructure
3. Investor protection
4. Consumer protection
5. Effective crisis management
6. Fight against crime

Instruments

Finanstilsynet's activities are wide-ranging, and a number of instruments are deployed with a view to meeting the authority's goals. The instruments are used individually or in combination and can be divided into four main groups:

- Supervision, monitoring and control
- Licensing
- Regulatory development
- Information and communication

Management

Finanstilsynet's Board of Directors has by law the overarching responsibility for Finanstilsynet's activities. The Board has five members. Members and alternates are appointed by the Ministry of Finance for a term of four years. In addition, board meetings are attended by an observer from Norges Bank who is also appointed by the Ministry of Finance. As from 1 March 2018, Finn Arnesen has been chair of Finanstilsynet's Board of Directors.

The day-to-day management is in the hands of the Director General, who is appointed for a period of six years at a time. Morten Baltzersen has been Director General since 15 August 2011 and started his second term in August 2017. The Director General confers with a management team consisting of the directors of the supervisory departments and the Administration Department, the General Counsel and the Communications Director.



Composition of the Board of Directors as of 1 March 2018:

Finn Arnesen

chair

Professor – Scandinavian Institute of Maritime Law, former head of the Centre for European Law, the Faculty of Law, University of Oslo

Giuditta Cordero-Moss

deputy chair

Professor – Department of Private Law, the Faculty of Law, University of Oslo

Mette Bjørndal

board member

Professor – Department of Business Management and Science, NHH Norwegian School of Economics

Kjetil Wibe

board member

Attorney-at-law – Advokatene Rege & Wibe

Arne Skauge

board member

Retiree, previously Managing Director of the Norwegian Financial Services Association

Thorunn Falkanger

first alternate

Senior lecturer – Department of Law and Governance, BI Norwegian Business School

Bjørn Arild Gram

second alternate

Mayor – Steinkjer municipality

Sindre Weme

observer

Director, Banking Analysis – Norges Bank

Ylva Søvik

alternate observer

Assistant Director, Banking Analysis – Norges Bank

Two members elected by and from among the employees supplement the Board when administrative matters are dealt with.

The following have represented the employees as from 26 March 2019:

Marit Skjevling, Senior Adviser

Eirik Ihlen, Senior Adviser

The following represented the employees up to 26 March 2019:

Inga Baadshaug Eide, Senior Adviser

Johan Fredrik Øhman, Senior Adviser

Their alternates were Senior Adviser **Elise Ødegård**, Adviser **Jim Signor Grimnes** and Senior Adviser **Alfred Ødegård**.

Eleven ordinary board meetings were held in 2019. The Board decided 28 administrative matters and 69 supervisory matters. The Board received information in writing on a further 29 administrative matters and 44 supervisory matters. The Board also receives a verbal briefing on relevant matters.

From the left:
Mette Bjørndal
Eirik Ihlen
Giuditta Cordero-Moss
Arne Skauge
Marit Skjevling
Finn Arnesen
Sindre Weme
Thorunn Falkanger
Bjørn Arild Gram
Kjetil Wibe

Photo:
Jarle Nytingnes



Finanstilsynet's management team

Morten Baltzersen

Director General

Ann Viljugrein

Deputy Director General, Banking and Insurance Supervision

Anne Merethe Bellamy

Deputy Director General, Capital Markets Supervision

Per Mathis Kongsrud

Deputy Director General, Digitalisation and Analysis

Cecilie Ask

General Counsel

Gun Margareth Moy

Deputy Director General, Administration

Lisbeth Strand

Communications Director (as from 1 November 2019)

Up to 1 November 2019, **Kjetil Karsrud** held the position of Communications Director.

From the left:
Ann Viljugrein
Anne Merethe Bellamy
Gun Margareth Moy
Morten Baltzersen
Per Mathis Kongsrud
Cecilie Ask
Lisbeth Strand

Photo:
Jarle Nytingnes

Licensable entities under supervision

- banks
- finance companies
- mortgage companies
- savings bank foundations and financial foundations
- debt information undertakings
- payment institutions
- e-money institutions
- account information service providers
- insurers
- insurance intermediaries
- pension undertakings
- regulated markets (incl. stock exchanges)
- central counterparties
- central securities depositories
- investment firms
- fund management companies
- alternative investment fund managers (AIFMs)
- auditors and audit firms
- external accountants and external accounting firms
- real estate agents and real estate agencies
- debt collection agencies
- benchmark administrators

Certain other supervisory tasks

- resolution authority
- macroprudential supervision and regulation
- prospectus control – transferable securities
- financial reporting enforcement – listed companies
- supervision of trading and conduct in the securities market
- supervision of various aspects of the derivative market
- supervision of the determination and use of reference rates etc.
- supervision of ICT, payment systems and financial infrastructure
- compliance with the anti-money laundering legislation among trust and company service providers and providers of exchange and storage services for virtual currencies, as well as entities under supervision

Personnel policy and organisation

Finanstilsynet works continuously to further develop its organisation in keeping with national recommendations and its own needs. Finanstilsynet attaches importance to measures designed to recruit, retain and further develop capable staff members and managers. In addition, Finanstilsynet focuses on internal mobility to increase the overall level of competence.

Finanstilsynet's Directors have completed a so-called 360-degree evaluation. There was a corresponding evaluation of the section heads in early 2020. A digital tool supporting performance reviews was used by the entire organisation for the first time in 2019, and its content and further use will be evaluated during the coming year. Finanstilsynet participated in two projects initiated by the government authorities, 'Blind recruitment' and 'Inclusion campaign', aiming to heighten awareness of the danger of bias in recruitment processes and to reach the target that persons with gaps in their CV or reduced working capacity should represent 5 per cent of the total number of new employees.

Staff turnover was 8.4 per cent in 2019, up from 6.5 per cent in 2018. There has been an increase in the number of recruited employees for several years, and there were 35 announcements of vacant positions in 2019. Several of the announcements included more than one position, and some positions were announced several times before the right candidate was found.

Finanstilsynet is marketing itself to the target groups it is recruiting from and uses alternative recruitment methods to ensure that the organisation attracts the right competencies. It has proven difficult to recruit qualified expertise in some specialist fields.

Finanstilsynet's activities require both cross-disciplinary competence and spearhead competence in the various areas of supervision. The majority have their training in economics, business economics, law or auditing.

Facts and figures

Finanstilsynet had 305 permanent positions at the end of 2019, compared with 298 one year earlier. The number of employees at the end of 2019 was 320, up from 302 at year-end 2018. This includes short-term appointments, such as persons paid by the hour, internships and other temporary staff, which came to a total of 29 employees. Adjusted for part-time positions, the number of contracted FTEs totalled 292 in 2019, compared with 282 in 2018. The number of FTEs worked was 279 in 2019, up from 257 in 2018. The number of FTEs worked corresponds to the number of contracted FTEs, plus overtime etc., but after the deduction of days of absence apart from holidays/time off in lieu. The gender distribution at Finanstilsynet was 50.5 per cent men and 49.5 per cent women as at 31 December 2019. At the end of 2019, the management team comprised five women and two men. Among the heads of section, there were 39 per cent men and 61 per cent women.

The Director General's salary at the end of 2019 was NOK 1,690,000. The fixed annual remuneration to the Board Chair was NOK 278,800, to the Deputy Chair NOK 188,300 and to each board member NOK 163,100. Remuneration to the first alternate was NOK 137,300 and to the second alternate NOK 115,100.

Sickness absence remained low at 4.9 per cent in 2019, compared with 4.2 per cent in 2018. The agency's sickness absence target is 3.5 per cent. With its espousal of the government-sponsored 'IA Agreement' regarding a more inclusive working life, Finanstilsynet attaches importance to following up employees on long-term sick leave and introduces measures against frequent short-term sick leaves if necessary.

The chart shows the age distribution of Finanstilsynet's employees. The figures include permanent staff, temporary staff, fixed-term employment contracts and short-term appointments – regardless of FTE percentage.

Chart 1: Age distribution

Source: Finanstilsynet/SAP

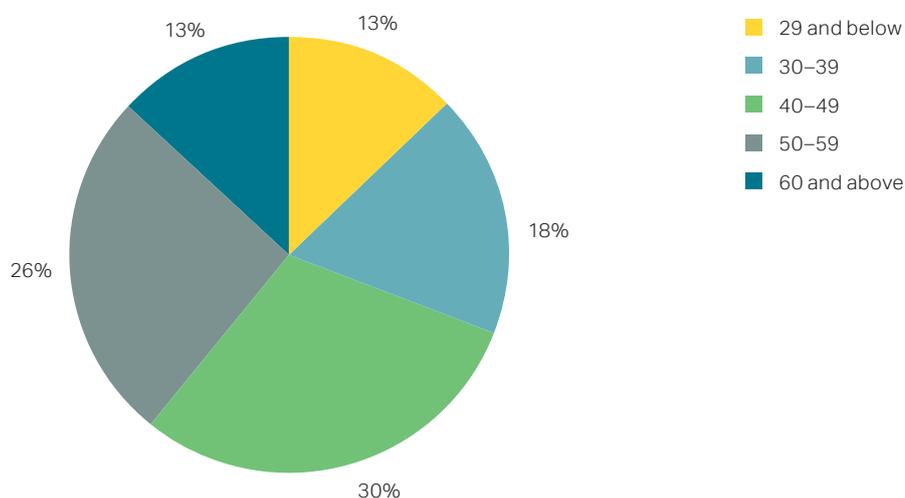
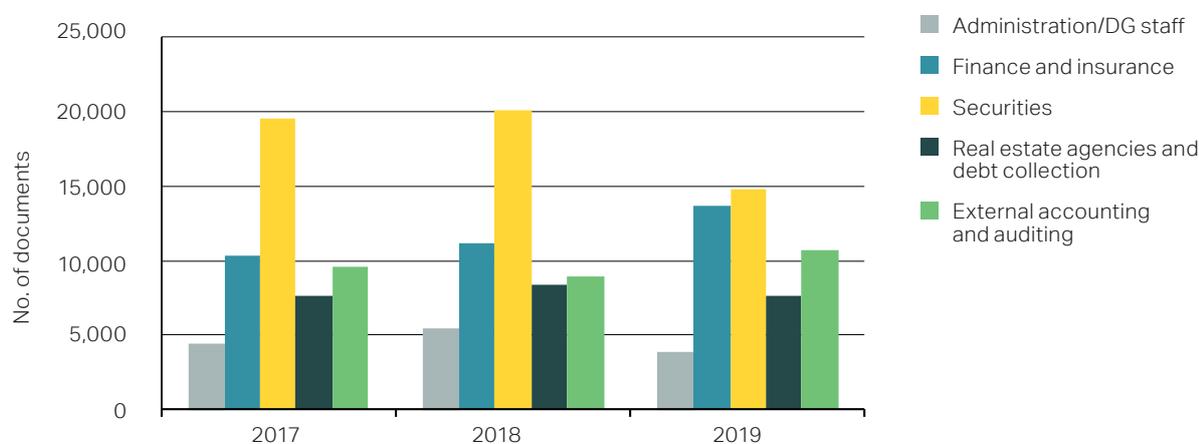


Table 1: Main figures

	2018	2019
No. of FTEs worked	257	279
Overall allocation, items 01–99	NOK 414,514,000	NOK 448,985,000
Utilisation ratio, items 01–29	96.09%	97.68%
Disbursement to operations	NOK 381,580,822	NOK 426,821,082
Salaries as a share of operating expenses	72.00%	73.36%
Salary expenses per FTE	NOK 1,068,982	NOK 1,122,242

'Salary expenses per FTE' is the sum total of salary, employer's national insurance contributions, pension expenses, other payments, such as social benefits, personal insurance etc. Before the sum is divided by the number of FTEs, any refunds relating to salaries are deducted. See also chapter VI *Annual accounts* on page 96, note 2: Disbursements to salaries to table 9: Statement of reporting by natural classification 31 Dec. 2019.

Chart 2: Document processing

	2017	2018	2019
Total no. of case documents	51,527	54,024	50,737

The number of incoming and outgoing documents registered declined by 3,287 from 2018 to 2019.

Chart 2 shows the number of documents per area. The reason for the reduction in the securities area is fewer registered reports on UCITS funds. There was an increase in case documents in the finance and insurance area due to more registrations and notification requirements for new supervisory categories, enquiries from private individuals and enterprises concerning the new Anti-Money Laundering Act, the new Payment Services Directive (PSD 2) and mandatory occupational pension. The higher number of documents within external

accounting and auditing is due to an off-site inspection of external accountants and external accounting firms and subsequent correspondence in connection with the cancellation of licences etc. In addition, there was an increase in licensing matters.

Document access at Finanstilsynet

Finanstilsynet received a total of 4,113 requests for document access in 2019, an increase from 4,034 in 2018. 1,507 documents were not released since their entire content was barred from publication. Most access requests are received via the public electronic mail journal elnnsyn.no, used by all central government agencies.

Table 2: Overview of supervised entities as at 31 December 2019

	2015	2016	2017	2018	2019
Savings banks	104	125	126	126	122
Commercial banks	22				
Banks ¹ (from 2016)					
Finance companies	57	25	24	28	30
Mortgage companies ²		34	33	33	32
Foreign branches of Norwegian banks and other credit institutions ³	7	18	18	12	27
Norwegian branches of foreign banks and credit institutions	41	39	39	35	32
Savings bank foundations and financial foundations	25	30	33	33	34
Payment institutions	15	15	19	16	15
E-money institutions	4	6	7	6	6
Account information service providers					0
Life insurers	13	13	12	12	11
Non-life insurers, incl. local fire insurance associations	60	59	58	56	55
Local marine insurance associations	9	6	6	5	5
Norwegian insurers' branches abroad	13	13	13	8	15
Foreign insurers' branches in Norway	32	29	29	28	29
Insurance intermediaries ⁴	102	107	107	101	112
Private pension funds	49	48	47	50	50
Municipal pension funds	39	39	37	37	37
Defined-contribution pension providers	1	1	1	1	1
Pension funds	4	4	1	1	1
Holding companies	14	17	13	15	15
Investment firms	114	107	106	96	101
Norwegian branches of foreign investment firms	22	19	19	22	23
Fund management companies	30	31	29	29	29
Alternative investment fund managers (AIFMs)	15	35	37	40	40
Registered alternative investment fund managers (AIFMs)	51	67	110	107	128
Central counterparties ⁵ (previously called clearing houses)	3	4	–	–	–
Central securities depositories	1	1	1	1	1
Regulated markets, incl. stock exchanges	5	5	5	5	5
Financial benchmark administrators ⁶			1	1	1
Auditors	7,380	7,570	7,807	7,933	8,128
Audit firms	516	494	447	447	458
External accountants	11,558	11,185	11,350	11,606	11,626
External accounting firms	2,835	2,785	2,827	2,772	2,708
Real estate agencies	500	503	510	506	504
Lawyers' practices that include estate agency	1,238	1,164	1,160	1,056	951
Debt collection agencies	100	103	99	101	93
Debt purchase businesses	4	3	7	8	4
Debt information undertakings ⁷				3	3

¹ As from 2016, commercial banks and savings banks are combined in the category 'banks'.

² As from 2016, the category 'finance companies and mortgage companies' is split into separate categories.

³ As from 2019, this registration includes more licence types than in previous years.

⁴ Insurance agent firms that distribute insurances exclusively for insurers with offices in Norway are not included in this overview, nor are entities engaged in accessory insurance agent business.

⁵ After an amendment of 1 July 2017 to the Securities Trading Act and the introduction of the European Market Infrastructure Regulation (EMIR) from the same date, foreign central counterparties are no longer supervised by Finanstilsynet. Central counterparties can nonetheless continue to operate in Norway under an EMIR licence granted by their own home country authority.

⁶ New category of entities under supervision from 2017.

⁷ New category of entities under supervision from 2019. See account on page 81.

At year-end 2019, Finanstilsynet also oversaw the financial reporting of 282 listed companies and supervised 417 mutual funds.

Table 3: Number of on-site inspections by type of institution – incl. IT inspections

	2015	2016	2017	2018	2019
Banking and finance	54	53	42	35	64
Payment institutions and e-money institutions	1	3	–	2	2
Life insurers	3	4	7	4	3
Non-life insurers	6	8	9	6	4
Insurance intermediaries	2	3	5	1	3
Pension providers and funds	2	2	3	1	4
Investment firms	17	8	12	14	7
Fund management companies	2	2	–	2	3
Alternative investment fund managers	–	–	3	1	2
Depositaries					1
Infrastructure undertakings	1	4	3	4	4
Auditors	40	32	41	16	13
External accountants	43	40	57	63	47
Real estate agencies	37	29	25	21	16
Debt collection agencies	6	7	6	4	0

The low number of inspections in the 'banking and finance' category in 2018 is partly due to the fact that some thematic inspections prepared in the autumn of 2018 were not carried out until early in 2019 and that Finanstilsynet conducted fewer inspections than in 2017 of enterprises using internal models (IRB) to calculate capital requirements for credit risk for the bulk of their loan portfolios.

Finanstilsynet's organisation

Organisation chart as at 31 December 2019



Communication

Finanstilsynet has many areas of responsibility regulated by extensive bodies of rules and featuring complex issues that require clear and consistent information provision. Finanstilsynet's communication effort is directed primarily at entities and sectors under supervision, but also at various public authorities, the media and the general public.

Finanstilsynet has an extensive network of contacts and good cooperation with other public authorities in Norway and the rest of the EEA countries, and with trade and professional organisations. The authority also meets regularly with the largest entities under supervision. At regular intervals, Finanstilsynet conducts user surveys at supervised entities and annual reputation surveys among members of the general public to get their views on how the authority carries out its activities.

Communication with entities in the financial sector

Conferences and seminars

Finanstilsynet organises a number of conferences and seminars during the year for the industry and the media. Managers and other staff at Finanstilsynet also give various presentations during the year at conferences and seminars organised by trade organisations and supervised institutions about regulatory development, the interpretation of regulations and the focal points of its supervisory activities.

Finanstilsynet organised five seminars/conferences for the financial industry in 2019:

- a seminar on ICT infrastructure in the financial sector, arranged in cooperation with Norges Bank
- a seminar on current topics in the securities market for investment firms, fund management companies, managers of alternative investment funds and depositaries
- a seminar for listed companies about requirements for financial reporting and ongoing disclosure requirements
- a seminar for insurers about current supervisory topics
- an anti-money laundering conference in cooperation with the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM)

Circulars and recommendations

Guides to legislation and matters which entities and sectors are required to take into account are usually communicated in the form of circulars. Finanstilsynet issued 15 circulars in 2019, compared with six in 2018. Finanstilsynet's circulars are also published on Lovdata Pro, operated by Lovdata (Norway's law database). Entities and sectors are also required to take account of recommendations from the European Supervisory Authorities. Finanstilsynet assesses whether such recommendations are relevant to Norway and publishes information about these on its website.

Media contact

In 2019, the media coverage of Finanstilsynet reflected a number of cases on banks' compliance with the anti-money laundering legislation and requirements for valid proof of identity. The supervision of banks with consumer loans as their main product attracted a lot of attention. The same was true for the residential mortgage lending regulations and the residential mortgage lending survey conducted in the autumn of 2019. There was also focus on entities' climate risk and on 'green laundering', which entails that companies and securities are marketed as sustainable without this being adequately documented. 17 press releases were issued in 2019 (23 in 2018). The media monitoring company Infomedia registered 6,090 media entries in 2019 in which Finanstilsynet received mention (6,110 in 2018).

Finanstilsynet held four press conferences in 2019 which were broadcast on web TV:

- Finanstilsynet published its *Risk Outlook* reports in June and December.
- In May, the authority presented the report *Risk and Vulnerability Analysis* on the use of ICT in the financial sector.
- The results from the residential mortgage lending survey were presented in November.

Finanstilsynet's website

Finanstilsynet's website, finansstilsynet.no, is the main channel for information from Finanstilsynet, containing information on rules, licensing requirements, reporting from institutions, supervisory reports and various matters of topical interest in the different supervisory areas. Major reports and key laws and regulations are translated into English and are also available on the website. The website is mobile-friendly. In 2019, Finanstilsynet upgraded the search engine function at the website and made other adaptations to improve user experience. The authority carried out a quantitative user survey which showed that 62 per cent of the users are satisfied with the website.

In 2019, the total number of visitors to the website was up 45 per cent to 978,992, from 674,800 in 2018.

The most used service on the website is Finanstilsynet's registry. This is a searchable registry of all institutions and individuals that are supervised by Finanstilsynet or are obliged to be registered at Finanstilsynet.

The website has a subscription service where users can sign up for news alerts for various categories. In 2019, the number of subscribers increased by 2,188 or 40 per cent, to 7,575. This was consistent with the increase in user traffic to the website.

Finanstilsynet also has a profile on LinkedIn and on Twitter, but does not participate in discussions in social media. In these channels, Finanstilsynet provides information about vacant positions, news, publications etc.

Whistleblowing portal

In 2019, Finanstilsynet launched a digital whistleblowing portal designed to receive external notifications of breaches of the legislation managed by Finanstilsynet. The portal facilitates notification of suspected breaches of the rules on market abuse in the Securities Trading Act, such as suspected insider trading, market manipulation or unlawful dissemination of inside information.

International cooperation

The financial markets are international, and principles for regulations and supervision are prepared at the global level and in the EU. Finanstilsynet therefore collaborates with other authorities both globally and within the EEA on the supervision of the financial markets and financial institutions. An important aim of cross-border supervisory cooperation is to identify risk factors present in firms and markets in the international financial market at an early stage. The supervisory cooperation also enables coordinated risk management measures to be put in place.

Global cooperation

There is global cooperation between states and authorities to develop principles for regulations and supervision of financial institutions and financial markets. Finanstilsynet participates in a number of international organisations and working groups, see overview on page 22. Several of these are described in further detail on Finanstilsynet's website.

The IMF's review of the Norwegian financial system

The International Monetary Fund (IMF) regularly reviews the financial system of member states by conducting a Financial Sector Assessment Program (FSAP).

The programme enables the IMF to assess

- the main risks and vulnerabilities in the financial system in the short term. Stress testing of the banking system is an important part of this assessment.
- the authorities' policy to ensure financial stability through regulations and microprudential and macroprudential supervision.
- the authorities' ability to respond to and solve a financial crisis.

The IMF assessed Norway in 2019, which included visits in May and October and a final visit in January/February 2020. The reports from the FSAP are scheduled to be considered by the IMF's Board of Directors in the summer of 2020. Finanstilsynet had a number of meetings with the IMF during its visits in May and October, providing information and data. During its visits in 2019 and 2020, the IMF also had meetings with the Ministry of Finance, Norges Bank, ØKOKRIM, Finance Norway, the Norwegian Banks' Guarantee Fund and selected institutions supervised by Finanstilsynet.

Cooperation between the financial supervisory authorities in the EEA

In 2019, Finanstilsynet gave priority to cooperation within the EEA in lieu of other international (global) cooperation, especially the cooperation with the European Supervisory Authorities:

- European Banking Authority (EBA)
- European Securities and Markets Authority (ESMA)
- European Insurance and Occupational Pensions Authority (EIOPA)
- European Systemic Risk Board (ESRB)

Finanstilsynet is a member of the European Supervisory Authorities along with the other national financial supervisory authorities in Europe. This is stipulated in the EEA Agreement. The EEA EFTA states are not entitled to vote as members of the bodies that make decisions, and the European Supervisory Authorities cannot make decisions aimed at the EEA EFTA states. In 2019, Finanstilsynet was represented at all meetings of the Boards of Supervisors of EBA, ESMA and EIOPA. Finanstilsynet also attended meetings of a number of sub-committees that prepare matters for the Boards of Supervisors.

Participation in this cooperation gives Finanstilsynet and other national financial supervisory authorities the opportunity to be involved in preparing relevant draft regulations for the financial markets at an early stage. The overarching legislation is generally prepared in the EU by the European Council, the European Parliament and the European Commission, while Finanstilsynet and other national financial supervisory authorities, through their participation in the European Supervisory Authorities, are mainly involved in preparing proposals

for supplementary rules. In 2019, a number of regulations were drawn up, including capital requirements for banks, bank recovery and resolution and requirements for the securities markets.

Through the European supervisory cooperation, Finanstilsynet is also involved in monitoring and managing risk at the European level. The financial supervisory authorities in all European countries report financial market figures to the European Supervisory Authorities, which form the basis for overarching analyses and the assessment of possible measures. Finanstilsynet provided such regular reporting from the Norwegian financial market in 2019. Finanstilsynet takes part in so-called supervisory colleges for large cross-border groups. This is a cooperative effort with representatives from financial supervisory authorities from other countries where the group is established. Read more about reporting and supervisory colleges in the chapters on institutions under supervision.

As part of the European cooperation for financial supervisory authorities, Finanstilsynet is involved in assessing good supervisory practices. In 2019, a number of general recommendations regarding such practices were given at the European level. Finanstilsynet has considered whether to follow the individual recommendations and has published the recommendations on its website.

The national financial supervisory authorities in the EEA conduct peer reviews. The supervisory practices of the various countries are examined, and the supervisory authorities provide advice on adaptations and best practices. Finanstilsynet participated in a number of such peer reviews in 2019. The reports issued after the reviews are published on the websites of the European Supervisory Authorities.

In 2019, Finanstilsynet was also an observer in the European collaboration between audit regulators, the Committee of European Auditing Oversight Bodies (CEAOB). The committee registers supervisory reports concerning auditors in a common European database, which is a useful basis for the supervision of the largest auditing firms and for communication with the standard setters.

The EEA processes

EU legislation in the financial area is normally incorporated into the EEA Agreement and implemented in Norwegian laws or regulations. Finanstilsynet plays its part in this process. The incorporation of legislation in the financial area has been delayed for a long time. In 2019, however, 274 EU directives and regulations concerning the financial market were incorporated into the EEA Agreement. At the end of 2019, some 120 legislative acts had yet to be incorporated into the EEA Agreement.

Nordic and Nordic-Baltic cooperation

In the Nordic financial market, a number of financial institutions offer services in other Nordic countries through subsidiaries and branches. The financial supervisory authorities in the Nordic countries have annual meetings concerning the various areas of supervision and regular meeting on legal and administrative matters.

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

Finanstilsynet also participates in the Nordic-Baltic Macroprudential Forum (NBMF) and NBMF sub-groups. The forum brings together the top management at central banks and financial supervisors and discusses macroprudential surveillance and other supervisory activity in the Nordic-Baltic area.

Along with the other supervisory authorities in the region, Finanstilsynet participates in a Nordic-Baltic anti-money laundering working group and in a Nordic-Baltic working group on PSD 2 and fintech. In addition, Finanstilsynet takes part in a Nordic working group on technical provisions in the insurance area.

Brexit

Throughout 2019, uncertainty attended the United Kingdom's exit from the EU. Finanstilsynet's preparations for Brexit were largely made in consultation with other national financial supervisory authorities and the European Supervisory Authorities. These include risk assessments, statements to the industry and advice to the European Commission. During 2019, the national financial supervisory authorities entered into collaboration agreements with the UK authorities to help create a good post-Brexit climate of cooperation.

Finanstilsynet considers it important that Norwegian financial institutions assess risks and measures related to Brexit. In 2019, the authority had direct contact with several of the institutions that will be affected and published a number of relevant articles about Brexit.

During 2019, Finanstilsynet was involved in a range of measures in the financial area to mitigate the consequences of a Brexit without transitional arrangements ('hard Brexit'). For example, regulations were adopted on statutory insurance written with a UK insurer and permission for UK insurers to provide insurance services in Norway post-Brexit. Measures were also implemented

to ensure Norwegian market players' access to UK central counterparties on a par with players in the rest of the EU.

The UK left the EU on 31 January 2020 and has entered a transition period. During this period, a permanent arrangement will be negotiated. It remains uncertain what will happen if no permanent arrangement is in place once the transition period ends. Finanstilsynet is keeping a close watch on developments and is continuously considering the need for possible action.

Table 4: International organisations and EU/EEA-related committees which Finanstilsynet participates in or attends as an observer

Cross-sectoral meetings

- European Systemic Risk Board
- The Joint Committees of the EBA, ESMA and EIOPA
- EFTA Working Group on Financial Services
- Nordic-Baltic Macroprudential Forum
- Nordic-Baltic Stability Group
- Nordic-Baltic anti-money laundering working group
- Nordic-Baltic working group on PSD 2 and fintech
- Financial Stability Board (FSB), Regional Consultative Group for Europe
- Financial Action Task Force (FATF) – the international forum for measures for combating money laundering and terrorist financing, with its secretariat in the OECD
- FinCoNet, Financial Consumer Network
- LEI ROC, Regulatory Oversight Committee, Global Legal Entity Identifier (LEI) System
- Integrated Financial Supervisors Conference – annual conference
- Network for Greening the Financial System (NGFS)

Banking and finance

- European Banking Authority (EBA)
- Basel Consultative Group (Basel Committee)
- Macroprudential Supervision Group (Basel Committee)

Insurance and pensions

- European Insurance and Occupational Pensions Authority (EIOPA)
- International Association of Insurance Supervisors (IAIS)
- International Forum of Insurance Guarantee Schemes (IFIGS) – Finanstilsynet attends as secretariat for the Guarantee Scheme for Non-Life Insurance

The securities area

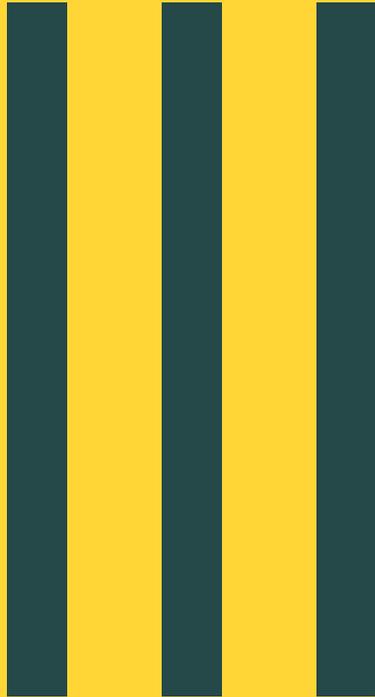
- European Securities and Markets Authority (ESMA)
- International Organization of Securities Commissions (IOSCO)
- Enlarged Contact Group on Supervision of Collective Investment Funds (ECG)

Auditing

- Committee of European Auditing Oversight Bodies (CEAOB)
- International Forum of Independent Audit Regulators (IFIAR)

ICT supervision

- Information Technology Supervision Group (ITSG) – global supervisory collaboration on IT risk in the financial sector
 - Financial Information Sharing and Analysis Center (FI-ISAC) – forum where the banking sector, prosecuting authorities and computer emergency response teams (CERTs) share information on cybercrime in the financial sector
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THE YEAR'S ACTIVITIES AND RESULTS

Reporting of goal achievement

Report from the supervised sectors

- Banking and finance

- ICT and payment services

- Insurance and pensions

- The securities area

 - Infrastructure

 - Market conduct

 - Investment firms

 - Mutual funds and collective investment schemes

 - Prospectus control – transferable securities

 - Financial reporting enforcement – listed companies

- Auditing

- Measures against money laundering and terrorist financing

- Consumer protection

- Current topics

 - Finanstilsynet's regulatory sandbox for fintechns

 - Sustainable finance – climate risk

 - Debt information activity

 - Administrative fines and ban on the exercise of management functions

THE YEAR'S ACTIVITIES AND RESULTS

Reporting of goal achievement

Finanstilsynet's strategy for 2019-2022 sets out six operational goals. Finanstilsynet's performance measurement is based on these operational goals.

For further details on the various supervised sectors, see the reports in the following chapters.

1. Financially sound and well-capitalised financial institutions

Financially sound and well-capitalised financial institutions are a prerequisite for the stability of the financial system, enabling institutions to meet their obligations to their customers and maintain vital functions in society. Finanstilsynet assesses the risk of instability in the financial system and uses instruments to reduce systemic risk based on information gained from the supervision of individual institutions and from macroeconomic surveillance. Through licensing requirements, capital and liquidity requirements and ongoing supervision, Finanstilsynet plays its part in ensuring that institutions are financially sound and have robust financing, fit and proper management and satisfactory risk management and corporate governance. In addition, Finanstilsynet advises the political authorities on capital adequacy and liquidity requirements and other measures that help to reduce risk in the financial system.

In order to promote financially sound and well-capitalised financial institutions, Finanstilsynet has taken the following actions:

- conducted on-site and off-site inspections to assess institutions' financial soundness, liquidity and risk management
- reviewed and evaluated the models of eight banks and one finance company that use internal models to calculate capital requirements (IRB)
- conducted a thematic inspection of the implementation of IFRS 9 at selected banks (ongoing)
- carried out a supervisory review and evaluation process (SREP) of mortgage companies and set entity-specific capital requirements
- reviewed insurance undertakings' reporting under Solvency II
- followed up pension funds' compliance and reporting according to the new solvency requirements for pension funds
- surveyed and analysed financial institutions' climate risk management and published a report on financial institutions' climate risk

Governance indicator	Planned	Completed
Ordinary on-site inspections at banks, mortgage companies and finance companies	31	24
Off-site inspections at banks and finance companies	2	2
IRB supervision	1	9
Number of completed SREP reviews	43	20
Number of inspections at life insurance undertakings	3	3
Number of inspections at pension undertakings	5	4
Number of inspections at non-life insurance undertakings	7-8	4

2. Robust infrastructure

A robust financial infrastructure is crucial to satisfactory systems for payments, trading, pricing and settlement in the financial market. Infrastructure failure could quickly result in an extensive collapse of critical services and thus have serious consequences for society. Low risk of systemic failure and a high degree of preparedness to enable rapid recovery in the event of failure are therefore of crucial importance. Through licensing requirements and the supervision of financial institutions, investment firms and infrastructure entities, Finanstilsynet contributes to ensuring that the institutions maintain adequate management and control of ICT risk and other operational risks.

In order to promote a robust financial infrastructure, Finanstilsynet has taken the following actions:

- followed up the operational risk inherent in payment systems, settlement systems and the institutions' ICT systems in all supervisory areas through supervision, monitoring and control

- registered reported ICT incidents in Finanstilsynet incident management system and followed up ICT incidents after assessing their scope and severity
- had contingency measures in place for handling digital vulnerabilities and security incidents, and monitored developments within cybercrime
- supervised the institutions' use of cloud services and cloud-based functions in service solutions, focusing special attention on institutions that are making major changes in the ICT field and adopting new technology (robotisation)
- followed up key entities and functions in the Norwegian financial infrastructure
- supervised the ongoing integration of Oslo Børs into the Euronext Group
- kept abreast of developments in new financial technology (fintech) in the financial market, provided guidance to new, technology-based players in the financial markets and worked to establish a regulatory sandbox for fintech businesses

Governance indicator	Planned	Completed
Number of inspections of institutions' use of ICT systems and cyber security measures	37 on-site inspections	24 on-site inspections 11 at banks, 1 at an insurance undertaking, 7 in the infrastructure and securities areas, 1 at a payment institution, 2 at real estate agencies and 2 at audit firms
		Off-site ICT inspections of real estate agencies
		Off-site thematic inspection of banks' ICT continuity management
Number of ICT incidents that have been followed up		204 ICT incidents
Number of inspections at infrastructure entities	4 on-site inspections	4 on-site inspections
		Off-site inspection of commodity derivative trading venues' compliance with requirements for the publication of orders
Number of inspections at payment institutions	2	1 on-site inspection
		Off-site inspection of compliance with PSD 2 requirements for strong customer authentication for e-commerce card payments

3. Investor protection

Reliable and adequate information is needed to ensure that the securities markets contribute to effective allocation and pricing of capital. Finanstilsynet helps to ensure that current and periodic information from listed companies is correct and timely, and that the companies' prospectuses are designed in keeping with the requirements of the Securities Trading Act.

Finanstilsynet's supervision of auditors auditing listed companies helps to assure the quality of the companies' annual financial statements. Through its supervision of investment firms and effective and swift enforcement of codes of conduct in the securities market, Finanstilsynet contributes to market discipline and the safeguarding of investors' and issuers' interests.

In order to promote investor protection, Finanstilsynet has taken the following actions:

- followed up that the players in the securities market, including listed companies, meet relevant reporting obligations and provide adequate and reliable information

- followed up risk in the securities markets through monitoring and analyses
- followed up disclosure and notification requirements in accordance with the Short Selling Regulation, which includes receiving and publishing position notifications
- published a guide on when project financing activities require permission to operate as a manager of alternative investment funds
- reviewed the implementation of IFRS 16 in a number of listed companies and followed up compliance with ESMA's Guidelines on Alternative Performance Measures
- checked insurance undertakings' publication of financial information (SFCR) and Solvency II data in the annual reporting
- conducted inspections at several of the largest audit firms

Governance indicator	Planned	Completed
Number of cases related to short sales that have been followed up		Reviewed 24 cases on short positions requiring notification – imposed seven administrative fines for violation of the short selling regulations.
Number of cases related to notification requirements that have been followed up		<ul style="list-style-type: none"> • 660 alarms triggered by Finanstilsynet's surveillance system, SKADI • 18 cases on disclosure of large shareholdings • 303 alarms triggered by the surveillance system on changes in holdings • 50 cases on the notification requirement for primary insiders
Number of financial statements reviewed	40 financial reporting reviews	<ul style="list-style-type: none"> • 51 off-site inspections of annual and interim financial statements • Thematic inspection at 20 listed companies regarding IFRS 15 disclosures
Number of vetted prospectuses		<ul style="list-style-type: none"> • 54 share prospectuses • 65 bond prospectuses
Number of inspections at auditors	30 inspections	<ul style="list-style-type: none"> • 13 on-site inspections • 35 off-site inspections
Number of inspections at external accountants	50 inspections	<ul style="list-style-type: none"> • 47 on-site inspections • 15 off-site inspections at external accounting firms and external accountants

4. Consumer protection

Good consumer protection is important for the individual consumer and for maintaining confidence in financial market participants. Service providers shall safeguard customer interests, paying due heed to the customers' qualifications for understanding the product characteristics. Finanstilsynet promotes consumer protection by supervising that the provision and brokerage of loans, insurance and pension products, mutual fund products, other financial instruments and property take place in an acceptable manner. The supervision of debt collection agencies also strengthens consumer protection. Monitoring compliance with capital adequacy and prudential requirements helps to create assurance that product providers meet their obligations to their customers.

In order to safeguard consumer interests, Finanstilsynet has taken the following actions:

- controlled investment firms' compliance with the conduct of business rules and their sales activities and advisory services targeting retail investors

- monitored compliance with the residential mortgage lending regulations and the regulations on requirements for financial institutions' lending practices for consumer loans
- monitored developments in the consumer loan market and conducted on-site inspections at two banks offering residential mortgages to customers with payment problems
- carried out inspections at insurance intermediaries
- reviewed life insurers' information and advice to members of collective defined-contribution pension schemes
- conducted thematic inspections of suitability assessments in connection with the marketing of alternative investment funds (AIFs) to retail investors
- followed up debt information undertakings and been involved in preparing a guidance on the implementation of the debt information regulations

Governance indicator	Planned	Completed
Number of inspections at banks offering consumer loans	2	<ul style="list-style-type: none"> • 2 inspections at banks offering consumer loans • 1 inspection at a refinancing bank • 1 inspection at a finance company operating in the market for loans with a vendor's fixed charge
Number of inspections at investment firms	15	<ul style="list-style-type: none"> • 11 inspections completed • 7 inspections initiated in 2019 • 4 ongoing inspections initiated in 2018
Number of inspections at fund managers, including managers of AIFs	2 inspections at fund managers 2–4 inspections at AIF managers	<ul style="list-style-type: none"> • 3 on-site inspections • 2 thematic inspections on the use of benchmark indices in fixed-income and balanced funds • 1 inspection at an AIF manager
Number of inspections at insurance intermediaries	1	3
Number of inspections at real estate agencies	15–20	16
Number of inspections at debt collection agencies	2–4	0

5. Effective crisis management

Preparedness to deal with critical situations is important in ensuring confidence in the financial system. Finanstilsynet maintains preparedness to deal with crises in both individual institutions and markets in order to mitigate the risk of wide-reaching, long-lasting harmful effects for the financial sector and customers. The requirement that banks and investment firms must prepare recovery plans and that Finanstilsynet must prepare resolution plans will help to ensure that critical situations are handled in a satisfactory manner. The ability to quickly provide relevant information to the general public is also a key element of maintaining emergency preparedness.

Ongoing supervision gives Finanstilsynet good knowledge of the institutions' activities and promotes effective crisis management.

In order to promote effective crisis management, Finanstilsynet has taken the following actions:

- assessed and followed up the banks' preparation of recovery plans
- prepared resolution plans and set Minimum Requirements for Own Funds and Eligible Liabilities (MREL) for eight banks
- participated in resolution colleges for foreign institutions operating in Norway, and headed a corresponding college for DNB
- performed extensive work in the secretariat for the Non-Life Insurance Guarantee Scheme in connection with the bankruptcy of the Danish insurer Alpha Insurance A/S
- made preparations for and participated in a joint Nordic-Baltic banking crisis exercise
- chaired the Financial Infrastructure Crisis Preparedness Committee (BFI) and conducted an annual exercise in BFI

Governance indicator	Planned	Completed
Number of resolution plans established by Finanstilsynet	9	8
Number of recovery plans assessed by Finanstilsynet	8	8
Number of MREL requirements set	9	8

6. Fight against crime

It is up to the financial sector to prevent the exploitation of financial institutions and other market players for criminal purposes. Finanstilsynet oversees that the institutions comply with the obligations set out in the anti-money laundering and counter-terrorist financing legislation. Finanstilsynet also oversees that the players in the securities market comply with market regulations, which include prohibitions on insider trading and market abuse. Illegal activity weakens confidence in the financial markets and undermines the operations of firms that comply with the regulations. However, Finanstilsynet has limited resources to follow up illegal activities.

Supervisory efforts help to prevent criminal activities in supervised institutions as well as illegal activity. Suspicion of serious financial crime is reported to the police. Finanstilsynet's work to ensure satisfactory auditing and accounting also helps to prevent and uncover financial crime.

In order to help fight crime, Finanstilsynet has taken the following actions:

- adapted supervision in the anti-money laundering area to the recommendations from the Financial Action Task Force (FATF)
- increased anti-money laundering supervision based on risk-based prioritisation, and provided guidance to promote greater compliance with the obligations under the Money Laundering Act
- imposed administrative fines for non-compliance with the anti-money laundering legislation
- conducted off-site reviews of banks' KYC measures
- followed up a thematic inspection of real estate agencies in 2018 by imposing administrative fines
- completed a project relating to money laundering controls in connection with the opening of securities accounts
- followed up agents of foreign agent enterprises and exchange and storage services for virtual currencies
- received more than 70 notifications of illegal securities activities and investigated ten entities
- ordered five entities to terminate illegal activities and reported a number of cases to the police
- investigated cases related to market conduct and reported two cases to the police on suspected insider trading and/or breach of confidentiality

Governance indicator	Planned	Completed
Number of AML inspections at banks	5 special AML inspections	<ul style="list-style-type: none"> • 4 special inspections on money laundering and terrorist financing at banks • Off-site inspection of 110 banks on ongoing monitoring and KYC measures
Number of AML inspections at other types of obliged entities	Not quantified	<ul style="list-style-type: none"> • 3 inspections at agents of foreign payment institutions • 1 inspection at a payment institution • 5 thematic inspections at investment firms • Thematic inspection of audit firms' compliance with the Anti-Money Laundering Act when selling advisory services • 5 on-site inspections at real estate agencies • Thematic inspections relating to KYC measures for 253 VPS accounts at 26 registrars, including 7 investment firms, 8 banks, 5 fund management companies and 6 branches of foreign banks in Norway
Number of notifications of illegal activities that have been followed up		<ul style="list-style-type: none"> • 10 cases were followed up, and 5 entities were ordered to terminate their business
Number of investigated suspicious cases related to market behaviour		<ul style="list-style-type: none"> • 94 cases of unlawful insider trading and/or breaches of confidentiality or the obligation to maintain insider lists • 73 cases of market manipulation / unreasonable business methods

Banking and finance

Banks play a key role for the entire economy as providers of finance, payment services and savings solutions. Regulation is an important contributor to financial stability and confidence in the financial system. Supervision of the banking and financial sector promotes financially sound and well-capitalised financial institutions with good risk awareness, management and control. The provision of financial services must be compliant with the regulatory framework in the best interest of society and the users of these services.

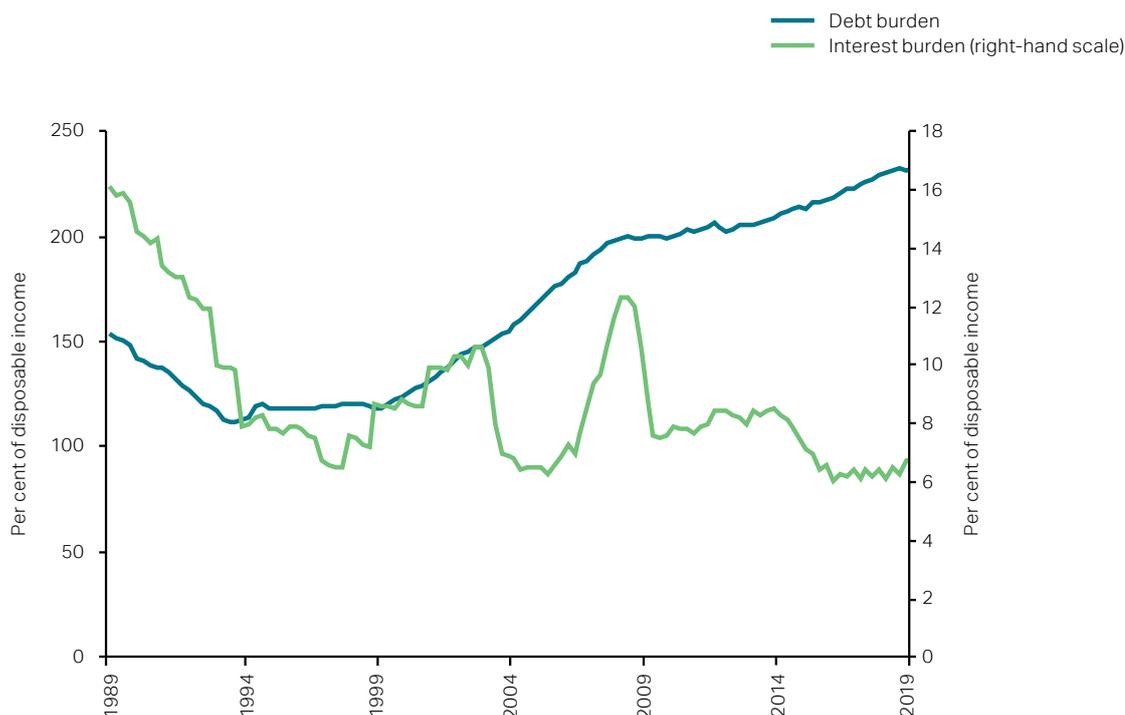
Developments

Growth in the Norwegian mainland (non-oil) economy has been stable at just over 2 per cent over the past three years, but slowed towards the end of 2019. A rising employment rate and somewhat higher wage growth have contributed to stimulating growth in household income since 2016. Norges Bank raised its key policy rate three times in 2019, by a total of 0.75 percentage points, but has since September signalled that the key policy rate will probably remain at the current level in the near future.

House prices and household debt in Norway are at historically high levels. Since the price correction in 2017, house price growth has been moderate. During this period, the growth in household debt has abated and was roughly in line with the increase in household income in 2019. However, the debt burden, measured by the ratio of debt to disposable income, has reached a historically high level (chart 3). The debt levels of Norwegian non-financial firms have also increased significantly since the mid-1990s and are now far higher measured as a share of GDP for Mainland Norway than before the Norwegian banking crisis in the early 1990s. Many Norwegian borrowers will be severely affected by a sharp rise in interest rates and risk premiums, for example as a result of international financial turmoil, or a reduction in income in consequence of an economic setback.

Chart 3: Households' debt burden and interest burden

Sources: Statistics Norway and Finanstilsynet



There was a marked decline in households' consumer borrowing in 2019 after several years of very high growth. Three debt information undertakings started operations in 2019. Improved information about customers' overall consumer debt will ensure a better basis for banks' credit assessments and help to provide a more complete picture of developments in household consumer debt. In February 2019, the Ministry of Finance established regulations on financial institutions' consumer lending practices. The regulations replaced Finanstilsynet's guidelines and set out requirements for debt servicing capacity, debt-to-income ratio and instalment payments. Defaults on consumer loans are higher than for other types of loans, and there has been a marked increase in the default level in recent years.

Residential and commercial mortgages are the two major lending segments for Norwegian banks, and price developments in the property markets are therefore of great significance to the banks. Commercial property prices have been more cyclical than house prices. During past crises, banks' losses on loans to commercial real estate have far exceeded losses on residential mortgages. The prices of high-quality commercial properties at prime locations have risen significantly over several years, especially in the Oslo region. A continued low interest rate level and strong demand in the property market may contribute to higher prices and further heighten the potential fall.

Banks play an important role in uncovering money laundering and terrorist financing. In recent years, significant shortcomings have been revealed in a number of large international banks' compliance with the anti-money laundering legislation. Just like the other European supervisory authorities, Finanstilsynet has intensified its efforts in this field. Supervisory activities carried out in 2019 revealed that Norwegian banks' compliance with the legislation was less than satisfactory, and a number of banks were asked to take measures to comply with the legal requirements, including verification of customers' identity. Pursuant to the new Money Laundering Act that came into force in October 2018, Finanstilsynet is empowered to impose administrative fines for non-compliance with the anti-money laundering legislation. In 2019, administrative fines were imposed on three banks. See the account in the chapter *Measures against money laundering and terrorist financing* on page 75.

Both physical climate change and the transition to a low emission society will have an impact on financial markets and financial institutions. The risk of financial instability depends on how suddenly climate change occurs and how quickly the transition to a low-emission economy takes place. Good reporting of relevant information forms an important basis for financial institutions' risk assessments and the supervisory authorities' assessment of the financial soundness of individual firms and in the financial system as a whole.

Supervision, monitoring and control

Monitoring and analyses

Finanstilsynet conducts regular analyses of developments in the financial industry, the markets and the real economy. Analyses are prepared of the capital and liquidity situation of banks and mortgage companies, and of the financial performance of finance companies, mortgage companies, individual banks and the banking sector as a whole. Public versions of the analyses are available on Finanstilsynet's website. In macroeconomic surveillance, importance is attached both to the risk facing banks as a result of macroeconomic developments and the risk that the banks as a whole pose to the financial system and the economy. In June and December each year, Finanstilsynet publishes the *Risk Outlook* report, which contains analyses of developments in the real economy, the markets and financial institutions.

Reporting

To ensure close monitoring of developments in financial institutions and markets, Finanstilsynet is dependent on data submitted by the institutions. All banks, mortgage companies and finance companies in Norway report to ORBOF (a database for accounting information from banks, mortgage companies and finance companies), which is a cooperation between Finanstilsynet, Norges Bank and Statistics Norway.

Credit institutions report capital adequacy and liquidity positions etc. to Finanstilsynet under the EU's Capital Requirements Directive (CRD IV) and Capital Requirements Regulation (CRR). The reporting includes capital adequacy, accounting data, liquidity ratios, large exposures, leverage ratios and encumbered assets. The reporting is fully harmonised across the EU, and reporting requirements are constantly changing. At the same time, new reporting areas are added. This requires continuous adaptation and further development of the reporting material and the reporting systems. Finanstilsynet also obtains reports from savings bank foundations and financial foundations, payment institutions and electronic money institutions.

In recent years the European Banking Authority (EBA) has compiled more and more information on developments in the respective countries' financial markets for use in its supervisory activity. The EBA is also considering the effect of possible amendments to the solvency framework. Finanstilsynet collects data for Norwegian financial institutions and is responsible for reporting data from Norwegian institutions to the EBA.

Facts and figures

At the end of 2019, 122 banks, 32 mortgage companies and 30 finance companies were licensed to operate in Norway. In addition, foreign credit institutions had 32 branches in Norway. 33 savings bank foundations and one financial foundation, 15 payment institutions and six electronic money institutions held a licence at year-end. In addition, Norwegian credit institutions had 27 branches abroad.

Financial soundness and profitability of Norwegian banks

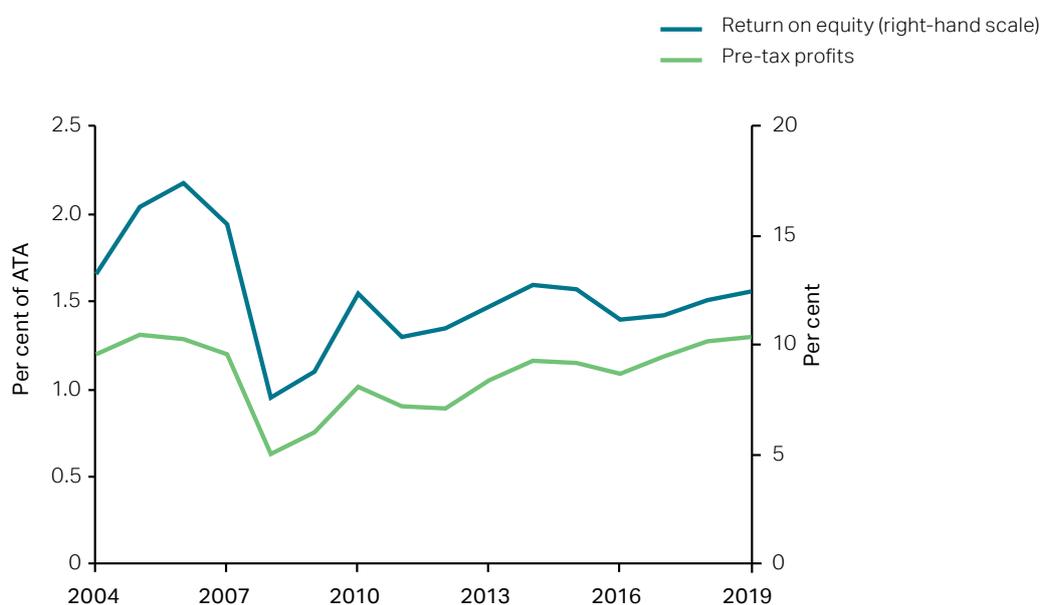
Norwegian banks have recorded good results in the years since the international financial crisis. Relative to average total assets (ATA), the banks' total pre-tax profits

came to 1.3 per cent in 2019, a slight increase from the previous year. Return on equity thus increased from 12.1 per cent to 12.5 per cent.

The main factor behind the improved performance in 2019 was a rise in net interest income, in spite of slightly narrower lending spreads than in 2018. On the other hand, the spread on customer deposits improved markedly through 2019. Several banks recorded significant gains due to non-recurring effects, including the transfer of the non-life insurance business of DNB and the SpareBank 1 Alliance to Fremtind Forsikring. Low growth in operating expenses also contributed to sustaining banks' profitability. Total loan losses remained low, but increased from 0.07 per cent of lending volume in 2018 to 0.19 per cent in 2019.

Chart 4: Profits and return on equity in Norwegian banks

Source: Finanstilsynet

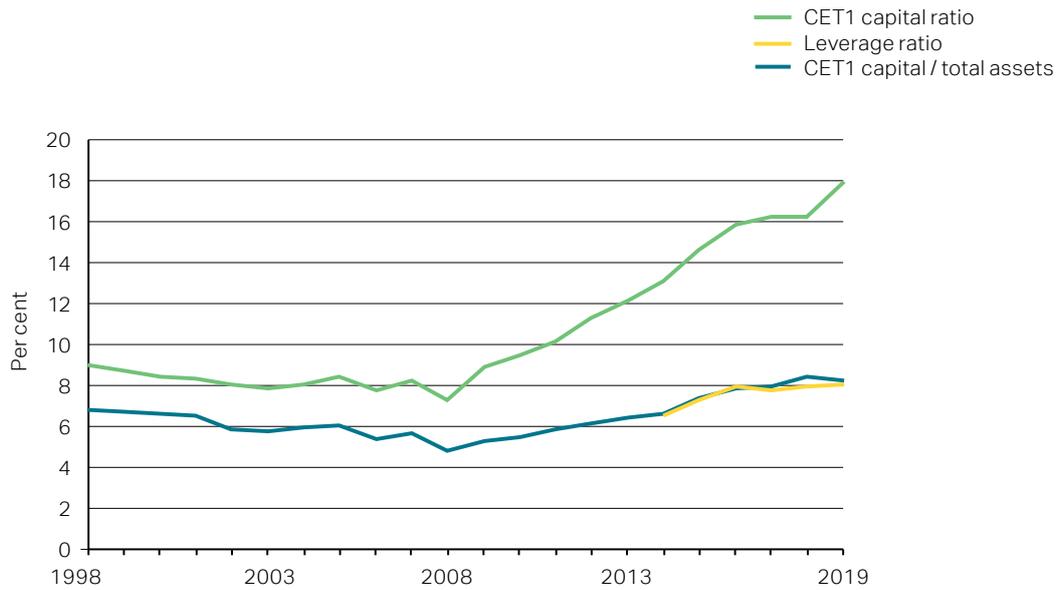


Norwegian banks have improved their financial position in recent years in step with stricter capital requirements. High profitability over several years has helped the banks to bolster their capital adequacy ratios by way of retained profits. At the end of 2019, the banks' overall common equity Tier 1 (CET1) capital ratio was 17.9 per cent, up 1.7 percentage points from the previous year. The main reason for the increase was the removal of the IRB floor

and the introduction of the so-called SME supporting factor following the entry into force of the EU's capital adequacy framework CRR/CRD IV on 31 December 2019. Measured in accordance with the previous regulations, the common equity Tier 1 capital ratio was 16.4 per cent. The leverage ratio was 8.0 per cent, up 0.1 percentage points from year-end 2018.

Chart 5: Capital adequacy of Norwegian banks

Source: Finanstilsynet



Liquidity monitoring

Banks' funding mainly comprises deposits from customers and funding in the money and capital markets. Deposits have been a stable source of funding for Norwegian banks, also in periods of market turbulence, such as during the international financial crisis. Overall, the banks obtain much of their market funding from foreign sources. Large banks account for the greater part of this market funding due to the fact that size and credit ratings are important prerequisites for obtaining such funding. Small banks are nevertheless indirectly exposed through borrowings from the large banks in the interbank market.

Norwegian banks had ample access to market funding in both domestic and international markets throughout 2019. Experience from previous crises shows that conditions in the securities markets can change rapidly and that refinancing can be challenging in terms of both available volume and the prices offered to banks. Over the last few years, a larger share of long-term funding and increased liquidity buffers have put Norwegian banks in a better position to cope with potentially scarcer liquidity. In isolation, the high proportion of covered bonds, both as a source of funding and as a liquidity reserve, results in increased systemic risk through cross-ownership of bonds and links banks' liquidity risk to a greater degree than previously to developments in the housing market.

Finanstilsynet is keeping a close watch on the financial institutions' liquidity situation, including how they meet the minimum liquidity buffer requirement (LCR) and other liquidity and financing indicators. The institutions' own assessments of liquidity and funding risk is also reviewed in connection with the supervisory assessment of risk and capital needs (SREP¹) and in connection with on-site inspections.

Implementation of the supervisory review and evaluation process (SREP)

Finanstilsynet sets individual capital requirements for the institutions (Pillar 2 requirements). The Pillar 2 requirements cover risks that are not, or are only partially, covered under Pillar 1. The division of the institutions into groups according to size and risk profile determines how frequently the process should be carried out for the individual financial institutions. The two systemically important institutions DNB Bank ASA and Kommunalbanken and institutions followed up by international supervisory colleges have their Pillar 2 requirements set each year.

In 2019, Finanstilsynet made a total of 20 Pillar 2 decisions. The decisions are published consecutively on Finanstilsynet's website. The Pillar 2 requirements mainly reflect credit risk, concentration risk, and market risk.

At the end of 2019, Pillar 2 requirements had been set for a total of 97 of the 158 relevant financial institutions. 48 of the 61 institutions for which no such requirement has been set had total assets of less than NOK 5 billion and a satisfactory capital adequacy ratio. No individual capital requirements are normally set for these institutions as long as the capital adequacy level is maintained. Finanstilsynet plans to set Pillar 2 requirements for the majority of the remaining institutions by the end of 2020.

Circular 12/2016 describes Finanstilsynet's methodologies for assessing institutions' risk and capital needs (SREP). In 2019, the authority published several new and updated appendices to the circular. The new appendices concerned Finanstilsynet's use of stress tests in SREP and the Pillar 2 capital guidance (P2G). There are plans to update the circular in 2020.

¹ SREP – Supervisory review and evaluation process

On-site inspections

On-site inspections may uncover weak management and control or high levels of risk in the institutions. The dialogue with management and the board of directors provides the opportunity to guide and advise the institutions to enable necessary action to be taken at an early stage.

In 2019, Finanstilsynet conducted a total of 24 ordinary on-site inspections at banks, mortgage companies and finance companies, and a total of 20 thematic inspections of new accounting rules (IFRS 9) and banks' commercial property loans. On-site inspections were conducted at nine institutions on the use of ICT and eight on-site inspections at banks and one at a finance company to follow up their IRB permissions to use internal models to compute capital requirements for credit risk for the bulk of their loan portfolios. Four special inspections were carried out on measures against money laundering and terrorist financing. The institutions' lending activity remained the key area of supervision to enable early detection of heightened risk and weaknesses associated with assessments of credit and impairment losses. Consumer financing and measures against money laundering and terrorist financing were prioritised areas in 2019.

Finanstilsynet has integrated the follow-up of climate risk into its supervisory activities. Finanstilsynet's tool (risk module) for evaluating institutions' management and control of credit risk was updated in 2019 to include requirements for the assessment of institutions' handling of climate risk (physical risk and transition risk).

Supervisory collaboration

Supervision of major banks operating in several countries in Europe is coordinated through supervisory colleges in which the relevant countries' supervisory authorities are represented. Finanstilsynet is the coordinating authority in the supervisory college for the DNB Group and has participated in supervisory colleges for six foreign financial institutions that operate in Norway through subsidiaries or branches. The work of the colleges follows guidelines set by the EBA.

Systemically important institutions and institutions reviewed by supervisory colleges

The supervisory college for the DNB Group consists of, in addition to Finanstilsynet, the supervisory authorities in five of the other countries where the Group is represented. The college focuses on the Joint Decisions on DNB's risk level and capital needs, liquidity and recovery plan. The Joint Decisions cover both the Group and its subsidiaries. In addition to the collaboration in the DNB College, Finanstilsynet maintains direct contact with the supervisory authorities of some of the other countries in which DNB operates. In the course of 2019, eight on-site inspections were conducted at DNB Bank ASA. In addition, inspections were carried out at other entities in the DNB Group. Regular meetings are held with the Group's management and with the board chair, the statutory auditor and the internal auditor. There are also regular meetings with DNB related to, among other things, the bank's

financial reporting, risk and regulatory compliance, as well as IT development.

In 2019, a re-evaluation of Kommunalbanken's capital needs was made on the basis of the bank's internal supervisory review and evaluation process. A new decision on the Pillar 2 capital requirement was made in February 2020. In addition, meetings were held with the bank concerning the calculation of risk and a review of the bank's quarterly risk reports.

Finanstilsynet participates in the supervisory colleges for Banco Santander S.A. and Société Générale S.A. In this connection, Finanstilsynet takes part in the SREP at group level for Banco Santander and sets Pillar 2 requirements for Santander Consumer Bank AS (SCB) in Norway, which includes the bank's operations in Sweden, Denmark and Finland. In 2019, an IRB inspection was carried out at SCB, and a meeting was held with group management in the Nordic region. Finanstilsynet also submitted comments to the Group's recovery plan.

In 2019, Finanstilsynet provided input to the work on the SREP at group level for Société Générale S.A. and set the Pillar 2 requirement for the Norwegian finance company SG Finans AS. Finanstilsynet conducted an on-site IRB inspection at SG Finans AS in 2019 and had a meeting with the company regarding the requirements for electronic monitoring in accordance with the anti-money laundering legislation.

The follow-up of Nordea Eiendoms kreditt AS, Nordea Finans Norge AS and Gjensidige Bank ASA is discussed under 'Systemically important branches'.

Other large institutions

Every year, Finanstilsynet carries out comprehensive risk assessments of the other major banks in Norway², which numbered 13 in 2019. The risk assessments provide a basis for reviewing the banks' capital needs and to assign inspection priorities. In 2019, Finanstilsynet conducted six ordinary on-site inspections at these banks. Four of the inspections covered market and liquidity risk, and two covered credit risk and compliance with the anti-money laundering legislation. In addition, six of the large banks were covered by Finanstilsynet's thematic inspection of commercial property loans, and six banks were covered by the thematic inspection of new accounting rules (IFRS 9).

Other entities

In the course of 2019, 14 ordinary on-site inspections were conducted at small and medium-sized banks. The majority of the inspections covered all important risk aspects, including the risk of money laundering and terrorist financing. In addition, the thematic inspection of new accounting rules (IFRS 9) encompassed three of the medium-sized banks.

² These banks are in 'category 2', which comprises large or medium-sized institutions mainly operating in the domestic market, but with high market shares nationally or regionally. See also the account on page 33 of the supervisory review and evaluation process (SREP).

Systemically important branches

The EBA's 'Guidelines on supervision of significant branches' emphasise the need to broaden host country supervision of systemically important branches. Finanstilsynet regards the branches of Nordea Bank, Handelsbanken and Danske Bank as systemically important in Norway. Finanstilsynet therefore participates in discussions on the groups' capital, liquidity and recovery plans under the auspices of the supervisory colleges for the three banks and makes annual assessments of the branches' significance for financial stability. As from 2019, Finanstilsynet also participates in special colleges focusing on anti-money laundering efforts in Nordea and Danske Bank.

With respect to the Nordea Group, Finanstilsynet has also set Pillar 2 requirements for the Norwegian subsidiaries Nordea Eiendoms kreditt AS, Nordea Finans Norge AS and Gjensidige Bank ASA. In 2019, Finanstilsynet also held a meeting with the management of the Nordea Group. Furthermore, meetings were held with the branch's management on the branch's risk situation and with Nordea Eiendoms kreditt AS and Nordea Finans Norge AS on risk and capital.

The systemically important branches were encompassed by Finanstilsynet's thematic inspection of commercial property loans. In addition, Finanstilsynet conducted on-site special inspections of compliance with the anti-money laundering legislation at Handelsbanken and Danske Bank in 2019. Finanstilsynet also had meetings regarding the branches' risk situation with the management teams of the branches of these banks.

Follow-up of particular themes

IRB supervision

Ten Norwegian institutions have permission to use internal models (IRB). When processing applications for IRB approval, Finanstilsynet considers, among others, the models' characteristics, data and use in the banks' risk management process. IRB permissions are followed up through ongoing monitoring of parameter values shown in the banks' reports, at annual on-site inspections and through other dialogue with the banks. In the period from December 2018 to December 2019, on-site inspections were conducted at all IRB banks. Finanstilsynet's supervisory reports related mainly to the banks' validation procedures and results. In 2019, several banks were notified or instructed to increase the safety margins in the models for loss given default (LGD).

Banks' offshore exposure

As in previous years, Finanstilsynet examined banks' exposure to the offshore sector in 2019. The review covered the five banks with the highest exposure, aiming to follow up developments in exposure and portfolio quality and the banks' level of impairment losses. At end-June 2019, the banks' total offshore portfolios represented approximately 4.5 per cent of their corporate market portfolios. Several of the banks' offshore customers still have a high level of debt. As a result of a reduction in lower-priority debt, less capital among owners and an older fleet, banks may be more exposed to losses in the event of new restructurings in the offshore companies.

Chart 6: Twelve-month growth in Norway

Sources: Finanstilsynet and Statistics Norway

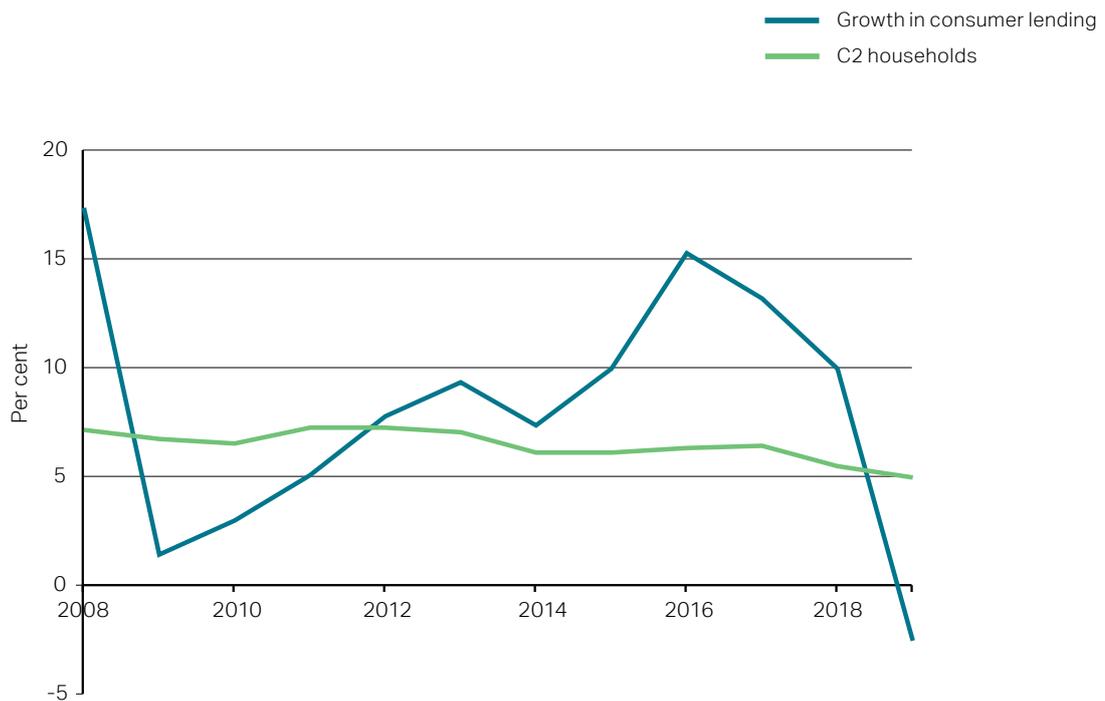
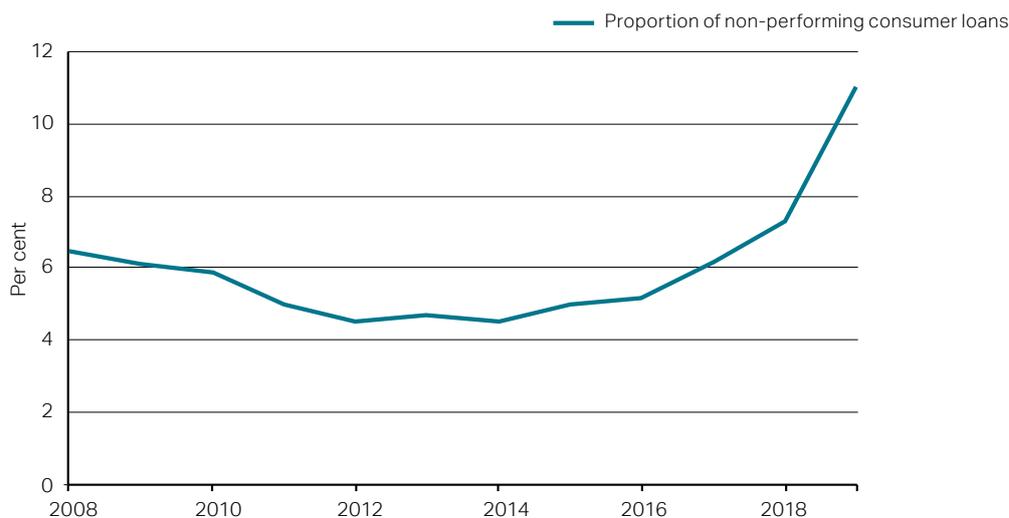


Chart 7: Gross non-performing loans, 90 days past due*

Source: Finanstilsynet



* Gross non-performing loans are total consumer loans in the institutions, including Norwegian institutions' exposures abroad.

Consumer lending

The growth in consumer lending over several years has far outstripped general credit growth. The strong market growth has largely been driven by specialised consumer loan banks established over the past ten years. Access to unsecured credit may cause problems for individuals that for various reasons take out larger loans than they are able to service. For Norwegian households, the increase in consumer debt comes in addition to very high and rising housing debt levels. Consumer loans represent just below 4 per cent of total household debt in Norway, compared with just over 2 per cent ten years ago.

In 2019, Finanstilsynet ran a survey of a sample of 34 banks and finance companies offering consumer finance. Both Norwegian entities and foreign branches in Norway were included in the sample. Consumer loans include both credit card loans and other unsecured consumer loans to personal customers. Unsecured loans in finance companies that purchase portfolios of non-performing loans, and loans from foreign institutions that engage in cross-border activities, are not included. The institutions in Finanstilsynet's survey had granted consumer loans in Norway of just over NOK 111 billion at end-December 2019.

Growth in the Norwegian consumer loan market has slowed down after several years of strong expansion (chart 6). The decline was particularly pronounced in 2019. From year-end 2018 to year-end 2019, lending volume in Norway was down 2.6 per cent. Adjusted for the sale of the institutions' non-performing portfolios during the same period, twelve-month growth in Norway would have been 1.6 per cent. In comparison, households' total debt increased by 5.0 per cent during 2019.

The level of non-performing consumer loans is considerably higher than for other types of loans. Despite increasing sales of non-performing portfolios in recent years, there has been a marked increase in the proportion of non-performing consumer loans (chart 7). At year-end

2019, 11.0 per cent of the consumer loans of the institutions in the sample were non-performing. In comparison, 0.9 per cent of all banks' total loans were non-performing at the same time.

The authorities have introduced several measures during the past few years to limit the growth in consumer loans. Based on a proposal from Finanstilsynet, the Ministry of Finance adopted regulations on financial institutions' consumer lending practices in February 2019 which replaced Finanstilsynet's guidelines and set out requirements for debt servicing capacity, maximum debt-to-income ratio and instalment payments. The regulations allow institutions to grant consumer loans that deviate from one or more of the requirements for up to 5 per cent of the value of total loans granted each quarter (flexibility quota). The institutions' compliance with the regulations will be monitored through both off-site and on-site inspections at selected banks.

With effect from the second quarter of 2019, Finanstilsynet established quarterly reporting of the institutions' compliance with the regulations. With the exception of a few minor deviations, the institutions confirm that they stayed within the flexibility quota in the third quarter of 2019. Finanstilsynet follows up entities that have exceeded the flexibility quota.

In May 2019, Finanstilsynet published the remaining five supervisory reports following its on-site inspections at six banks offering consumer loans in 2018. At the same time, the authority published a summary report on the six inspections. The summary report concluded that the inspected banks had not taken account of all relevant expenses or had underestimated the expenses when assessing customers' debt servicing capacity. Customers who should not have been granted consumer loans pursuant to prevailing guidelines, were nevertheless approved for loans. In its summary report, Finanstilsynet also stated that the increase in new non-performing loans demonstrated that a significant

proportion of the banks' customers, even in good times for the Norwegian economy, have difficulty servicing the loans granted by the banks.

Recovery plans

The amendments to the Financial Institutions Act that implement the EU's Bank Recovery and Resolution Directive in Norwegian law, entered into force on 1 January 2019. As a preventive measure against solvency crises, the institutions are required to draw up recovery plans indicating what steps can be taken to restore their financial position if it has weakened considerably. Finanstilsynet will consider whether the institutions' recovery plans are of adequate quality and realistic.

In June, Finanstilsynet published circular 10/2019 on recovery plans, which specifies the authority's expectations with regard to the content of the plans and provides guidance on the institutions' use of the proportionality principle when preparing the plans. According to the circular, small and less complex entities may be subject to simplified requirements for recovery plans provided that the entity is not considered to have functions of critical importance to society.

International accounting standards – IFRS 9

The international accounting standard IFRS 9 entails significant changes in the rules for impairment of loans. For entities issuing listed securities, the standard came into force on 1 January 2018. The Ministry of Finance decided in December 2018 that unlisted banks, mortgage companies and finance companies must apply IFRS 9 as of 1 January 2020. The change will ensure greater comparability between the financial statements of listed and unlisted entities.

In 2019, Finanstilsynet conducted a thematic inspection at nine banks, including two consumer loan banks, on the implementation of rules on credit losses in IFRS 9. The purpose of the thematic inspection was to chart how the banks employ the new rules. The thematic inspection included an assessment of banks' procedures and methodology for loss assessments and an assessment of banks' disclosures on credit risk in the annual financial statements for 2018. Finanstilsynet has sent preliminary supervisory reports to the banks. Final supervisory reports and a summary report from the thematic inspection will be published in the first half of 2020.

Residential mortgages

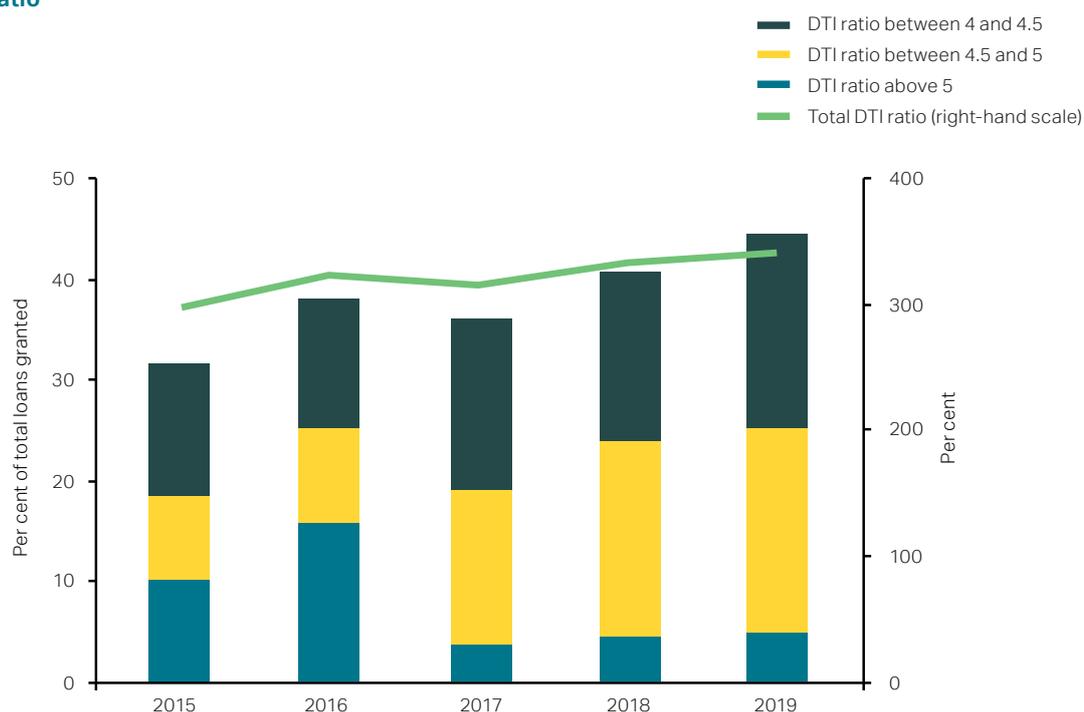
Every quarter, Finanstilsynet obtains reports on compliance with the residential mortgage lending regulations from 24 financial institutions and branches of foreign undertakings. The reports show the share of mortgages granted that do not meet the regulatory requirements on debt-servicing capacity, debt-to-income (DTI) ratio, loan-to-value (LTV) ratio or instalment repayments.

For residential mortgages in Oslo, the volume of new loans that did not meet one or more of the requirements of the regulations was stable at just over 6 per cent of total loans granted in 2019. Non-fulfilment of the requirement for a maximum DTI ratio of five times income was the main cause of deviation in Oslo. For mortgages secured on residential property outside Oslo, the rate of non-compliance increased to just over 7 per cent of total loans granted towards the end of the year after declining slightly at the beginning of the year. Non-fulfilment of the requirements for a maximum DTI ratio and a maximum LTV ratio were the main causes of deviation outside Oslo.

One bank exceeded the 8 per cent limit for breach of one or more of the requirements for residential mortgages in

Chart 8: Share of new instalment loans by borrower's DTI ratio and total DTI ratio

Source: Finanstilsynet



Oslo in each of the last three quarters of 2019. In letters to the relevant banks, Finanstilsynet emphasised the importance of the board taking the necessary measures and ensuring close follow-up by the board and management. For residential mortgages outside Oslo, no institutions exceeded the 10 per cent flexibility quota in 2019.

Residential mortgage lending survey

Finanstilsynet regularly examines banks' lending practices. In the autumn 2019 survey, 30 of the largest Norwegian and foreign banks reported data on close to 8,000 new instalment loans and 4,000 new lines of credit secured by residential property granted after 1 August 2019. The banks participating in the survey hold a combined market share of about 90 per cent of residential mortgages in Norway.

The survey shows an increase in the overall DTI ratio among borrowers who have taken out new instalment loans over the past few years. Although fewer borrowers have total debt exceeding five times gross annual income, a far greater number of borrowers have a DTI ratio of more than four times income (chart 8). The DTI ratio increased the most among the youngest and oldest borrowers from 2018 to 2019.

Licensing

Bank establishments

Nordic Corporate Bank ASA was granted a licence to operate as a bank in December 2018. The bank was granted permission to start operations in May 2019. The bank's operations target small and medium-sized enterprises, offering financing in connection with the purchase, development and construction of real estate, retail trade, hotels and restaurants as well as other business services.

Boligbanken ASA was granted a licence to operate as a bank in June 2019. The bank will offer operating and investment accounts to corporate customers, primarily housing companies managed by cooperative housing associations. Boligbyggelaget Romerike (BORI) and Nedre Buskerud Boligbyggelag (NBBO) can each own up to 25 per cent of the shares in the bank. The licence will not become valid until Finanstilsynet receives confirmation that the licence terms and conditions are met.

Nordsjø ASA was granted a licence to operate as a bank in August 2017. As the licence terms and conditions were not fulfilled by the deadline, Finanstilsynet revoked the permission in June 2019.

NordNorge Finans Forum ASA was granted a licence to operate as a bank in January 2019. The licence will not become valid until Finanstilsynet receives confirmation that the licence terms and conditions are met.

Finance companies – licences

Debex AS was granted a licence in May 2019 to start operating as a finance company. The company will

offer unsecured loans to private individuals, focusing on refinancing. The licence will not become valid until Finanstilsynet receives confirmation from the company that the licence terms and conditions are met.

Loan intermediaries

A Norwegian branch of the Danish undertaking Kameo ApS was registered as a loan intermediary in 2016. In May 2018, Finanstilsynet imposed an order to terminate Kameo's operations in Norway as the undertaking performed tasks that were inconsistent with its role as an independent intermediary. In June 2019, the undertaking was allowed to resume its loan intermediation activities after making adjustments on the basis of comments from Finanstilsynet.

Mergers and demergers

Indre Sogn Sparebank, Aurland Sparebank and Vik Sparebank were given permission to merge in January 2019, with Indre Sogn Sparebank as the acquiring bank. The merger was completed in April 2019. The banks' operations have been continued under the name Sogn Sparebank.

In February 2019, Nordea Bank Abp was given permission to acquire 100 per cent of the shares of Gjensidige Bank ASA and its subsidiary Gjensidige Bank Boligkreditt AS. Parallel to this, Finanstilsynet gave permission to the merger between Gjensidige Bank and Nordea Bank, with the latter as the acquiring company. One of the terms of the permission is that the merger is completed within 15 months after the permission was granted.

In March 2019, Nordnet Bank AB was given permission to acquire 100 per cent of the shares of Netfonds Bank ASA. Parallel to this, Finanstilsynet gave permission to the merger between Netfonds Bank and Nordnet Bank, with the latter as the acquiring company. Netfonds Bank was involved in a dispute with the Norwegian government and was granted permission to demerge the part of the company that it believed had an interest in the dispute to a newly established company owned by Netfonds Holding AS. The merger was completed in June 2019.

BRABank ASA and Monobank ASA were given permission to merge in May 2019, with the latter as the acquiring company. The merger was completed in June 2019. As a result of the merger, Monobank took over BRABank's operations in Sweden. The merged bank changed its name to BRABank ASA.

In August 2019, Gjensidige Bank ASA was given permission to demerge parts of the bank, which were transferred to Nordea Finans Norge AS. The demerger encompassed Gjensidige Bank's car financing business and was completed in November 2019.

In December 2019, BB Bank ASA was granted permission to merge with its Swedish parent company TF Bank AB. The merger was completed in January 2020.

Recovery and resolution

On 1 January 2019, Finanstilsynet was designated as the Norwegian resolution authority. However, decisions of significance to financial stability will still be made by the Ministry of Finance.

In accordance with the recovery and resolution framework, Finanstilsynet prepared resolution plans and set Minimum Requirements for Own Funds and Eligible Liabilities (MREL) for eight Norwegian financial institutions in 2019. These were DNB ASA, Norwegian Finans Holding ASA, Sparebanken Sør, Sparebanken Vest, SpareBank 1 SR-Bank ASA, SpareBank 1 SMN, SpareBank 1 Nord-Norge and SpareBank 1 Østlandet. In addition, a resolution college was established for the DNB Group. In November 2019, the college adopted a group-wide resolution plan. The DNB Group's resolution college is headed by Finanstilsynet. Other participants are the Ministry of Finance, Norges Bank and the Norwegian Banks' Guarantee Fund and resolution authorities for the Group's international branches and subsidiaries. Finanstilsynet also participates in resolution colleges for Handelsbanken, Danske Bank, Nordea, Santander, Swedbank and Skandinaviska Enskilda Banken (SEB).

In January 2019, the authorities responsible for financial stability in the Nordic and Baltic countries conducted a joint financial crisis management exercise. The exercise included 31 authorities from Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden as well as relevant EU authorities. An observer from the International Monetary Fund (IMF) was present during the exercise. The exercise was based on a crisis scenario involving fictitious financial institutions in the Nordic and Baltic countries and tested the various authorities' crisis management capabilities and regional cooperation.

Conversion of ownerless capital

In October 2019, Sparebanken Vest was given permission to convert parts of its ownerless capital into owners' capital, create a savings bank foundation and introduce customer dividends. The bank's owner fraction after the conversion is approximately 40 per cent. The reason for the conversion of the ownerless capital and the establishment of a savings bank foundation was to increase the listed owners' capital and facilitate a broader ownership structure in the bank.

Regulatory development

Implementation of the EU's solvency framework (CRD IV/CRR)

The EU's solvency framework comprises a directive that includes licensing requirements, rules on corporate governance and supervisory review (CRD IV) and a regulation with minimum own funds and liquidity coverage requirements (CRR). The framework is based primarily on the Basel Committee's capital and liquidity standards (Basel III).

The EU framework has largely been implemented in Norwegian law, but was not incorporated into the EEA agreement until 2019. A number of regulations were then implemented in Norwegian law through incorporation provisions in the CRR/CRD IV regulations. The amendments entered into force on 31 December 2019. Among other things, the new rules mean that loans to small and medium-sized enterprises will be subject to lower capital requirements than previously, and that the floor for risk-weighted assets for entities that are allowed to use internal risk models for capital requirements calculations has been removed.

In isolation, the new rules will permit Norwegian banks to report higher capital adequacy ratios without this reflecting an improvement in their financial soundness. When approving and monitoring internal models, Finanstilsynet will attach importance to robust calibration with satisfactory safety margins. When setting Pillar 2 add-ons, Finanstilsynet will also ensure that they cover risk that is not fully covered under Pillar 1.

In order to prevent a weakening of the sector's financial strength, the Ministry of Finance has decided to increase the systemic risk buffer rate to 4.5 per cent. The increase enters into force on 31 December 2020 for banks that use internal models to calculate credit risk or are defined as systemically important, and on 31 December 2022 for all other institutions. The Ministry has also decided to introduce risk weight floors for residential and commercial mortgages of 20 and 35 per cent, respectively. Both the systemic risk buffer and the risk weight floors must be notified to the EU and EFTA, and the Ministry will ask the ESRB to recommend reciprocity for the measures. The proposed measures were circulated for comment in the autumn of 2019, and Finanstilsynet issued a response.

The new rules also entail other amendments to Norwegian regulations. Six regulations have been repealed, and 55 EU regulations have been incorporated into Norwegian regulations. The most significant changes include new criteria for which institutions should have separate control functions for risk management and regulatory compliance. Increases in share capital, Additional Tier 1 capital and subordinated loan capital no longer require permission by Finanstilsynet. The same applies to the refinancing of Additional Tier 1 capital and subordinated loan capital, provided that new capital is raised before existing capital is redeemed and that the quality and amount of new capital at least correspond to the existing capital. However, refinancing requires Finanstilsynet's permission if it will have an adverse effect on the institution's earnings in the form of higher interest rate markups. An increase in owners' capital and any net reduction in own funds still require permission from Finanstilsynet.

Banks' provision of cash services

On commission from the Ministry of Finance, Finanstilsynet reviewed the banks' provision of cash services in 2019, including current developments, future prospects and the need for measures. Finanstilsynet proposed new regulations to clarify banks' obligation to offer appropriate cash services throughout Norway.

Systemically important institutions

Each year, the Ministry of Finance will decide, based on Finanstilsynet's advice, which financial institutions are to be regarded as systemically important in Norway. Systemically important banks are subject to an additional CET1 capital requirement of 2 per cent and an additional leverage ratio requirement of 1 per cent. Institutions are defined as systemically important if their total assets exceed 10 per cent of Mainland Norway's GDP or their market share of lending to the private non-financial sector in Norway exceeds 5 per cent. In 2019, DNB Bank ASA and Kommunalbanken AS were defined as systemically important in Norway.

In connection with the increase in the systemic risk buffer, the Ministry of Finance has decided to differentiate the buffer requirement for systemically important institutions. As from 2020, institutions with total assets in excess of 10 per cent of GDP or a market share of lending to the private non-financial sector in Norway of more than 5 per cent shall be subject to a buffer requirement of 1 per cent. Institutions with total assets in excess of 20 per cent of GDP or a market share of lending to the private non-financial sector in Norway of more than 10 per cent shall be subject to a buffer requirement of 2 per cent.

Treatment of problem loans

On commission from the Ministry of Finance, in the autumn of 2019, Finanstilsynet prepared a draft consultation document and provisions for the implementation of the EU regulation on the treatment of non-performing exposures (EU 2019/630).

The regulation requires that a deduction be made from common equity Tier 1 capital for non-performing exposures that are not sufficiently covered by provisions. The regulation will have a limited effect on Norwegian financial institutions, given the current level of non-performing exposures.

The regulation does not leave room for national discretion and applies only to loans originated after 26 April 2019, which means that the first deductions shall not be made until mid-2021. Finanstilsynet has proposed that the regulation be implemented through an incorporation provision in the CRR/CRD IV regulations and that the deduction rules be effective for loans originated as of 26 April 2019, which is the same as for European banks.

The proposal was circulated for comment by the Ministry of Finance with the deadline for response set at 31 January 2020.

Crisis management and deposit guarantee

In March 2018, the Storting (Norwegian parliament) passed the Act on the Norwegian Banks' Guarantee Fund and the Act on amendments to the Financial Institutions Act etc. The Acts entered into effect on 1 January 2019 and implement the EU's Bank Recovery and Resolution Directive (BRRD) and the Deposit Guarantee Schemes Directive in Norwegian law. The BRRD has been incorporated into the EEA Agreement, and incorporation of the Deposit Guarantee Schemes Directive is in process.

A key element of the BRRD is the introduction of 'bail-in' as a resolution tool and the introduction of Minimum Requirements for Own Funds and Eligible Liabilities (MREL). MREL consists of own funds, which is the institution's equity, and other forms of capital that may absorb losses in ongoing operations, as well as certain types of liabilities that can be converted into equity. Bail-in decisions entail that unsecured creditors must cover losses as their claims are written down or converted.

Creditors incur losses when institutions are resolved or liquidated under normal insolvency proceedings. In June 2019, the Ministry of Finance circulated for public consultation Finanstilsynet's memo on the implementation of changes in the priority ranking in accordance with Article 108 of the BRRD. The changes entail a clarification in Norwegian law of the priority in which creditors' claims are covered and will promote harmonised treatment of creditors' claims in insolvency within the EEA. In addition, a new class of capital is established in the form of subordinated senior debt (Tier 3 instruments) that has lower priority ranking than ordinary unsecured senior bonds, but higher priority than subordinated loans eligible as Tier 2 instruments. Tier 3 debt instruments can be used to fulfil the MREL requirement.

In July 2019, the Norwegian Banks' Guarantee Fund circulated for public consultation draft regulations on requirements for the reporting of information on depositors and deposits to the Banks' Guarantee Fund (Deposit Guarantee Regulations). The regulations address the requirements that are regulated in the current regulations of 22 March 2013 no. 330 on requirements for computer systems and reporting to the Norwegian Banks' Guarantee Fund (Computer Regulations), adopted by Finanstilsynet. Finanstilsynet aims to revoke the Computer Regulations when the Deposit Guarantee Regulations enter into force on 1 July 2020.

Mortgage Credit Directive

In 2014, the EU adopted a directive on credit agreements for consumers relating to residential immovable property (the Mortgage Credit Directive, 2014/17). The Mortgage Credit Directive aims to ensure a high level of consumer protection relating to residential mortgages. The rules shall also help to create a more efficient and competitive single market for residential mortgages by establishing a level playing field for all actors and facilitating cross-border activity.

On commission from the Ministry of Finance, Finanstilsynet prepared a consultation document in June 2019 proposing rules that implement parts of the Mortgage Credit Directive in connection with the intermediation of residential mortgages. Finanstilsynet proposed a new act on loan intermediation. The proposal includes requirements concerning licences, including suitability requirements and a requirement to have liability insurance, for residential mortgage intermediaries. Finanstilsynet also proposed that the intermediation of other loans to consumers be subject to the same licence requirements that apply to intermediaries of residential mortgages. The proposal has been circulated for comment and is under consideration by the Ministry of Finance. Those parts of the Mortgage Credit Directive that are not covered by Finanstilsynet's proposal had been circulated for comment by the Ministry of Justice and Public Security as part of the draft for a new Financial Contracts Act. The draft for the new Financial Contracts Act is being considered by the Ministry of Justice and Public Security.

New residential mortgage lending regulations

The Ministry of Finance adopted new regulations on requirements on new residential mortgages (Residential Mortgage Lending Regulations) on 15 December 2019. The regulations entered into force on 1 January 2020.

In December 2019, Finanstilsynet published circular 13/2019 'Requirements for new residential mortgages', which amplifies some of the provisions in the regulations and the requirement for internal monitoring of compliance.

Interest rate caps on consumer loans

In November 2018, the Ministry of Finance asked Finanstilsynet for input on specific models for interest rate caps on consumer loans. In its response in March 2019, Finanstilsynet stated that interest rate caps are an invasive policy measure. Furthermore, Finanstilsynet pointed out that interest rate and cost caps are best suited for particularly expensive small loans with short maturities from specialised undertakings. Such loans are not very widespread in Norway today. It was also recommended to gain experience from the measures that have already been implemented before contemplating the introduction of interest rate caps. In the *Financial Markets Report* for 2019, the Ministry of Finance supported the assessment that no interest rate or cost caps should be introduced for consumer loans in Norway. The Ministry emphasised that these measures will not be sufficiently targeted to justify the risk of unwanted implications, given the current state of the Norwegian market.

Platforms for loan-based crowdfunding

In December 2018, Finanstilsynet sent a consultation document to the Ministry of Finance, proposing rules governing platforms for loan-based crowdfunding for businesses. At the same time, Finanstilsynet proposed a prohibition against the intermediation of loans to consumers by entities other than financial institutions.

The part of the proposal that relates to the intermediation of loans to businesses has been circulated for public consultation and is under consideration by the Ministry of Finance. The Ministry of Finance has announced that a working group will be appointed to consider crowdfunding of loans to consumers. Finanstilsynet has recommended that the proposed rules for loan-based crowdfunding be coordinated with the draft legislation on loan intermediation, which entails licensing requirements etc. for the intermediation of all types of loans from financial institutions to consumers.

On 26 April 2019, the Ministry of Finance adopted amendments to the Financial Institutions Regulations that exempt the intermediation of loans via loan-based crowdfunding platforms from the licensing requirement if certain conditions are met. The platform must be operated by a loan intermediary or a financial institution, and the lender's total loans mediated via the platforms cannot exceed NOK 1 million annually. The amendments entered into force on 1 June 2019.

Securitisation

The new Securitisation Regulation entered into force in the EU on 1 January 2019. The regulation consists of a general framework for securitisation and a specific framework for simple, transparent and standardised ('STS') securitisations. Rules on securitisation are also laid down in the capital adequacy framework for banks, including requirements for the transfer of credit risk and the calculation of capital requirements for investments in securitisation positions. The EU's Securitisation Regulation will also be implemented in Norwegian legislation.

In December 2018, Finanstilsynet was commissioned by the Ministry of Finance to head a working group mandated to assess the implementation of the Securitisation Regulation in Norwegian law. The working group had representatives from Finanstilsynet, the Ministry of Finance and Norges Bank, and was assisted by a reference group with representatives from trade associations and the industry. The working group submitted its report to the Ministry of Finance in May 2019, and the Ministry circulated the report for public consultation in June 2019. The deadline for response expired in September 2019. The matter is being considered by the Ministry of Finance.

Covered bonds

A new directive on covered bonds was adopted in the EU in November 2019. The purpose of the directive is to ensure more consistency in terms of the definition of covered bonds and thus reduced capital requirements in the EU. Norwegian covered bonds are encompassed by the new directive. In March 2019, Finanstilsynet was commissioned by the Ministry of Finance to prepare a consultation document on how the directive should be implemented in Norway. Finanstilsynet sent the consultation document to the Ministry of Finance in December 2019.

In Finanstilsynet's opinion, prevailing Norwegian regulations for covered bonds largely meet the minimum requirements in the new EU directive. Nevertheless, some adjustments are required. The EU directive includes more specific liquidity requirements than the current general liquidity requirements, as the buffer shall cover the maximum cumulative net liquidity outflow over the next 180 days. The provisions on loan-to-value ratio and overcollateralisation also deviate from the current Norwegian regulations for covered bonds. In addition, the directive contains new requirements for the function as independent monitor, who can no longer be the statutory auditor, and further rules on the issuer's opportunity to extend maturity dates ('soft bullet'). In addition, a new class of covered bonds will be introduced that will not result in lower capital requirements.

Circular on financial agents

In May 2019, Finanstilsynet published a new circular on financial agents (circular 6/2019), which replaced circular 16/2009. The main objective of updating the circular was to make banks and financial agents aware of the ban on the use of sub-agents. The ban also includes the use of so-called white labels and affiliates, which means that firms and marketing channels that do not market the loan offering in the name of the agent are used, and that consumers complete loan applications on the website of a third party.

ICT and payment services

Developments

Financial sector entities reported a certain rise in operational or security-related ICT incidents to Finanstilsynet in 2019 compared with 2018. Based on the duration, timing and number of affected users, Finanstilsynet is nevertheless of the opinion that the availability of payment services and customer-oriented services was better in 2019 than in 2018.

In 2019, Finanstilsynet considered a number of cases resulting from the implementation of the revised Payment Services Directive (PSD 2) in Norwegian law on 1 April 2019. This included applications for a licence to provide new types of payment services, exemptions from the requirement for a backup solution for account servicing payment service providers that have chosen to develop dedicated account access interfaces, and an extended deadline for establishing secure customer authentication (SA) for the use of payment cards for e-commerce.

After the implementation of PSD 2 in Norwegian law, fraud related to payment services shall be reported to Finanstilsynet. There is a common reporting format for all European countries, which will make it possible to compare fraud levels, types and trends across countries. Fraud committed during the first half of 2019 was still reported to Bits AS³, while reports for the second half were prepared in accordance with the PSD 2 format and submitted to Finanstilsynet.

Supervision, monitoring and control

Supervision of ICT and payment services

Finanstilsynet conducted 23 on-site inspections in 2019 focusing on ICT and payment services. Of these, eleven were conducted at banks, one at an insurance undertaking, one at an infrastructure entity, six at investment firms, one at a payment institution, two at real estate agencies and two at audit firms. The on-site inspections encompassed management and control of ICT operations in general. Finanstilsynet has focused particular attention on cyber security, outsourcing and the banks' systems for electronic anti-money laundering (AML) monitoring.

³Bits AS (Payments, Interoperability, Technology, Security) is the infrastructure company of the Norwegian banking and financial industry.

At several of the inspections, Finanstilsynet pointed to shortcomings in the follow-up of service providers, especially the service providers' compliance with the entity's security requirements. For some entities, the fact that the risk analysis of ICT operations does not give an adequately picture of actual risk still represents a challenge. The inspections in the securities area concerned management and control of cyber security. Here, Finanstilsynet found inadequate procedures for classification and protection of information related to information exchange and handling, deficient procedures for security testing and failure to report incidents. In 2019, supervision of banks' systems for monitoring suspicious transactions linked to money laundering and terrorist financing showed that the banks do not have satisfactory solutions to ensure complete customer and transaction bases for monitoring. In some cases, customers and transactions were not covered by the electronic monitoring.

In addition to the on-site inspections, Finanstilsynet carried out an off-site inspection in 2019 in which Norwegian banks and international banks with branches in Norway responded to a comprehensive survey on business continuity management and crisis management solutions. Finanstilsynet found that the entities generally have established crisis management solutions, also referred to as preparedness measures or backup solutions, that will be implemented if a normal operational solution is not available. However, the authority identified shortcomings in some entities that entail that they risk facing challenges if they have to deal with a serious ICT incident.

The International Monetary Fund (IMF) made an assessment – 'Financial Sector Assessment Program' (FSAP) – of Finanstilsynet in 2019 and early 2020. Finanstilsynet was selected for a pilot project in which the IMF wanted to assess how supervisory activity contributes to measuring cyber risk in the financial sector. See a general description of the FSAP in the chapter *International cooperation* on page 20.

Incident reporting

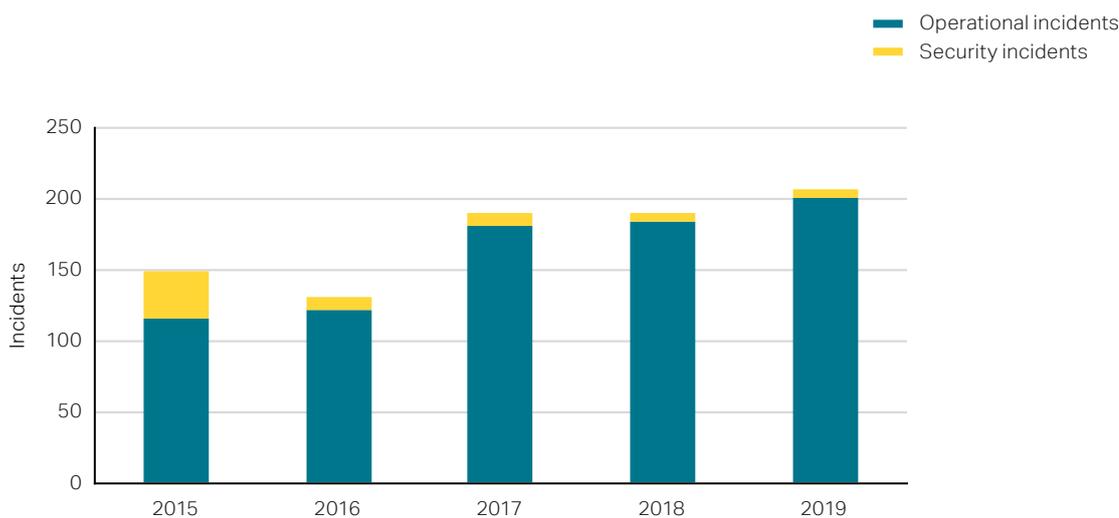
Financial institutions reported 204 ICT incidents to Finanstilsynet in 2019, a slight increase from 2018. At inspections and through other contact with the entities, Finanstilsynet has pointed out that deviations concerning the systems for electronic customer and transaction monitoring must be reported. The number of reports of such deviations has increased. Several new banks and payment institutions have been established, and the number of reporting entities is increasing. In some cases, a number of banks or investment firms reported the same incident at a common service provider during 2019. This is one of the main purposes of the incident reporting, as it gives Finanstilsynet updated information on critical suppliers.

Incidents that had major consequences in 2019 included a network problem at Gjensidige AS in March that lasted for 24 hours, lack of access to Vipps on Norway's national day 17 May and a problem with VISA transactions that were reserved twice by DNB in May. As in previous years, there were also problems with BankID on the days the tax settlement was published and tax repayments were due.

In Finanstilsynet's opinion, entities have strengthened their defences, which means that attacks increasingly are prevented before they have consequences. Only five of the reported incidents in 2019 were security incidents. The security incidents involved so-called compromise of entities' IT systems through cryptovirus, phishing attempts aimed at retrieving information, compromise of data from inside the entity and DDoS attacks.

Chart 9: Number of reported ICT incidents

Source: Finanstilsynet



Operational incidents are unintended events caused by technical or human error or an accident. Security incidents are intentional, malicious events related to cybercrime.

ICT outsourcing

Finanstilsynet processed 135 notifications of ICT outsourcing in 2019. Questions concerning ICT outsourcing were also considered in connection with the processing of licence applications. The total number of notifications processed was at the same level as in 2018. There was a continued trend towards increased use of cloud services for both application and infrastructure services in 2019. The scope and complexity of the outsourcing notifications have increased, although Finanstilsynet has noted that the entities have become better at handling the outsourcing agreements. This applies to both risk analyses of the outsourcing, the board's consideration thereof and the quality of the agreements with subcontractors.

System for payment services and payment institutions

In 2019, Finanstilsynet received 21 notifications in accordance with the requirements of the Act relating to Payment Systems of changes in or new payment services. Cooperation between banks on payment solutions and new solutions for mobile phone payments were recurrent themes.

The Revised Payment Services Directive (PSD 2) opened the way for two new payment services: payment initiation services and account information services. In 2019, Finanstilsynet processed 23 applications for permission to provide such services.

In order to enable third-party payment service providers to offer the new payment services, account servicing payment service providers (banks) must make available at least one interface for accessing accounts. Account servicing payment service providers can choose to do this either through the ordinary customer interfaces such as online banking, mobile banking etc., or by developing separate interfaces for this purpose. Account servicing payment service providers who have chosen to develop special interfaces for accessing accounts, may apply for an exemption from the requirement to establish an alternative solution (other than an ordinary backup solution). Finanstilsynet received 111 applications from account servicing payment service providers for exemption from the requirement to establish such an alternative solution.

PSD 2 sets requirements for secure customer authentication (SCA). Practically all banks and payment institutions applied for a deferral of the deadline for establishing SCA in accordance with PSD 2 for the use of payment cards in an e-commerce context.

Risk and vulnerability analysis (RAV)

In its *Risk and Vulnerability (RAV) Analysis* of financial institutions' use of ICT, presented in May 2019, Finanstilsynet points to findings and observations made in the course of its supervisory activities. It bases its account of the institutions' own assessments of risk factors on the latter's responses to a questionnaire survey and on interviews with the institutions.

Emergency preparedness

Finanstilsynet heads, and is secretariat to, the Financial Infrastructure Crisis Preparedness Committee (BFI). The BFI held two meetings and two emergency preparedness exercises in 2019.

In 2019, Finanstilsynet was designated by the Ministry of Finance to be the sectoral response body handling ICT security incidents in that part of the financial sector for which Finanstilsynet is responsible. Finanstilsynet performs this role in cooperation with Nordic Financial CERT.

Finanstilsynet also participates in the Norwegian National Cyber Security Centre, which was established by the Norwegian National Security Authority (NSM) in 2019 to strengthen Norway's resistance and preparedness in the digital field.

Follow-up of the new Security Act

The new Security Act and appurtenant regulations entered into force on 1 January 2019. According to the Act, each ministry shall identify and keep an overview of entities that are of crucial or significant importance to basic national functions (BNF) and report these to the Norwegian National Security Authority. During 2019, Finanstilsynet worked on analyses and advice to the Ministry of Finance on the identification of basic national functions under the new Security Act, as well as assessments of entities that may be of significant importance to the basic national functions.

Insurance and pensions

Regulation and supervision of the insurance and pension sectors are important in safeguarding customers' rights under insurance and pension contracts, and in instilling public confidence in the insurance market. The supervisory regime aims to foster financially solid institutions with sound risk management and internal control.

Developments

A large share of the total assets of life insurers and pension funds is invested in the securities markets. Developments in these markets are therefore of great significance to their profits and solvency. Although the proportion of defined-contribution pension schemes is increasing strongly, contracts with an annual guaranteed return still represent the greater part of pension institutions' liabilities.

Despite slower economic growth, there was a positive development in the global stock markets in 2019. Equity prices on Oslo Børs were up 16.5 per cent. Interest rates declined in 2019, with the most pronounced effect on long-term bond yields. There was a significant reduction up till August, which was partially reversed towards the end of the year. Overall, there were sound returns in the financial markets in 2019.

The Solvency II framework was introduced for Norwegian insurers with effect from 1 January 2016. In a period of historically low interest rates and increasing life expectancy, this entailed significantly higher capital requirements. Norwegian life insurers have handled the transition to the new regulations in a satisfactory manner by applying transitional rules and making internal adjustments. The undertakings have strengthened their financial position during the past few years and meet the solvency capital requirements.

Overall, the non-life insurance business has enjoyed sound profitability in recent years, although small firms have struggled to achieve an adequate level of profits. Non-life insurers are exposed to climate risk in the form of physical risk and transition risk, which reflects the uncertainty surrounding physical climate change and the transition to a low-emission society. More extreme weather conditions may contribute to escalating and more frequent settlement of claims for non-life insurers. Weather-related damage has increased drastically over the past decade. 2018 was an example of this, with a snowy winter and a warm and dry summer followed by heavy rainfalls in the autumn. This resulted in extensive settlement of claims related to snowloads, fires and water damage.

Supervision, monitoring and control

Monitoring and analyses

Finanstilsynet prepares quarterly reports on the profitability and balance sheet composition of life insurers and non-life insurers, while reports for pension funds are semi-annual. The results are published in the *Report for Financial Institutions* (Norwegian only) and are also included in the *Risk Outlook* report.

Each quarter, Finanstilsynet prepares an overall report on insurers' solvency situation. A more comprehensive solvency report is drawn up annually. In addition, solvency reports for pension undertakings are prepared twice a year. These reports are public.

Reporting

The reports filed by institutions are an important basis for analyses and on-site inspections. All insurers and pension funds report accounting information to the financial databases 'Forsikringsforetakenes offentlige regnskaps- og tilsynsrapportering' (FORT) and 'Pensjonskassenes offentlige regnskaps- og tilsynsrapportering' (PORT). The reporting is a cooperative effort between Finanstilsynet and Statistics Norway.

All life and non-life insurers and pension funds whose total assets exceed NOK 1 billion report key figures to Finanstilsynet.

The reporting requirements set forth by the Solvency II Directive are based on fully harmonised EU regulations. The reporting requirements are wide-ranging and have required substantial resources on the part of the institutions and Finanstilsynet alike. The reports are forwarded to EIOPA.

All pension funds have reported on the basis of Finanstilsynet's stress tests since the end of 2012. A simplified solvency capital requirement based on the stress test was introduced as of 1 January 2019. The majority of the pension funds report semi-annually, while the largest pension funds report quarterly. In addition, the pension funds annually report solvency margin

requirements according to the Solvency I framework to Finanstilsynet.

As from the third quarter of 2019, new pan-European reporting was introduced for pension undertakings. The 22 largest pension funds, which cover 75 per cent of the market, must report to Finanstilsynet on a quarterly basis. The reports, which are forwarded to EIOPA, include balance sheet information and, with effect from 2020, item-by-item reporting of assets. With respect to other pension funds, Finanstilsynet must annually send aggregated information to EIOPA based on information in PORT and a separate, less comprehensive report for small pension undertakings for 2019.

Norwegian insurers' and pension funds' financial soundness and profitability

Life insurers' financial soundness has strengthened since the Solvency II framework entered into force. The prolonged low interest rate level has made it challenging for undertakings with guaranteed benefits to achieve the guaranteed return on their investments.

The transitional measure for technical provisions has been of particular significance to these institutions. At the end of 2019, the transitional measure was applied by and had effect for six life insurers.

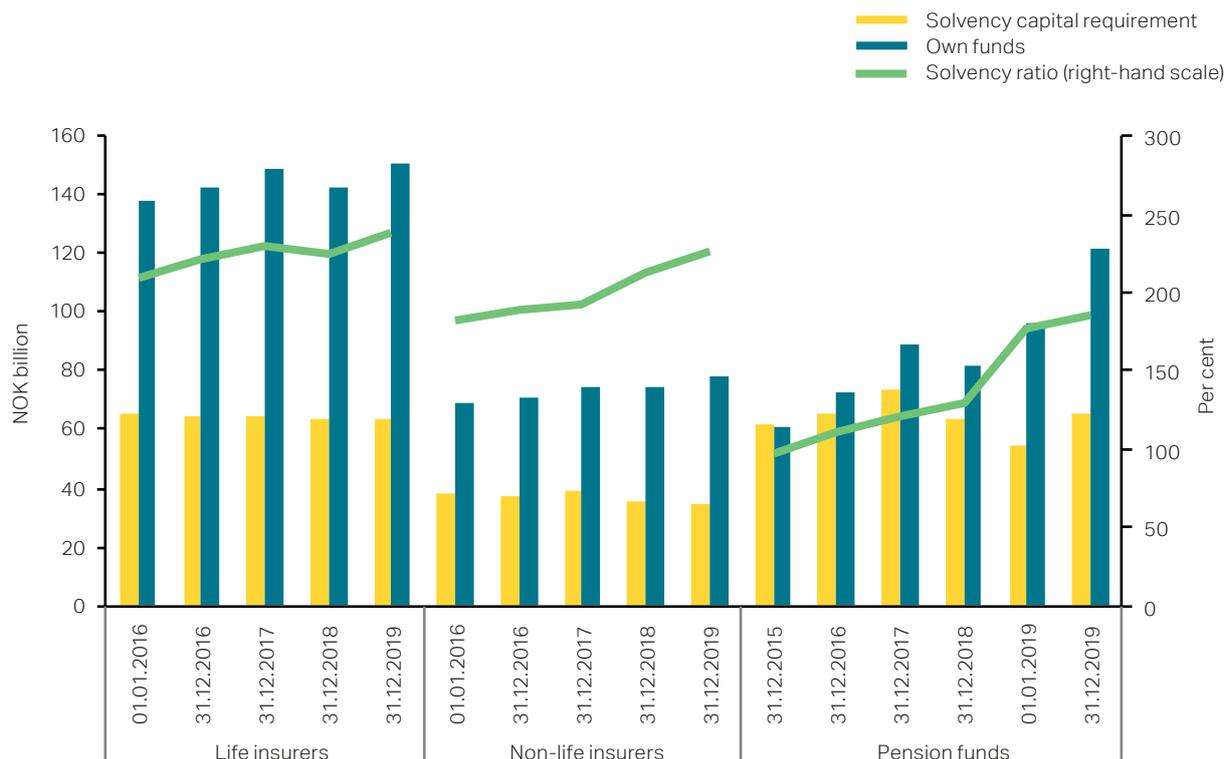
The new, simplified solvency capital requirement for pension funds entered into force on 1 January 2019. At end-June 2019, all pension funds met the requirement. Two pension funds fulfilled the solvency capital requirement by availing themselves of the transitional measure.

The pension funds have a higher proportion of equities in their balance sheets than life insurers. Over time, this has resulted in wider fluctuations in returns. Since 2011, the risk-free market rate, represented by the 10-year Norwegian government bond yield, has been lower than pension institutions' average guaranteed return.

In 2019, book returns were 4.2 per cent for life insurers and 4.6 per cent for pension funds. The average guaranteed rates of return were 2.6 and 2.5 per cent, respectively, at year-end 2018.

Chart 10: Financial soundness of insurers and pension funds*

Source: Finanstilsynet



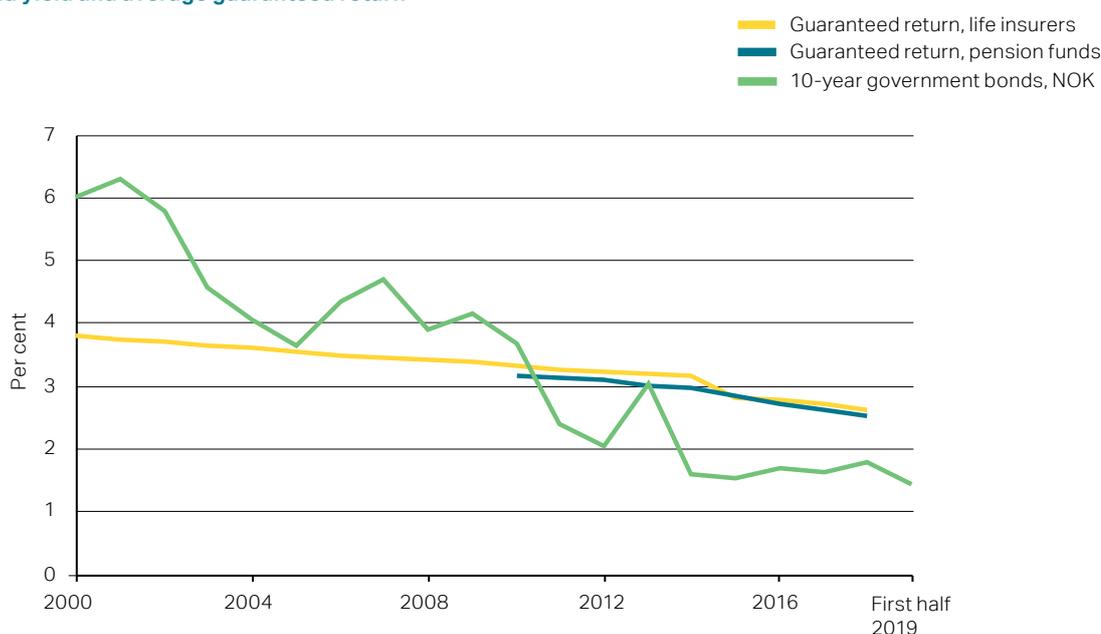
* Prior to 1 January 2019, there was no requirement for a solvency ratio above 100 for pension funds. The basis of the calculations has also been changed.

Non-life insurers achieved pre-tax profits of 23.1 per cent of premium income for own account in 2019, compared with 11.8 per cent in 2018. Overall, non-life insurers have recorded a high level of profits over the past few years.

The strong performance in 2019 is partly due to gains stemming from Gjensidige Forsikring ASA's sale of Gjensidige Bank.

Chart 11: Developments in the 10-year government bond yield and average guaranteed return

Sources: Finanstilsynet and Norges Bank



Facts and figures

At the end of 2019, eleven life insurers, 55 non-life insurers (including 15 mutual fire insurers) and five marine mutual insurers were licensed to operate in Norway. A further 23 branches of foreign non-life insurers and six branches of foreign life insurers were operating in Norway. Norwegian insurers had a total of 15 branches abroad (EEA). One Norwegian life insurer and 18 Norwegian non-life insurers had notified cross-border activities to other EEA states. 84 foreign life insurers and 393 foreign non-life insurers had notified cross-border activities into Norway. 50 private pension funds, 37 municipal pension funds, one pension foundation in run-off and one defined-contribution pension trust were licensed to operate in Norway.

149 insurance intermediaries⁴ were listed in Finanstilsynet's registry at the end of 2019. Of these, 65 were insurance brokers, 47 insurance agent firms, 22 ancillary insurance intermediaries and 15 reinsurance brokerages.

⁴The figures for insurance intermediaries do not include agent activities of insurers that keep their own agent registers. This applies to Norwegian insurers and Norwegian branches of foreign insurers.

On-site inspections

Finanstilsynet conducted on-site inspections at four life insurers in 2019. Two of the inspections were ordinary inspections addressing overall management and control, asset management and insurance operations. This included the calculation and validation of technical provisions and capital requirements. The third inspection was a thematic inspection aiming to review intra-group outsourcing, focusing on ICT activities.

The fourth inspection was a thematic inspection of group-level technical provisions. The inspection was initiated by the Nordic Technical Provisions Working Group, which is a forum for the exchange of information and discussion of issues related to technical provisions in life insurance. The group consists of representatives for the Nordic supervisory authorities.

In 2019, on-site inspections were conducted at four pension funds. The inspections reviewed the pension funds' management and control systems as well as their risk level and capitalisation.

On-site inspections were conducted at four non-life insurers. Three of the inspections at the non-life insurers were ordinary inspections addressing overall management and control, asset management and insurance operations. The fourth inspection covered overall management and control at group level.

Three ordinary on-site inspections were conducted at insurance brokers. There were no on-site inspections at insurance agent firms, but Finanstilsynet completed supervisory processes from previous years. In recent years, Finanstilsynet has carried out extensive supervision of insurance agent firms that mediate unit-linked

life insurance on behalf of foreign life insurers. Among other things, the inspections have uncovered the mediation of life insurance policies with complex underlying high-risk investments that have been unsuited to meet customers' insurance and savings needs. Finanstilsynet found reason to cancel the registration of four insurance agent firms in 2018 and 2019 as a result of serious and repeated violations of the insurance mediation regulations. Three of the insurance agent firms decided to liquidate their mediation activity before or after Finanstilsynet presented its preliminary report. In the fourth matter, Finanstilsynet's decision to remove the firm from the registry was appealed to the Ministry of Finance, which confirmed Finanstilsynet's decision in March 2019.

Climate risk in insurance undertakings

Non-life insurers, life insurers and pension funds are exposed to climate risk in the form of physical risk and transition risk. Life insurers and pension funds are exposed to climate risk mainly through their asset management operations, while non-life insurers are also directly exposed as climate change may heighten the risk of damage to insured objects in the insurance portfolio. Finanstilsynet held meetings with three non-life insurers in 2019 where climate risk was the only item on the agenda. The purpose was to increase the knowledge of climate risk within insurance and to survey how the undertakings assess and manage climate risk. The work on surveying insurers' assessment and management of climate risk will continue in 2020.

Supervisory cooperation

The supervision of large insurance undertakings operating in two or more countries through subsidiaries or large branches is coordinated through supervisory colleges in which the various countries' supervisory authorities are represented. Finanstilsynet heads the supervisory college for Gjensidige Forsikring ASA and Storebrand ASA.

In 2019, Finanstilsynet participated in supervisory colleges for the following foreign insurance groups operating in Norway:

- Danica pensjonsforsikring and Tryg Forsikring A/S (Denmark)
- If (Sampo) (Finland) and Nordea Life and Pensions (Finland)
- Nordnet Livsforsikring AS (Sweden)
- Help Forsikring (Arag) (Germany)

As a result of the increasing challenges associated with cross-border activities, EIOPA has, in situations where undertakings are particularly vulnerable, set up and organised so-called supervisory cooperation platforms to strengthen cooperation and the exchange of information between supervisory authorities. Such cooperation platforms contribute to closer and more timely cooperation between national supervisory authorities on the follow-up and identification of preventive measures when insurance undertakings are in a vulnerable position. The aim is to safeguard policyholders' interests. Such platforms may be relevant when the insurance undertaking

is not established in the other countries in the form of branches or subsidiaries, but sells insurance on a cross-border basis in other EEA states directly from its home country or through insurance intermediaries. Supervisory cooperation is otherwise ensured through established supervisory colleges. In 2019, Finanstilsynet participated in three supervisory cooperation platforms for Alpha Insurance A/S (Denmark), CBL Insurance Europe (Ireland) and Qudos Insurance A/S (Denmark), respectively.

Licensing

Licence applications

DNB Forsikring AS and SpareBank 1 Skadeforsikring AS were given permission to merge in December 2018, with SpareBank 1 Skadeforsikring AS as the acquiring company. The merger was completed in January 2019. The activities of the two insurers will be continued under the name Fremtind Forsikring AS.

In March 2019, Nordnet Livsforsikring AS was given permission to own 100 per cent of the shares of Netfonds Livsforsikring AS. At the same time, Finanstilsynet approved the merger of the companies, with Nordnet Livsforsikring as the acquiring company. The merger was completed in June 2019. Finanstilsynet also gave Nordnet Bank AB and Netfonds Bank ASA permission to merge in March 2019.

In August 2019, Gjensidige Forsikring ASA was granted permission to merge with the company's wholly-owned Danish subsidiary Nykredit Forsikring A/S. In addition, permission was given to merge with the company's wholly-owned Danish subsidiary Mølholm Forsikring A/S. Gjensidige Forsikring was the acquiring company in both mergers. The mergers were completed in September 2019.

In September 2019, Finanstilsynet approved the establishment of the life insurance undertaking Fremtind Livsforsikring AS. The company is a wholly-owned subsidiary of the non-life insurer Fremtind Forsikring AS. The company was granted permission to start operations in December 2019.

In November 2019, Skuld Marine AS was granted permission to start operations as a non-life insurance undertaking. Products offered by Skuld Marine include insurance against damage to or loss of seagoing vessels and liability arising from the use of seagoing vessels as well as other damage to property or assets. The licence will not become valid until Finanstilsynet receives confirmation from the company that the licence terms and conditions are met.

In September 2017, Standard Garanti AS was granted a licence to engage in credit insurance activity. As the conditions for using the permission were not fulfilled by the deadline, Finanstilsynet revoked the permission in October 2019.

In November 2019, Akershus county municipal pension fund and Buskerud county municipal pension fund were given permission to merge. The merger was completed in January 2020. Akershus county municipal pension fund was the acquiring pension fund. The activities of the pension funds are continued under the name Viken pension fund.

Internal models

The Solvency II framework permits insurers to use their own models to calculate the solvency capital requirement. This requires permission from the supervisory authorities. Gjensidige Forsikring ASA and Gard received such a permission in 2018. In addition, Finanstilsynet is processing an application from another insurer for permission to use an internal model.

Changes resulting from mergers of municipalities

As a result of the merging of municipalities on 1 January 2020, ten municipal pension schemes and one county municipal scheme chose to terminate their insurance contracts in KLP and transfer the pension scheme to a municipal pension fund. Two municipal pension funds were wound up and chose to transfer their pension scheme to KLP.

Order to terminate operations abroad

In 2019, it was revealed that the non-life insurer Insr was engaged in insurance activities in Denmark in violation of the terms and conditions for the establishment of branches in another EEA state. In September 2019, the undertaking was therefore ordered to stop underwriting insurance policies in Denmark.

Insurance Complaints Board

Finanstilsynet acts as secretariat to the complaints board for insurance broking activities and reinsurance broking activities. The board handles disputes between principals and brokers. No complaints were referred to the board for decision in 2019.

Non-Life Insurance Guarantee Scheme

Finanstilsynet acts as secretariat for the Non-Life Insurance Guarantee Scheme (the Guarantee Scheme). The purpose of the Guarantee Scheme is to prevent or reduce losses for private individuals and small and medium-sized enterprises if their insurer is unable to fulfil its obligations. The guarantee scheme is headed by a board with five members.

Alpha Insurance A/S (Alpha) was declared bankrupt on 8 May 2018. Alpha was a non-life insurance undertaking domiciled in Denmark. The board of the Guarantee Scheme has assumed that Norwegian policyholders are covered by the Danish Guarantee Fund for Non-life Insurers. However, Alpha policyholders who have entered into agreements with Alpha's Norwegian branch will be entitled to advance compensation from the Norwegian Guarantee Scheme. In August 2019, the Guarantee Scheme collected in excess of NOK 50 million from Norwegian insurers and branches of foreign insurers to cover claims from Norwegian claimants. The first payment from the Guarantee Scheme to cover claims against Alpha's Norwegian branch was made in December 2019. The Guarantee Scheme will continue to make payments as and when the bankruptcy administrators forward completed compensation cases.

Mandatory occupational pension

Finanstilsynet oversees that entities that are required to have a mandatory occupational pension scheme observe this obligation. In 2019, Finanstilsynet considered a number of cases where no such pension scheme had been established. The supervisory arrangement is mainly based on tips and enquiries from the tax authorities, employees and labour organisations.

In 2019, a proposal for a supervisory arrangement based on information from the 'a-ordning' scheme⁵ was explored under the auspices of the Norwegian Tax Administration. This may lead to more entities observing the duty to have a mandatory occupational pension scheme, as well as streamline the process to identify employers that fail to comply.

⁵The 'a-ordning' scheme is a data source for three government agencies. With effect from 1 January 2015, the Norwegian Labour and Welfare Administration (NAV), the Norwegian Tax Administration and Statistics Norway have coordinated the reporting for employers and others subject to the reporting obligation.

Regulatory development

New capital requirements for pension funds

On 8 June 2018, the Ministry of Finance adopted new and simplified solvency capital requirements for pension funds, effective as of 1 January 2019. On commission from the Ministry of Finance, Finanstilsynet explored detailed provisions on calculation methods, etc. The Ministry of Finance adopted Finanstilsynet's proposal, and the provisions were included in the regulations on supplementary rules to the simplified solvency capital requirement for pension funds in November 2018. The new capital requirement has its basis in Finanstilsynet's stress test I, which all pension funds have reported since year-end 2012 and which is a simplified version of the solvency capital requirement under Solvency II.

Premium discounts in non-life insurance

In April 2019, Finanstilsynet sent a draft consultation document to the Ministry of Finance, proposing amendments to the accounting treatment of premium discounts set out in the Accounting Regulations.

Pursuant to the Act on Insurance Activity, non-life insurers shall calculate premiums for one year at a time, which shall be payable in advance each year unless payment in instalments over the course of the year has been agreed upon, or the period of insurance is shorter than one year. A number of non-life insurers within marine insurance give members a premium discount in arrears by paying back a percentage of the premium to all members who have written marine insurance. In Finanstilsynet's view, the premium discount is a form of profit sharing in cases where the premiums paid provide a basis for profits. In the consultation document, Finanstilsynet recommended that premium discounts be accounted for in the same way as dividends in the financial statements. This gives a more accurate reflection of the underlying economic realities. The Ministry of Finance circulated the document for comment in October 2019, with the deadline for response set at 9 December 2019.

Changes in capital requirements for residential mortgages under Solvency II

The implementation of Solvency II into Norwegian law opened the way for setting capital requirements for residential mortgages with a low loan-to-value (LTV) ratio. On commission from the Ministry of Finance, Finanstilsynet proposed in 2019 a floor of 30 per cent for estimated losses given default. This will give a capital requirement of minimum 4.5 per cent, which corresponds to the capital requirements for banks. After the consultation round, the Ministry of Finance decided in

December 2019 to amend the Solvency II regulations in line with Finanstilsynet's proposal. The amendments entered into force on 31 December 2019.

The revised Institutions for Occupational Retirement Provision Directive (IORP II)

The revised Institutions for Occupational Retirement Provision Directive (Directive (EU) 2016/2341) was implemented in the EU as of 13 January 2019. The directive is EEA-relevant, but has yet to be incorporated into the EEA Agreement.

The directive is based on minimum harmonisation. It is possible to give stricter rules when transposing the directive into Norwegian law. Norway has already set more stringent solvency capital requirements for pension funds with effect from 1 January 2019.

On commission from the Ministry of Finance, Finanstilsynet drafted a consultation document with proposals for the implementation of future EEA obligations corresponding to the directive in Norwegian law. The proposed regulatory amendments include requirements for pension funds to have independent control functions (risk management function, actuarial function and internal audit), requirements for institutions' own assessment of risk and extended information requirements for members and potential members of collective pension schemes. This includes a requirement to provide an overview of pension rights to enable members to make informed choices on pension planning. It has been proposed that the obligation to prepare a pension overview should also apply to life insurers to ensure equal rules on the content of the information to be provided to members of collective pension schemes irrespective of the pension provider. In the consultation document of 31 January 2019, Finanstilsynet proposed amendments to the Financial Institutions Act and the Act on Insurance Activity with appurtenant regulations and to the regulations on pension undertakings. The Ministry of Finance circulated the document for comment in June 2019, with the deadline for response in October 2019. The matter is being considered by the Ministry of Finance.

Regulations for guaranteed pension products

A working group established by the Ministry of Finance in 2017 looked into the opportunity to make amendments to the rules for guaranteed pension products that would clearly be to the policyholders' benefit. An important part of the review was to assess whether regulatory changes could be made to give customers considerably higher potential returns with a moderate risk increase. The group submitted its report in September 2018. In January 2019, the Ministry of Finance commissioned

Finanstilsynet to draft regulatory amendments based on the assessments in the working group's report and to consider which of the regulatory amendments should be implemented. In May 2019, the Ministry of Finance also asked Finanstilsynet to consider input from the Pensioners' Association concerning the regulations for the use of supplementary provisions pertaining to contracts in the pay-out phase.

Finanstilsynet sent the draft consultation document to the Ministry of Finance in July 2019, proposing to combine the existing supplementary provisions and the fluctuation reserves in a new common buffer fund that is allocated to the individual policy and can be used to cover all investment return risk. It was proposed that no upper limit should be set for the size of the fund, but that an upper limit should be set for the buffer fund for individual policies from the age of 67. It was further proposed that the return on guaranteed pension contracts should be calculated on the basis of the market value of the assets, also for bonds and loans, so that it would no longer be permissible to carry assets at amortised cost. Finanstilsynet did not recommend a scheme based on borrowed equity / end guarantees. Another proposal was to allow pension providers to pay compensation when converting paid-up policies to unit-linked paid-up policies and to reduce the minimum disbursement period for small paid-up policies.

The Ministry of Finance circulated the working group's report, the report from the Pensioners' Association and Finanstilsynet's consultation document for comment in January 2020. The deadline for response is 8 April 2020.

The status of the fluctuation reserves when transferring collective life insurance policies

In May 2019, the Ministry of Finance asked Finanstilsynet to consider the rule on the right to retain part of the fluctuation reserves when transferring collective policies. In May, Finanstilsynet advised the Ministry of Finance to remove the rule that the pension institution could retain a proportionate share of the fluctuation reserves representing up to 2 per cent of the policy's premium reserve when transferring collective policies. After a consultation round, the Ministry of Finance followed the recommendation and changed the regulations with effect from November 2019.

Accounting regulations for insurance and pensions

In December 2018, the Ministry of Finance decided to retain IAS 39 for the statutory accounts of life insurers and pension undertakings up to and including the 2020 accounting year. For the statutory accounts of non-life insurers entities will be entitled to choose between IAS 39 and IFRS 9 up to and including the 2020 accounting year. The Ministry of Finance also decided that all insurers and pension undertakings will be required to apply IFRS 9 as from 2021.

The securities area

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

Supervision of the securities area includes marketplaces and settlement systems, investment firms, mutual funds and management companies, alternative investment fund managers (AIFMs), listed entities' financial reporting and prospectus control. Supervision covers securities institutions' financial position and operations, and their compliance with business rules and general rules of conduct.

Developments

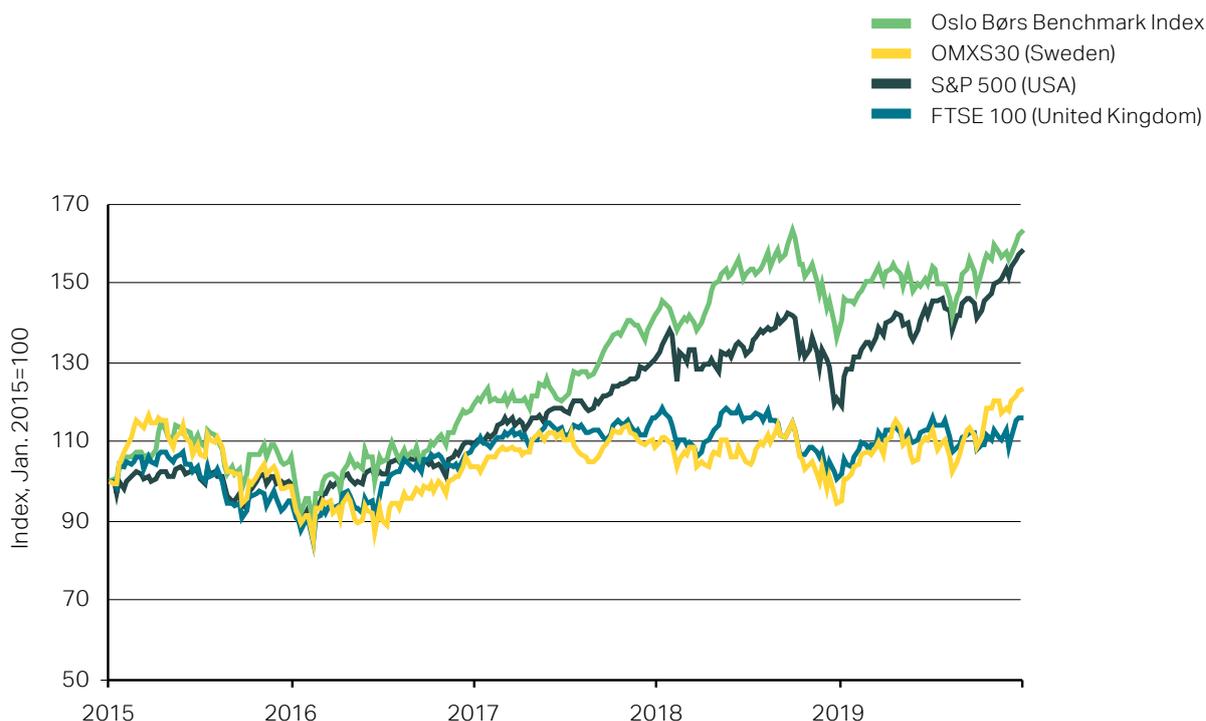
Stock market

At the end of 2019, the Oslo Børs Benchmark Index stood at 931 points, up 16.5 per cent compared with the beginning of the year. The highest increase during the year was 17 per cent. For the year as a whole, the S&P 500 (USA)

was up 30 per cent, the OMX30 (Sweden) was up 26 per cent, and the FTSE 100 (United Kingdom) was up 12 per cent. Since 2015, Oslo Børs has outperformed several other exchanges.

Chart 12: Price developments in various stock markets 2015–2019

Source: Thomson Reuters



In 2019, equities worth NOK 1,128 billion changed hands on Oslo Børs, a reduction of about 15 per cent from 2018. An average of 114,823 trades were transacted daily, some 12,000 fewer than in 2018, when the highest ever number was recorded.

Oslo Børs' market share of order book turnover in equities that are also traded on other marketplaces (equities included in the OBX index) was 67 per cent, an increase of 2 percentage points from 2018.⁶

In 2019, equity capital worth NOK 48 billion was raised on Oslo Børs and Oslo Axess,⁷ and about 33 per cent of the equity capital was raised in connection with new listings. A total of 15 new entities were admitted to Oslo Børs/ Oslo Axess in 2019.

Bond market

In 2019, bonds worth a total of NOK 408 billion were issued (excl. government bonds), with banking and finance accounting for NOK 268 billion, corporates for NOK 93 billion and municipal and county authorities for NOK 46 billion. The total outstanding volume in the Norwegian bond market, including government bonds and unlisted bonds, was NOK 2,024 billion at year-end 2019.⁸

The bulk of bonds in the Norwegian market are listed on Oslo Børs or Nordic ABM. The outstanding volume of listed bonds at the end of 2019 was NOK 1,459 billion. In 2019, bonds worth NOK 8,556 billion were traded on Oslo Børs and NOK 1,048 billion on Nordic ABM. Trades on the stock exchange are in principle bilateral, and are reported for publication in the exchange's systems.⁹

Bonds listed on Oslo Børs and Nordic ABM are owned mainly by life insurers and private pension funds, banks, foreign companies, mutual funds and the social security administration.

⁶Source: Cboe Global Markets

⁷Source: Oslo Børs

⁸Source: Stamdata

⁹Source: Oslo Børs

Regulatory development

Amendments to the Securities Trading Act and regulations thereto

The amendments to the Securities Trading Act and regulations thereto entered into force on 1 January 2019. The amendments were based on a review of the Norwegian securities and stock exchange rules carried out by the Securities Law Committee and included in Official Norwegian Report (NOU 2017: 1) on the EU's revised Markets in Financial Instruments Directive (MiFID II) and Regulation (MiFIR). MiFIR was incorporated into the EEA Agreement on 3 December 2019. Section 8-1 of the Securities Trading Act, which implements this regulation in Norwegian law, entered into force on 1 January 2020. The provisions of the Securities Trading Regulations that implement Commission Regulations supplementing MiFID II and MiFIR entered into force as of the same date. Finanstilsynet's regulations on rules corresponding to MiFIR and regulations on supplementary rules to MiFID II and MiFIR were repealed with effect from the same date.

Norwegian Central Securities Depository Act

The Storting (Norwegian parliament) adopted a new Act on Central Securities Depository Act in spring 2019. The Act implements EEA rules corresponding to the regulation on improving securities settlement and on central securities depositories (Central Securities Depositories Regulation – CSD Regulation, 909/2014). An account of this was given in Finanstilsynet's annual report for 2016, page 43. The new Act came into force on 1 January 2020, replacing the former Securities Register Act. The CSD Regulation and appurtenant supplementary Commission Regulations establish a comprehensive regulatory framework for central securities depositories. Some rules on legal protection and the right of access to information have been retained in the new Act.

The Ministry of Finance has established transitional provisions which entail that securities registers that were authorised under the former Securities Register Act shall continue their operations in accordance with the former Act until a decision on authorisation under the new Act has been made. The same applies to registrars, settlement participants and holders of nominee accounts in the securities register. If an application for a new authorisation has not been submitted by 30 June 2020 or the application is not approved, the Ministry may withdraw the authorisation pursuant to the Securities Register Act.

Securities Financing Transactions Regulation – SFTR

On commission from the Ministry of Finance, Finanstilsynet prepared draft provisions of primary and secondary legislation in 2018 to implement anticipated EEA rules corresponding to EU Regulation 2015/2365 on transparency of securities financing transactions and reuse of collateral (Securities Financing Transaction Regulation, SFTR). The Ministry of Finance circulated the proposal for comment in June 2019, with the deadline for response set at 1 October 2019. The objective of the regulation is to enhance transparency in the market for securities financing transactions. These are agreements on lending of financial instruments and repurchase agreements, that is agreements under which securities are sold subject to a commitment and right to repurchase them on a future date. SFTR had not been incorporated in the EEA Agreement at the end of 2019.

Amendments to the Interest Rate Benchmark Act

The Interest Rate Benchmark Act was amended at the end of 2019 in order to implement EEA rules that correspond to EU Regulation 2016/1011 on financial benchmarks. The EU regulation and a number of supplementary Commission Regulations were incorporated into the EEA Agreement in the summer of 2019, and the amendments to the Norwegian legislation came into force on 20 December 2019. The rules aim to strengthen confidence in benchmarks used in financial instruments and financial contracts, or to measure the performance of investment funds. Administrators of financial benchmarks are now under the supervision of Finanstilsynet.

Market Abuse Regulation

The Market Abuse Regulation and the Market Abuse Directive entered into force in the EU on 3 July 2016. In June 2017, a law committee presented its interim report (NOU 2017: 14) on the implementation of the regulation in Norwegian law. Amendments to the Securities Trading Act that implement the regulation have been adopted, but have not entered into force. The Regulation was incorporated into the EEA Agreement in October 2019, and supplementary Commission Regulations were incorporated into the EEA Agreement in December 2019. In October 2019, the Ministry of Finance announced that the EEA rules will come into force when all the EEA EFTA states have lifted their constitutional reservations.

Infrastructure

The infrastructure in the securities area includes trading venues. Oslo Børs ASA is the largest Norwegian market operator and operates the trading venues Oslo Børs, Oslo Axess, Oslo Connect and Merkur Market. Oslo Børs ASA also owns the trading venue Fish Pool ASA and operates an Approved Publication Arrangement (APA). Other market operators are Nasdaq Oslo ASA and Norexco ASA. Verdipapirsentralen ASA (VPS), which runs a securities register and operates the central securities settlement system in Norway (VPO NOK), is another important actor in Norway's infrastructure. The foreign central counterparties SIX x-clear AG, Nasdaq Clearing AB, European Commodity Clearing AG, LCH Ltd and European Central Counterparty N.V. are also important components of the securities market infrastructure although they do not hold a Norwegian licence. Central counterparties are entitled to operate in Norway by virtue of having permission under their home country licence pursuant to the European Market Infrastructure Regulation (EMIR). The same applies to third-country central counterparties that are recognised as such in the EU.

Supervision, monitoring and control

A key element of the supervision of infrastructure entities is to assess risk factors and capital. With respect to the Norwegian Central Securities Depository (VPS), Finanstilsynet also assesses internal rules. Regular meetings are held with the entities. In collaboration with Norges Bank, Finanstilsynet evaluates VPS' register and settlement functions in light of the CPSS-IOSCO principles for financial market infrastructures. This evaluation receives further mention in Norges Bank's yearly report on financial infrastructure.

Inspection of Fish Pool ASA

In the spring of 2019, Finanstilsynet conducted an inspection of Fish Pool ASA. The themes of the inspection were the organisation of the entity, terms of membership and follow-up of members, publication of orders, market surveillance and follow-up of the position regulations for commodity derivatives. The final inspection report is expected to be completed during the first half of 2020.

Inspection of cybersecurity

In 2019, Finanstilsynet conducted an inspection of ICT security at VPS ASA. The purpose was to review the company's cybersecurity and contingency planning. In the face of rapid technological developments, the risk of cyber attacks must be assessed on an ongoing basis.

The company therefore needs to continuously adapt its risk analyses and contingency planning in this field. After the inspection, VPS updated its risk analyses and procedures and will make changes to its emergency preparedness testing.

A similar inspection addressing ICT security was conducted at Nasdaq Oslo ASA. In addition, Finanstilsynet reviewed a serious incident at a provider of services to, among others, Nasdaq Oslo ASA in the spring of 2018. The incident was caused by problems related to a fire extinguishing system at the entity's data centre. This required the transfer of operations to a backup facility. The transfer resulted in a shutdown at the Nasdaq exchanges in the Nordic and Baltic countries. After the incident, Nasdaq Oslo has made improvements to the trading venue's systems and procedures to prevent similar incidents in the future.

A supervisory college has been established where the supervisory authorities for the trading venues in the Nordic entities of the Nasdaq Group coordinate the supervision of the trading venues. Finanstilsynet joined the supervisory college in 2019. Parts of the ICT inspection at Nasdaq Oslo were conducted in collaboration with other members of the supervisory college.

Work on data quality under MiFID II and MiFIR

ESMA makes calculations and publishes important information in compliance with MiFID II and MiFIR. This includes information on the publication of orders and transactions, double volume caps and systematic internalisers. The information is based on data reported by trading venues and approved publication systems in the EEA. Finanstilsynet and other national supervisory authorities have cooperated with ESMA to help to ensure that the obliged entities provide correct and complete data. The data reported to ESMA have thus far been of inadequate quality.

Follow-up of commodity trading venues' compliance with the requirements for publication of orders

According to MiFIR, trading venues are required to make public current bid and offer prices and the depth of trading interests for most types of financial instruments. Finanstilsynet may grant exemptions from the publication obligation.

The rules include restrictions on the trading venues' opportunity to have systems for formalising trades in bonds, structured financial products, derivatives and emission allowances that have been negotiated outside the trading venue, but executed according to the trading venue's rules, often called 'block trades'. Such trades are common, for example in the commodity derivative

market, and several European trading venues originally interpreted the regulation so that they could continue to accept them.

In order to promote a level playing field, ESMA has drawn up a timetable for following up the trading venues' obligations to make public orders in commodity derivatives. ESMA published information on the timetable in June 2019 in its 'Supervisory Briefing - Ensuring compliance with the MiFIR pre-trade transparency requirements in commodity derivatives'. Finanstilsynet will follow the timetable in its supervisory practices.

Data quality test and investigation of compliance with EMIR

Finanstilsynet has participated in ESMA's annual review of the quality of data reported to transaction registers in accordance with EMIR, which has been implemented in the Norwegian Securities Trading Act, Section 17-1, subsection (1). National supervisory authorities in Europe are still working to improve the quality of the data. Finanstilsynet also participated in the annual ESMA survey about the enforcement of the regulations with respect to the clearing obligation, reporting to trade repositories and risk mitigation techniques. ESMA published a report with results from the survey in December 2019.

Supervisory college for the Euronext Group

A supervisory college has been established where the supervisory authorities for the regulated markets in the Euronext Group coordinate their supervision of the trading venues. Finanstilsynet joined this supervisory college in 2019.

Licensing

Acquisition of Oslo Børs VPS Holding ASA

In January 2019, Nasdaq AB and Euronext N.V. made bids for the shares of Oslo Børs VPS Holding ASA, which owns the shares of Oslo Børs ASA and Verdipapirsentralen ASA. When Euronext's bid was presented, the company already controlled 50.6 per cent of the shares of Oslo Børs VPS Holding.

An acquisition resulting in the acquirer obtaining, directly or indirectly, a significant holding in a stock exchange or securities register requires authorisation from the Ministry of Finance. An authorisation to acquire holdings can only be granted when the acquirer is deemed suitable for ensuring the sound and prudent management of the undertaking. Finanstilsynet submitted its recommendation to the Ministry of Finance on 1 April 2019. Finanstilsynet considered both Nasdaq and Euronext to be fit and proper owners of a significant holding in Oslo Børs and VPS and advised the Ministry of Finance to give both Nasdaq and Euronext permission to acquire shares in accordance with their applications. On 12 May 2019, the Ministry of Finance granted such permission to Nasdaq and Euronext in line with Finanstilsynet's recommendation. Nasdaq's bid was made conditional on receiving acceptances representing two-thirds of the company's shares. The bid was withdrawn because the minimum acceptance condition was not satisfied.

Euronext currently owns 100 per cent of the shares of Oslo Børs VPS Holding. Euronext is now completing a process to integrate Oslo Børs, Fish Pool and VPS into the rest of the group. Finanstilsynet is closely monitoring this process.

Position limits and position reporting

Pursuant to Chapter 15 of the Securities Trading Act, which implements the position limits regime of the revised Markets in Financial Instruments Directive (MiFID II), Finanstilsynet shall set position limits for commodity derivatives. Requirements have also been set for the reporting of positions in commodity derivatives, emission allowances and derivatives thereof. The purpose of the position limits is to reduce the risk of serious disruptions to the underlying physical market. Detailed rules have been given on how to set limits. Finanstilsynet amended the regulations on position limits once during 2019.

Exemptions from the authorisation requirement for ancillary activity

Pursuant to the Securities Trading Act, investment services can only be provided by investment firms authorised to do so by Finanstilsynet. Several exemptions have been made from this requirement for firms trading in commodity derivatives, emission allowances or derivatives associated with the firm's primary business. Such firms must send an annual notification to Finanstilsynet. Finanstilsynet has developed a notification form that is available in the Altinn internet portal and received 70 such notifications in 2019.

Verdipapirsentralen ASA (VPS)

As part of the inspection of VPS and registrars, Finanstilsynet conducted an extensive survey of the anti-money laundering controls carried out by VPS when opening securities accounts. A report with the results of the survey will be published in the first half of 2020.

Finanstilsynet may permit VPS to provide researchers with confidential information, on condition that the request is considered reasonable and does not cause disproportionate inconvenience to other interests. In 2019, Finanstilsynet granted one permission for such access to information.

Finanstilsynet has followed up the terms and conditions established by the Ministry of Finance in connection with the permission to merge Oslo Børs Holding ASA and VPS Holding ASA in 2007. This included approval of VPS' dividend proposal based on the financial statements for 2018.

Participation in international securities settlement systems

Securities settlement systems approved by Finanstilsynet are subject to special settlement rules in the Payment Systems Act. Orders entered in the system must be completed as to their content even if insolvency proceedings are opened against a participant. As from 1 January 2019, these provisions were extended to apply to Norwegian participants in securities settlement systems that have decided that the system shall be subject to the law of a non-EEA state. This applies only if the Norwegian participant in the securities settlement system has notified Finanstilsynet of its participation and this has been announced on Finanstilsynet's website. Eleven firms notified Finanstilsynet of their participation in securities settlement systems based on legislation outside the EEA in 2019. The notifications concerned five different securities settlement systems approved under UK law. An overview of the Norwegian firms that have reported such participation and the systems involved is published on Finanstilsynet's website.

Exemption for intra-group derivative contracts under EMIR

EMIR introduced a requirement to clear specific OTC derivatives. This requirement includes interest rate derivatives in Norwegian kroner, euro, British pounds, Japanese yen, US dollars, Swedish krona and Polish zloty as well as certain credit default derivatives. With respect to trading in OTC derivatives that are not covered by the clearing obligation, the counterparties must instead establish risk-mitigating techniques, e.g. the exchange of collateral. Exemptions from the requirement that the counterparties exchange adequate collateral may, however, be applied for intra-group contracts subject to certain conditions if both counterparties are domestic. One of the conditions for the exemption is that equity can be freely transferred between the entities and that there is no impediment to the repayment of intra-group liabilities. In cases where one of the counterparties is foreign, requirements for notification and approval by the competent authorities must be met before the exemption can be used. Finanstilsynet considered one case in 2019 on an exemption from the requirement to exchange satisfactory collateral. In Circular 6/2017 on the implementation of EMIR, Finanstilsynet stated that it expects entities under supervision and other relevant entities to abide by the EMIR framework as it applies in the EU at any time, even though the framework has yet to be incorporated into the EEA Agreement. This also applies to the revised EMIR framework, which was established by Regulation (EU) 2019/834 (EMIR Refit). Just like entities established in the EU, Norwegian entities have therefore been able to notify use of the exemption for the reporting of intra-group transactions after the entry into force of the EMIR Refit Regulation in the EU on 17 June 2019. In the second half of 2019, Finanstilsynet considered notifications from 19 groups on use of the exemption.

Market conduct

Supervision, monitoring and control

The overarching aim of supervision and monitoring of compliance with the market conduct rules is to safeguard the reputation of the Norwegian securities 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 central. Finanstilsynet also oversees compliance with the rules on the preparation of insider lists, the duty to investigate, the prohibition of unreasonable business methods, the notification requirement for primary insiders and rules requiring the disclosure of large shareholdings. Finanstilsynet works closely with the National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM) and Oslo Børs in this field.

The majority of cases investigated by Finanstilsynet in 2019 were reported by investment firms, foreign authorities and investors. Many cases were referred by Oslo Børs or initiated by Finanstilsynet itself in response to market events. Finanstilsynet's own surveillance system, SKADI, has triggered many alarms that have led to further investigation.

Many cases of insider trading and market manipulation are time-consuming, above all where the investigation requires identification of foreign investors who have traded ahead of particular market events. This entails extensive contact with foreign fund managers and supervisory authorities.

In 2019, Finanstilsynet investigated the following cases:

- 94 cases of unlawful insider trading and/or breaches of confidentiality or the obligation to maintain insider lists
- 73 cases of market manipulation / unreasonable business methods
- 660 alarms triggered by Finanstilsynet's surveillance system, SKADI
- 18 cases on disclosure of large shareholdings
- 303 alarms triggered by the surveillance system on changes in holdings
- 50 cases on the notification requirement for primary insiders
- 24 cases on short positions requiring notification

Finanstilsynet received a total of 84 reports from investment firms under obligation to report transactions giving rise to suspicion of insider trading or market manipulation. In addition, Finanstilsynet received 81 reports from foreign supervisory authorities on insider trading or market manipulation.

Administrative fines

In 2019, Finanstilsynet imposed five administrative fines for violation of the disclosure requirement for large shareholdings, two administrative fines for violation of the notification requirement for primary insiders and seven administrative fines for violation of the Short Selling Regulation. Finanstilsynet expects this to have a deterrent effect.

Notifications to the prosecuting authority

Finanstilsynet reported two cases of suspected unlawful insider trading and/or breach of confidentiality to the prosecuting authority in 2019.

Follow-up of reported cases

Finanstilsynet collaborates with ØKOKRIM and local police authorities on reported cases. Finanstilsynet provided assistance to the prosecuting authority in the form of different analyses in 2019.

In 2019, Finanstilsynet provided assistance to foreign supervisory authorities in a number of cases relating to market conduct, and received such assistance in some instances. This is in accordance with obligations under international agreements.

Short selling register

When the Securities Trading Act was amended, the Short Selling Regulation was implemented in Norwegian law with effect from 2 January 2017. According to the Regulation, investors holding short positions in shares or government debt that exceed set thresholds shall report these to the supervisory authority. Short positions are reported and published via a dedicated portal (ssr.finanstilsynet.no).

In 2019, some 1,600 changes to positions in 54 financial instruments corresponding to or exceeding 0.5 per cent were made public. Including instruments not disclosed to the public, 2,900 positions in 120 instruments were reported to Finanstilsynet. 180 different investors reported positions in 2019. Approximately 950 documents related to enquiries about short sales reporting were received during the year. In 2019, the first administrative fines were imposed for violation of the Short Selling Regulation. In addition to imposing seven administrative fines, Finanstilsynet issued warnings to a number of enterprises for minor violations of the Short Selling

Regulation. The largest fine was NOK 4 million. The decision was appealed, and the appeal is under consideration by the Ministry of Finance. Finanstilsynet forwards statistics of short positions in shares and government debt to ESMA on a regular basis.

Transaction reporting

In 2018, Finanstilsynet started using a new system for receiving transaction reports. The transaction reporting system (TRS) covers the EEA countries and is designed to receive reports from investment firms and trading venues of executed transactions in financial instruments. The purpose is to give national supervisory authorities a complete overview of the securities transactions carried out in the market.

In 2019, the TRS system received reports on approximately 180 million transactions, including corrections. 20 million of these were from investment firms in Norway. The UK accounted for the largest proportion of transactions reported by other countries. There is a slightly rising trend in the number of reported transactions, and an increasing proportion of transactions is from abroad. Finanstilsynet has noted a disturbingly high proportion of corrections to previously submitted transactions. This may be due to investment firms gradually becoming more aware of errors in previous reporting and wishing to rectify this, and to national authorities in the EU conducting more frequent and thorough data checks. In the period ahead, Finanstilsynet will perform checks to improve data quality.

In addition to the semi-annual quality tests that the national supervisory authorities are required by ESMA to perform on TRS data, Finanstilsynet initiated a separate data quality project in the autumn of 2019 to ensure closer follow-up of Norwegian investment firms with high error rates.

Court rulings

On 26 June 2019, the Borgarting Court of Appeal delivered an acquittal in a case on insider trading. A Swedish citizen was indicted of having purchased shares in a listed company while participating in negotiations with the company about a private placement at a significant premium. The Court of Appeal concluded that the information about the current status of the negotiations objectively speaking constituted inside information and that the accused understood this. However, the court majority concluded that at the time of purchase, only the investor's own willingness to participate in the private placement constituted price-sensitive information, and that knowledge of his own investment plan could not be considered abuse of inside information.

On 26 July 2019, the Appeals Selection Committee of the Supreme Court decided not to consider the appeal of the judgment delivered by the Borgarting Court of Appeal on 9 May 2019 in the so-called Funcom case. According to the judgment from the Borgarting Court of Appeal, two of the three defendants were convicted of market manipulation and insider trading, while one defendant was acquitted of insider trading. The court found that a former board member had sold shares in Funcom in private transactions at a time when he was aware that a large shareholder that he represented on the board of Funcom intended to sell a major holding in the company. The Court of Appeal sentenced him to ten months' unconditional imprisonment and confiscated NOK 3.5 million. The second defendant was sentenced to 21 days' unconditional imprisonment. The court found that the former CEO of the company had intentionally contributed to market manipulation, as the company had disclosed information that he was not authorised to sell shares in the company in connection with his resignation from the position. This was likely to mislead the market.

In the autumn of 2019, three judgments were passed in a case that had been reported by Finanstilsynet. The case involved incitement to insider trading and insider trading in Link Mobility Group ASA prior to a bid being launched for the company in June 2018. Two of the cases were summary trials on a plea of guilty before the Oslo District Court on 10 July and 14 August 2019, respectively, while the third case was a main hearing before the Vestfold District Court, where a judgment was delivered on 30 September 2019. In the summary trials, two people were sentenced to 120 days in prison for violation of the Securities Trading Act. One of the defendants was convicted of incitement to insider trading, and the other was convicted of insider trading. In addition, the person who purchased the shares was convicted of money laundering pursuant to the Penal Code, and NOK 74,174 was confiscated. The judgment from the Vestfold District Court concerned the third person involved in the case, who was sentenced to five months' imprisonment for insider trading and incitement to insider trading. He was also convicted of money laundering, and NOK 80,500 was confiscated.

Investment firms

Supervision, monitoring and control

On-site inspections

Finanstilsynet supervises investment firms' compliance with the requirements of the Securities Trading Act and associated regulations. The requirements of the Act as regards investor protection and conflicts of interest are of key importance in the supervision of investment firms. Finanstilsynet focuses particularly on ensuring that the firms act honestly, fairly and professionally in accordance with the best interests of the clients and that the integrity of the market is attended to in the best manner. The supervision of investment firms also aims to encourage the firms to maintain sufficient internal controls and to promote an informed attitude to risk.

On the basis of Finanstilsynet's risk-based approach, seven on-site inspections were initiated in 2019, six at Norwegian investment firms and one at a tied agent of a Swedish investment firm. One of these inspections was completed in 2019. In addition, work was in progress on 14 inspections initiated in 2017/2018, of which ten were completed in 2019.

The total of 21 ongoing inspections through 2019 included ten full-scale inspections, which comprise reviews of the firm's total operations and organisation, one of which focused especially on the firm's pension advice. The other inspections were thematic inspections, concentrating on certain themes. Five of these concerned information handling, while six focused on customer documentation and measures against money laundering and terrorist financing.

Key themes at the full-scale inspections were:

- firms' client testing – whether the recommended financial instruments were suitable or appropriate for the clients
- firms' information to their clients – whether they had provided balanced, correct and understandable information on risks and costs
- whether the firms have a clear stance with respect to identifying and handling conflicts of interest
- whether the firms' customer due diligence and measures against money laundering and terrorist financing were adequate
- whether the firms' internal control function was adequately resourced, structured and formalised, with particular emphasis on the firms' compliance function and organisation

Facts and figures

At the end of 2019, 101 investment firms were operating in Norway, of which 19 also held a banking licence. In addition, 23 foreign investment firms operated branches in Norway.

Market surveys

At the end of 2018, Finanstilsynet initiated a market survey aimed at all Norwegian investment firms and branches of foreign investment firms. The survey concerned compliance with the rules on product governance, independent investment advice and competence requirements for staff. Finanstilsynet's survey revealed a number of areas where several actors had disregarded or misunderstood the requirements of the new regulations. In 2019, Finanstilsynet sent identical letters to all firms and branches, providing guidance and clarifications in areas where specifications were needed. In addition, 30 of the firms and branches are subject to special follow-up by Finanstilsynet.

Finanstilsynet also conducted a market survey aimed at the ten largest investment firms and branches on compliance with the requirements for suitability assessments to be provided to the client. As a result of the survey, all the firms were subject to an individual follow-up, and identical letters were sent to the firms and branches in the third quarter of 2019.

In the course of 2019, Finanstilsynet conducted a market survey aimed at all Norwegian investment firms and branches of foreign investment firms on compliance with the new regulations on inducements. The survey showed that the actors only to a limited extent complied with the regulations. Continued follow-up, both in general and through various supervisory activities, is necessary. In January 2020, Finanstilsynet sent identical letters providing guidance and clarifications to all firms and branches.

Revocations and orders

An on-site inspection initiated in 2017 led to the decision to revoke the firm's authorisation to provide investment services in 2019 after Finanstilsynet revealed serious violation of the conduct of business rules. The firm's main business was to provide strategic and financial advice to corporate clients and to arrange and place bond issues in unlisted companies, mainly within property development. The firm's products entailed high risk. Finanstilsynet found that the firm's sales department had provided investment advice without satisfying the suitability assessment requirements. Nor did the firm meet the less comprehensive requirements for assessing whether the product was appropriate for the clients. In addition, it was Finanstilsynet's understanding that the firm had made arrangements enabling sub-agents of the firm's sister company to provide investment services subject to authorisation, as the sub-agents provided investment services in connection with direct investments in financial instruments offered by the firm on a professional basis without authorisation. The firm has appealed the decision to the Ministry of Finance.

Finanstilsynet completed two other inspections in 2019 that would have resulted in revocation of the authorisation to provide investment services. The authorisations had already been revoked due to the firms' failure to meet capital adequacy requirements. One of the inspections revealed that the firm had talked clients into excessive securities trading, so-called churning of client accounts, engaged in discretionary management without authorisation and placed share issues without permission. The second inspection revealed failure to handle fundamental conflicts of interest, highly deficient client testing as well as serious flaws in risk information to clients.

In 2019, Finanstilsynet issued an order for corrective measures to an investment firm, instructing the firm to review and report customer documentation and suitability assessments, to test and document employees' knowledge and competence, and to make a suitability assessment of the firm's de facto manager.

Monitoring of firms' finances

The investment firms' profitability and financial soundness were followed up through off-site inspections. Finanstilsynet found that five investment firms breached the capital requirements in 2019. One of the breaches took place in late December, and the firm is preparing to implement a share issue.

In the other four cases, the situation was quickly rectified through cash contributions from shareholders, the conversion of debt to equity and withdrawal of one of the authorisations to provide investment services, whereby the firm's own funds requirement was reduced.

At the end of 2019, one firm was required to report its capital adequacy position each month due to low capital, a negative profit trend and/or assumed poor quality reporting. This order has now been withdrawn.

Finanstilsynet also followed up the firms' reporting of and compliance with the rules on large exposures. The authority registered several violations, but these were generally short-term, less severe breaches of the limit for deposits with Norwegian banks of 100 per cent of own funds.

Finanstilsynet publishes an annual press release based on investment firms' half-yearly reports showing developments in the firms' profitability. In 2019, the operating revenues of investment firms not integrated into banks were 3 per cent higher than the previous year. However, operating profits were 24 per cent lower. The seemingly contradictory changes are due to the fact that one of the largest investment firms switched from net to gross accounting for a large part of its operations. Corporate finance activities generally represent the investment firms' largest source of revenue, which was also the case in 2019. Their next largest revenue source was secondary market trading of shares and bonds, followed by investment advice.

Licensing

Nine new investment firms were granted an authorisation to provide investment services in 2019: HwH Energimegling AS, Cloudberry Advisory AS, Monner Securities AS, Fokus Kapitalforvaltning AS, Realkapital Investor AS, Procorp AS, Folkeinvest AS, Global Assets and Trading AS and Dealflow AS. In 2018, Finanstilsynet ordered Folkeinvest AS to cease its unlawful investment activity. However, the firm thereafter applied for and was granted an authorisation to provide the relevant investment service. One investment firm, Formuesforvaltning Aktiv Forvaltning AS, was granted an expansion of its original authorisation, enabling it to provide an additional investment service.

Finanstilsynet receives a number of notifications of cross-border activity and the establishment of branches from investment firms headquartered in other EEA states. Finanstilsynet also regularly receives notifications of the provision of services through the establishment of a branch or a tied agent in Norway. The investment firms are fully responsible for the branch or agent's activity. In 2019, Finanstilsynet rejected the establishment of a tied agent who did not meet the statutory fitness and propriety requirements. The decision has been appealed.

Investigation of property companies possibly involved in illegal activity

In 2019, Finanstilsynet investigated several companies that were operating without authorisation and were marketing real estate investments. In some cases, Finanstilsynet found that the companies had provided investment services on a professional basis without permission. Five companies were ordered to cease their unlawful investment activities.

Market warnings

In 2019, Finanstilsynet published six warnings against Norwegian entities and one warning against a foreign entity that provided investment services in Norway without authorisation. Finanstilsynet also published 1,003 warnings issued by foreign supervisory authorities against entities providing investment services in the EU/EEA without authorisation. Finanstilsynet's website provides information on investment fraud and advice to investors on how to protect themselves against fraud. Finanstilsynet's market warnings are also available at [Finansportalen.no](https://finansportalen.no).

Mutual funds and collective investment schemes

Supervision, monitoring and control

Fund management companies

A mutual fund is a regulated savings product offering a high degree of investor protection through legislation. Supervision in this area is largely geared to ensuring that consumer interests are protected, so that mutual funds can be suitable savings products for retail investors.

Net subscription in Norwegian management companies' mutual funds increased from NOK 31.8 billion in 2018 to NOK 47.2 billion in 2019. Of this, fixed-income funds accounted for NOK 46.8 billion, while equity funds showed a slight decline, with net redemptions of NOK 0.3 billion. Of the overall net subscription in mutual funds, Norwegian private individuals accounted, directly or indirectly through defined-contribution pension plans, for NOK 15.0 billion in 2019, compared with NOK 10.9 billion in 2018. The greater share of Norwegian private individuals' net investments was in bond funds. Net subscriptions in bond funds were NOK 10.0 billion, while there were NOK 3.8 billion in equity funds and NOK 1.2 billion in balanced funds. Assets under management for Norwegian private individuals were NOK 481.9 billion, of which NOK 287.3 billion was invested in equity funds, NOK 142.3 billion in bond funds and NOK 52.2 billion in balanced and other funds. At year-end 2019, total assets under management came to NOK 1,327 billion, of which equity funds represented NOK 677.7 billion, bond funds NOK 561.9 billion and balanced and other funds NOK 88.2 billion.¹⁰ Overall, management companies retain good profitability.

Management companies are required to report breaches of the investment limits to Finanstilsynet. For their part, depositaries are required to inform Finanstilsynet on a quarterly basis of identified breaches. The volume of reported breaches in 2019 was generally somewhat lower than in previous years. This applies to both management companies and depositaries. The reporting form for management companies was revised and expanded to include information on effective portfolio management techniques (securities lending etc.). The reporting format for depositaries was also improved. Finanstilsynet revealed no violations of the capital adequacy requirements among the management companies in 2019.

¹⁰ Source: Norwegian Fund and Asset Management Association

Facts and figures

At the end of 2019, 29 fund management companies were operating in Norway along with one branch of a Finnish management company, Nordea Funds, Norwegian Branch. Of these, 20 were also licensed to provide the investment service 'management of portfolios of investments in accordance with mandates given by investors on a discretionary, client-by-client basis'. At the end of 2019, the companies managed 417 mutual funds under licence from Finanstilsynet. UCITS funds ('Undertakings for Collective Investments in Transferable Securities', cf. Directive 2009/65/EU) constitute the largest share of Norwegian mutual funds.

Finanstilsynet conducted a number of on-site inspections at management companies in 2019, focusing on consumer protection. All ordinary inspections also included compliance with the Anti-Money Laundering Act. Finanstilsynet conducted a survey of the management companies' use of effective portfolio management techniques. In addition, their unit holder systems were reviewed. A survey of information on and use of government bond indices in fixed-income funds was also initiated to follow up previous surveys. The results of the survey showed that there is a need for supervisory follow-up in 2020.

In 2019, Finanstilsynet had contact meetings with six management companies

Managers of alternative investment funds (AIFMs)

At year-end 2019, 40 Norwegian AIF managers were subject to ordinary supervision. In addition, 128 AIF managers featured in Finanstilsynet's registry, against 124 a year earlier. Funds managed by registered AIF managers cannot be marketed to retail investors.

The AIF managers manage 377 Norwegian alternative investment funds and 19 foreign alternative investment funds. The systems for periodic reporting from AIF managers and reported data was further developed in 2019 and the quality of the data improved.

There was increased supervisory activity in the AIF area in 2019, with priority given to consumer protection. A number of on-site inspections were carried out. The thematic inspection of compliance with the requirements for conducting suitability tests when marketing alternative investment funds to retail investors was completed in 2019. The inspection included a review of customer

documentation for 100 retail investors from three AIF managers and five alternative investment funds classified as either real estate funds or private equity funds. The deficiencies identified by Finanstilsynet were in many cases significant, and one AIF manager was notified that an order for corrective measures would be issued. The manager rectified the deficiencies, and the authority thus did not issue the announced order. Finanstilsynet also conducted an on-site inspection of a depositary that is due to be completed in 2020.

During 2019, Finanstilsynet looked into a number of different investment structures that were not managed in accordance with the Act on the Management of Alternative Investment Funds. The authority focused on following up the syndicate market by assessing individual cases and published a guidance on how to define alternative investment funds and project finance companies (circular 9/2019), which triggered a number of new applications for a licence to manage alternative investment funds.

In 2019, Finanstilsynet followed up 14 registered AIF managers that had no auditor. Most of them made the requisite adjustments, but some are still subject to special follow-up.

Four contact meetings were held with AIF managers.

Reports received from the AIF managers are an important contribution to off-site inspections. In 2019, Finanstilsynet revealed two violations of the capital requirements and sent notice of possible licence revocations. Own funds were brought into compliance with the requirements within the deadline set in the notifications. No further follow-up was thus needed.

Licensing

Fund management companies

Finanstilsynet granted no new licences to engage in mutual fund management in 2019, but one management company was granted an extended licence. One licence application was withdrawn during the licensing process, and the licence of one management company lapsed due to the discontinuation of operations.

In 2019, Finanstilsynet granted licences for the establishment of 19 new mutual funds, while 29 funds were liquidated or closed. Over the course of the year, the authority gave a number of approvals to change mutual fund rules. Among other things, changes were approved

in the investment profile of some mutual funds that seek to continue to invest in UK financial instruments after Brexit. Several mutual funds introduced net unit classes designed for investors subscribing through distributors who do not receive soft commissions from management companies. Finanstilsynet assumes that these unit classes will grow in significance in the period ahead due to new and tighter requirements for investment firms' access to receiving soft commissions.

A number of UCITS funds that are established in other EEA states have been passported for marketing in Norway. The majority of such funds are established in Luxembourg, Ireland, the United Kingdom and the Nordic countries. Some Norwegian managers have passported mutual funds for marketing in other EEA member states. Finanstilsynet's registry provides an overview of foreign UCITS funds marketed in Norway.

Managers of alternative investment funds (AIFs)

In 2019, Finanstilsynet granted four new licences to AIF managers and extended the licences of two AIF managers. The authority rejected one licence application. Applications from ten companies for a licence to manage alternative investment funds and one application to act as a depositary were under processing at year-end 2019. Two AIF managers surrendered their licences.

The number of applications to market AIFs to retail investors was on a par with the previous year. Finanstilsynet granted nine such licences in 2019. Many AIFs catering to the mass market are structured as feeder funds to a single master fund which is effectively closed to retail investors due to a high minimum subscription amount. Fund structures and fee models are often confusing. Finanstilsynet does not approve the fund per se, but reviews the fund documentation, placing particular emphasis on how costs and risks are presented.

In 2019, Finanstilsynet granted 91 licences to market AIFs to professional investors in Norway where either the manager, the fund or both are established outside the EEA.

A number of AIFs established in other EEA member states have been passported for marketing to professional investors in Norway. This is true above all of funds established in Ireland, the United Kingdom or Luxembourg.

Regulatory development

In 2019, Finanstilsynet prepared a consultation document on behalf of the Ministry of Finance, proposing to introduce a duty to audio record and store electronic communications for mutual fund management companies and AIF managers when providing investment services. The proposal has been circulated for comment and is under consideration by the Ministry of Finance.

Finanstilsynet has also prepared a consultation document on behalf of the Ministry of Finance that proposes to introduce a requirement whereby companies offering financial services to consumers should be affiliated with an approved complaints body. It is also proposed that AIF managers that market alternative investment funds to retail investors should be subject to the same duty to

cover the consumer's legal costs in court proceedings as other companies providing financial services to retail investors in cases where the company does not comply with the complaints body's opinion/decision. The Ministry of Finance circulated the proposal for comment, with the deadline for response set at 25 December 2019. The matter is currently being considered by the Ministry of Finance.

Finanstilsynet has proposed to introduce administrative fines in the Act on the Management of Alternative Investment Funds and a ban on the exercise of management functions in the Securities Funds Act and the Act on the Management of Alternative Investment Funds in cases of regulatory non-compliance. The proposal is included in a consultation document based on a broader review of the need for administrative sanctions in financial legislation.

Prospectus control – transferable securities

Finanstilsynet is responsible for approving EEA prospectuses in the case of public offers for subscription or purchase of transferable securities worth at least EUR 8 million calculated over a period of twelve months that are directed at 150 or more persons in the Norwegian securities market. The same applies where transferable securities are admitted to trading on a Norwegian regulated market, including where a company whose shares are already admitted to trading plans to increase its capital by more than 20 per cent.

Vetting of prospectuses in 2019

In 2019, 53 share prospectuses were approved, which was on a level with the previous year. A total of twelve prospectuses were issued in connection with initial public offerings (IPOs) on Oslo Børs or Oslo Axess, an increase from ten in 2018.

2019 was a good year for raising equity capital, especially the first half of the year. However, the market was slightly quieter than in 2018, which also affected the total number of approved prospectuses. There was a relatively high level of IPO activity involving companies such as Adevinta, Hafnia Tankers, Sats, Norske Skog and

Ice Group. As a result of a quieter market in the second half of the year, some companies chose to interrupt their admission to listing or their capital raising process after the prospectus had been approved by Finanstilsynet.

The number of bond prospectuses in 2019 was significantly lower than in 2018. This must be viewed in light of a somewhat more challenging capital market situation, with higher credit risk premiums.

An overview of prospectuses vetted by Finanstilsynet in the period 2015 to 2019 is given in table 5.

Table 5: Vetted documents

	2015	2016	2017	2018	2019
Shares (quoted shares in parentheses)	58 (53)	52 (46)	66 (59)	55 (45)	54 (46)
Bonds	99	118	145	135	65
Total	157	170	211	190	118

Finanstilsynet cut short ten vetting processes after capital raising and/or admission to listing were discontinued. Further, a large number of documents related to passported prospectuses were notified to competent authorities in the EU/EEA area and vice versa.

Finanstilsynet started vetting of 14 prospectuses related to new share issues. 12 of these prospectuses were for

IPOs on Oslo Børs or Oslo Axess. A total of 46 prospectuses for listed limited liability companies were vetted, as well as eight prospectuses for share issues by unlisted companies.

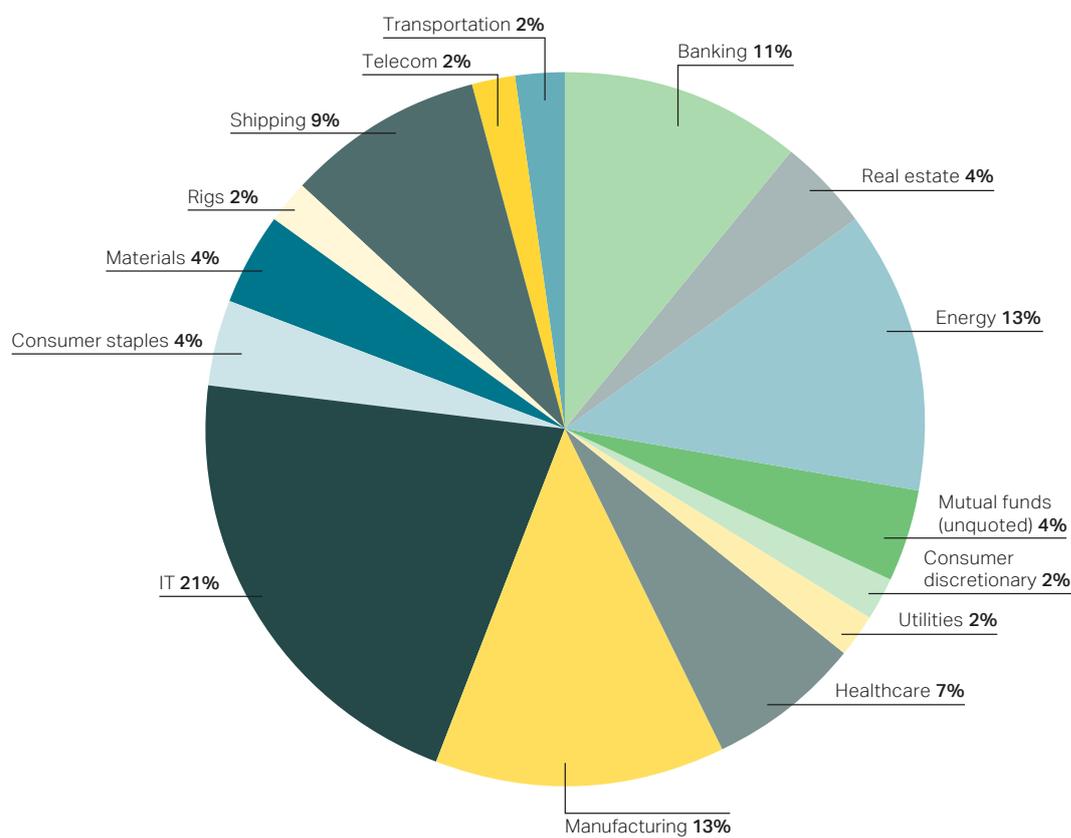
Finanstilsynet imposed an administrative fine on one company for incorrect information in the prospectus, which is the first sanction in this field since 2014.

New prospectus rules

In June 2017, the EU adopted a new Prospectus Regulation as a part of its work on a capital markets union. Key objectives of the Regulation are to ensure investor protection and promote more efficient markets, reduce listed companies' administrative burden and fine-tune the rules applying to small and medium-sized businesses. The new rules were incorporated into the Norwegian Securities Trading Act on 21 July 2019. The most important changes are that offers of less than EUR 8 million are exempt from the obligation to prepare an EEA prospectus and that the threshold for the exemption from the obligation to publish a prospectus has been raised to 20 per cent of outstanding capital. Some new prospectus types and simplifications to prospectuses have also been introduced for listed companies.

Chart 13: Share prospectuses approved by Finanstilsynet in 2019 – by sector

Source: Finanstilsynet



Financial reporting enforcement – listed companies

Finanstilsynet oversees financial reporting by Norwegian-registered entities that are listed on a regulated market in Norway or elsewhere in the EEA, as well as certain foreign entities that are listed on a regulated market in Norway.

At the end of 2019, 282 companies were subject to such supervision. Of these, 52 were foreign. 202 were issuers of shares and equity certificates. Several issuers of shares and equity certificates also issued bonds that were quoted on Oslo Børs. Over the course of the year, eight new companies were admitted to Oslo Børs and five to Oslo Axess. One of the admissions to Oslo Børs was previously listed on Oslo Axess, and one of the companies admitted to Oslo Axess had transferred from Merkur Market. A total of five companies were delisted from Oslo Børs.

Enforcement of financial reporting

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

In 2019, Finanstilsynet reviewed all or parts of the financial reporting of 51 entities. Particular attention was focused on issuers of shares and equity certificates, but also on some bond issuers. Finanstilsynet also reviewed the audit reports of all listed companies. 15 cases were subject to closer scrutiny, 12 of which have yet to be finalised.

During 2019, Finanstilsynet also brought to light a number of deficiencies in the financial reporting from entities that have applied for listing and therefore need an approved prospectus. In such cases, Finanstilsynet expects the entity to rectify the deficiencies by preparing new financial reports or by providing supplementary and detailed information in the prospectus. Finanstilsynet's supervisory practices are described in a report from November 2019 which is available on its website.

Finanstilsynet received no reports from auditors indicating that the financial reporting of the issuers concerned failed to provide a true and fair view. Finanstilsynet received one report that the auditor chose to resign from an assignment before a new auditor had been selected. This company is being followed up.

An account of the most important cases brought to completion by Finanstilsynet in 2019, along with other control measures, follows below:

Norwegian Finans Holding ASA

The supervision related to the company's calculation of individual and collective impairment losses on loans under the accounting rules of IAS 39¹¹ in the financial statements for 2017, as well as disclosures on credit risk.

In Finanstilsynet's assessment, the company's impairment model and impairment practices were not in line with the accounting regulations. Among other things, the company recorded collective impairment losses upon disbursement of the loan, while individual impairment losses on non-performing exposures were recorded too late. The company's impairment model gave an incorrect picture of the distribution between collective and individual impairment losses, but Finanstilsynet was unable to determine whether incorrect application of the accounting rules had significant consequences for the overall impairment level.

Finanstilsynet did not instruct the company to recalculate the impairment amount according to a model consistent with IAS 39, since IFRS 9 replaced recognition and measurement of financial instruments as of 1 January 2018. The company was instructed to restate disclosures for 2017 in its 2018 financial statements for 2018 by classifying a significantly larger share of collective impairment losses as individual impairment.

¹¹ IAS 39 *Financial instruments – recognition and measurement*, which was in force up to and including the 2017 accounting year, has now been replaced by IFRS 9.

Melhus Sparebank

The main purpose of the supervision was to check whether the bank's disclosures relating to losses on loans and guarantees in the 2018 financial statements were in accordance with IFRS 7¹².

In Finanstilsynet's view, there were major deficiencies in the disclosures. Among other things, the bank should have provided information about the uncertainty in the estimate of impairment losses and the sensitivity of the key assumptions underlying the estimate. It should also have given a better description of the model and more detailed information about loans, impairment losses, non-performing loans, collateral and write-offs. The bank confirmed that it will improve its disclosures in future financial statements.

Aker BP ASA, Telenor ASA and Nekar ASA

Finanstilsynet closed the supervision cases concerning compliance with the new accounting standard IFRS 15¹³ by taking note of the companies' accounting procedures.

Control of listed companies' compliance with the guidelines for alternative performance measures

XXL ASA and B2Holding ASA

Both companies were criticised for failing to comply with the guidelines for alternative performance measures in stock exchange statements on expected future performance (profit warnings).

Thematic inspection of compliance with guidelines

In November 2018, Finanstilsynet published a thematic inspection report on the companies' compliance with the guidelines for alternative performance measures. After the thematic inspection, some companies were subject to closer scrutiny. In 2018 and 2019, Finanstilsynet issued critical comments to five large companies concerning non-compliance with the guidelines. Four companies made significant improvements to the information. As regards the fifth company, Finanstilsynet will follow up and assess the information provided in its annual report for 2019.

¹² IFRS 7 *Financial instruments – disclosures* has been amended to reflect the introduction of IFRS 9 with effect from the 2018 financial statements.

¹³ IFRS 15 *Revenue from contracts with customers*

Control of listed companies' compliance with income disclosure requirements

In 2019, Finanstilsynet published a thematic inspection report on how a selection of listed companies comply with income disclosure requirements. The thematic inspection showed that significant improvements are needed in the four areas that were examined. Finanstilsynet will follow up this in its review of annual reports for 2019.

Late publication of periodic financial reports

In 2019, Finanstilsynet imposed an administrative fine on Havyard Group ASA for late reporting.

Other controls

Every year, Finanstilsynet checks whether listed companies have included the required formal documents in their annual and semi-annual reports. In October 2019, the authority published the results of its review of the semi-annual reports for 2018. Ten companies lacked a declaration of responsibility from their management regarding the half-yearly financial statements and the semi-annual report.

Expert Panel on Accountancy

The Expert Panel met once in 2019. The Ministry of Finance decided to wind up the committee at year-end 2019.

Auditing

Finanstilsynet's supervision of auditors comprises licensing of individuals and firms, registration and supervision of statutory audit work. Finanstilsynet checks that auditors maintain their independence and perform their work in a satisfactory manner and in compliance with law and good audit practices. Moreover, Finanstilsynet supervises the firms' compliance with the anti-money laundering legislation.

Market participants' confidence in financial reporting by the business sector is key to a well-functioning market. This is particularly true for reporting by public interest entities. High audit quality contributes to increased confidence. In order to properly perform the function as a representative of the general public, the auditor must be independent of the client and perform the audit in conformity with the requirements of the Auditors Act.

Developments

Due to the special requirements for auditors that audit public interest entities, there is a growing distinction between audit firms that audit such entities and other audit firms. At the end of 2019, twelve audit firms audited public interest entities.

The largest audit firms have a predominant market position in terms of statutory audit fees. There are nevertheless a number of small audit firms, although the number of firms with just one statutory auditor has fallen in recent years. Technological developments and their bearing on the auditing work are a key issue, especially in the major international audit networks. For example, the next generation of audit methodology is expected to include automated analyses and software robots that collect data and perform standard audit procedures.

Supervision, monitoring and control

Periodic quality assurance reviews

Auditors and audit firms that audit public interest entities are subject to periodic on-site supervision at least every three years. These supervisions are conducted by Finanstilsynet. Other auditors and audit firms are to be reviewed at least every six years. These reviews are conducted by the Norwegian Institute of Public Accountants (DnR) for members and by Finanstilsynet for non-members. Guidelines have been prepared for Finanstilsynet's cooperation with DnR. According to the guidelines, DnR shall refer the matter to Finanstilsynet if it identifies circumstances that may prompt revocation of an auditor's licence. DnR's report on quality assurance reviews for 2019 is presented on page 74.

In 2019, Finanstilsynet completed the reviews carried out in the autumn of 2018 and conducted four periodic inspections. Not all of these inspections have been finalised. One of the audit firms that was reviewed has taken on audit engagements for entities which entail that the audit firm is also subject to periodic quality assurance reviews by the Public Company Accounting Oversight Board (PCAOB) in the United States. The inspection of this firm was conducted jointly with the PCAOB and was headed by Finanstilsynet.

Other supervisory matters

Other supervision is carried out on the basis of Finanstilsynet's risk assessments, where reports of possible audit deficiencies are a factor in determining the type of supervision to be implemented.

In 2019, Finanstilsynet registered some 90 notifications of possible audit deficiencies from DnR, the tax authorities, bankruptcy administrators, the police and others. Media entries or matters identified by Finanstilsynet in other supervisory areas may also indicate audit deficiencies. All notifications are reviewed and assessed for further follow-up by Finanstilsynet. Matters that are not followed up by on-site inspections or some other form of closer control, are likely to conclude with the auditor being asked to conduct a self-evaluation, identify any deficiencies and correct these in future audits.

Finanstilsynet informs the auditor that the evaluation and possible measures must be documented, and that these cases will be reviewed by the authority in connection with future inspections.

A total of 35 notifications were followed up in 2019. In 22 of these cases, the auditor was asked to explain how a particular audit engagement was conducted and present audit documentation showing that the auditing was in compliance with good audit practices. 13 of the notifications prompted ad-hoc on-site inspections. Some of the inspections in 2019 have yet to be finalised. A number of inspections are concluded by issuing critical comments. Some of the cases are closed because the auditors choose to relinquish their licence after receiving a notice of inspection or after the inspection has been completed.

Table 6: Revocation of auditors' licences

	2015	2016	2017	2018	2019
State-authorized auditors	2	1	0	0	3
Registered auditors	0	1	2	2	2
Audit firms	0	3	0	0	1

Audit non-conformances were revealed in all of the cases. The most serious instances of non-conformance were that the auditor had not obtained sufficient and appropriate audit evidence as the basis for the issued audit report. This also applied to auditing of public interest entities. In order to properly perform the role as a representative of the general public, it is important that the auditor demonstrates professional scepticism to management's assessments when conducting the audit. Finanstilsynet found that the auditor's independence had been seriously compromised in two of the cases.

Compliance with the anti-money laundering legislation is checked as part of practically all inspections. In 2019, Finanstilsynet published a guidance on auditors' and audit firms' compliance with the anti-money laundering legislation (circular 14/2019).

Matters referred to the Board of Appeal for Audit and Accounting Matters

In 2019, no matters concerning auditors were considered by the Board of Appeal for Audit and Accounting Matters.

Licensing

Table 7: Number of licensed auditors and audit firms as at 31 Dec. 2019

	2015	2016	2017	2018	2019	Licensed in 2019
State-authorized auditors	3,888	4,044	4,233	4,326	4,476	207
Registered auditors	3,492	3,526	3,574	3,607	3,652	71
Of which statutory auditors	1,584	1,560	1,532	1,519	1,541	75
Audit firms	516	494	447	447	458	34

Finanstilsynet authorises auditors as either registered or state authorised auditors. In order to be registered, the auditor must complete a practical test. In 2019, 276 candidates enrolled for, and 253 passed, the test. Two candidates failed the test, while 21 candidates chose either not to go through with the test or withdrew during the process. When processing applications for an auditor register number (which is needed in order to become a statutory auditor), Finanstilsynet checks that the auditor meets the statutory continuing education requirements and has the required indemnity insurance.

Regulatory development

Finanstilsynet has been involved in the work on a new Auditors Act and has submitted a consultative statement. The bill (Proposition 37 LS (2019–2020)) is under consideration by the Storting (the Norwegian parliament).

Finanstilsynet has also been involved in preparing consultative statements submitted by the CEAOB (Committee of European Auditing Oversight Bodies) and IFIAR (International Forum of Independent Audit Regulators) to international standard-setters within auditing.

Quality Assurance Review of Auditors – Annual Report

According to the *Guidelines for periodic quality assurance reviews of auditors and audit firms*, the Norwegian Institute of Public Accountants is appointed by Finanstilsynet to conduct the periodic quality assurance review of auditors who perform statutory audits of the annual financial statements of entities other than public interest entities. The Institute hereby presents a summary of the quality assurance reviews conducted in 2019.

Organisation of the quality assurance review

The quality assurance review is described in *Details of the quality control programme for statutory auditors 2019* as posted at www.revisorforeningen.no. It is designed to test compliance with the audit legislation and with good auditing practices, including International Standards on Auditing, in addition to compliance with the provisions of the Act on Auditing and Auditors concerning the auditors' capabilities to fulfil their obligations related to financial status, independence, indemnity insurance and continuing professional education.

The reviews were conducted by a review team comprising 29 state authorised and registered auditors, all with a broad professional background.

Selection of auditors for quality assurance review

In 2019, the quality assurance programme covered 783 statutory auditors. 141 of these were selected for ordinary quality assurance review. Upon being notified that they had been selected for review, 13 statutory auditors announced that they would discontinue their business or retire as statutory auditors in the course of 2019. Six reviews have been postponed due to sick leave. Thus, 122 statutory auditors were subject to ordinary quality assurance reviews in 2019. In addition to the ordinary reviews, eleven statutory auditors were subject to follow-up reviews, resulting in a total of 133 conducted reviews in 2019.

Results of the quality assurance reviews

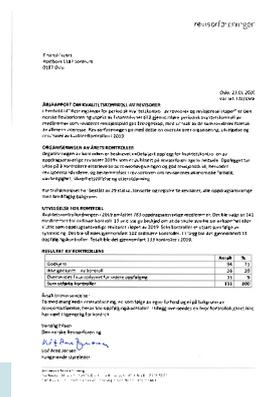
	Number	%
Approved	94	71
Not approved – new review	26	20
Referred to Finanstilsynet for further action	13	9
Total number of reviews conducted	133	100

Reason for referrals:

Continuing education deficiencies (two), other reasons (one), poor audit performance (nine), four of whom were subject to follow-up reviews, and failure to make oneself available for review (one).

Yours sincerely

Leif Arne Jensen (sign.)
Acting Chair
The Norwegian Institute of Public Accountants



Measures against money laundering and terrorist financing

Developments

In recent years, a number of large European banks have come under the scrutiny of supervisory authorities and the police due to serious deficiencies in their compliance with the anti-money laundering (AML) legislation and indications that extensive money laundering has taken place through these banks. Money laundering is now high on the political agenda. The EU and the FATF, the international standard setter for AML and counter-terrorism financing (CTF) measures, have stepped up their activities in this area, which includes adopting new legislation and supervising national authorities.

Experience from inspections of Norwegian institutions shows that compliance with the AML legislation in many cases has not been satisfactory. Improvement areas pointed out by Finanstilsynet include poor understanding of risk, lack of resources and inadequate AML procedures.

New guidance documents

Finanstilsynet provided additional guidance to supervised entities in 2019 through the *Guide to the Anti-Money Laundering Act* (circular 8/2019) and separate guidelines for compliance with the AML legislation for real estate agencies (circular 11/2019) and for auditors and external accountants (circulars 14/2019 and 15/2019). Finanstilsynet also published a new risk assessment of money laundering and terrorist financing in 2019.

As part of its guidance activity, Finanstilsynet held a number of presentations at conferences arranged by Finance Norway and individual entities in 2019.

Supervision, monitoring and control

Banks

Finanstilsynet carried out special money laundering inspections at Handelsbanken NUF, Sparebanken Sør, Sbanken and Danske Bank NUF in 2019. Supervisory reports from the two last-mentioned inspections will be completed in 2020. Money laundering is normally also on the agenda at the standard inspections of banks carried out by Finanstilsynet.

Weaknesses uncovered during the inspections:

- AML risk assessments were inadequate.
- Resource use in the AML area was not commensurate with the bank's risk.
- There was a lack of understanding of the compliance officer role.
- The transaction monitoring system was inadequately or not at all adapted to the bank's operations.

Finanstilsynet also conducted an off-site thematic inspection to determine the extent to which the identities of bank customers were verified in accordance with the requirements of the AML Act. The inspection concluded that the banks had approximately 700,000 physical customers whose identity had not been verified as at 1 July 2019. In addition, the identity of some 60,000 legal entities had not been verified. The banks were instructed to rectify this situation by 17 January 2020.

The AML Act effective as of 2018 permits Finanstilsynet to levy administrative fines in connection with rule violations. In 2019, Finanstilsynet levied three administrative fines on banks: NOK 18 million to Komplett Bank, NOK 9 million to Santander Consumer Bank and NOK 1.5 million to Hønefoss Sparebank. Komplett Bank was fined due to the bank's failure to assess the risk of money laundering and terrorist financing, to classify its customers according to risk and to implement adequate electronic transaction monitoring. Santander Consumer Bank was fined on the background of deficiencies in the bank's transaction monitoring system and subsequent inadequate ongoing due diligence of customer relationships as well as failure to investigate and report suspicious transactions. Hønefoss Sparebank was fined partly due to the bank's failure to assess the risk of money laundering and terrorist financing and to apply adequate measures against money laundering and terrorist financing in its banking operations.

Investment firms

Finanstilsynet carried out a thematic AML inspection at one investment firm in 2019. The final comments are available. Measures against money laundering and terrorist financing were also on the agenda at all full-scale on-site inspections carried out at investment firms in 2019. Finanstilsynet reviewed documentation for a selection of customers of the investment firms to check their control functions and how they organise their AML efforts, and to examine customer due diligence measures and actual compliance with the AML legislation. In Finanstilsynet's opinion, investment firms now place more emphasis on, and have a greater awareness of, AML efforts. Nevertheless, the authority still uncovers deficiencies and weaknesses, especially with respect to risk assessments, the identification of beneficial owners, enhanced customer due diligence, and the degree to which entities focus on identifying and reporting suspicious circumstances.

Payment institutions and agents for foreign payment institutions

Finanstilsynet conducted an on-site inspection at the payment institution TTC Finans in 2019. After identifying a number of serious violations of the AML legislation, Finanstilsynet revoked the institution's licence. The enterprise has stated that it will appeal the decision. Finanstilsynet also conducted AML inspections of three of the agents of the foreign payment institution RIA (Euronet Payment Services / RIA Payment Institution, EP and S.A.U.).

Finanstilsynet conducted an inspection of Vipps AS in October 2018 at which money laundering was one of the topics. In the supervisory report (published in 2019), Finanstilsynet emphasised that for some customers, Vipps did not comply with the rules for obtaining information about the purpose and intended nature of the customer relationship. In addition, non-compliance with the obligations of the asset freeze provisions and regulations on sanctions and restrictive measures was identified, as the enterprise did not screen customers or transactions against international sanctions lists. Nor did it have any system for screening customers against lists of politically exposed persons (PEPs). Finanstilsynet also expressed an expectation that Vipps would allocate more resources to AML efforts.

Virtual currencies

According to the AML Act, providers of exchange and storage services for virtual currencies are required to register with Finanstilsynet. At year-end 2019, six such service providers had registered.

ICT security

Finanstilsynet checks financial institutions' ICT systems for identifying suspicious transactions that may be related to money laundering and terrorist financing. See account in the chapter on *ICT and payment services* on page 43.

Insurance

Money laundering was on the agenda at ordinary inspections in 2019. In addition, Finanstilsynet reviewed compliance with the AML legislation and freeze obligations at selected insurance undertakings and insurance intermediaries. The survey showed shortcomings in the risk assessments and procedures of several insurance intermediaries. Based on documentation from the insurance undertakings, most of them appeared to have acceptable risk assessments and procedures.

The supervisory reports after special inspections at Fremtind Forsikring AS and SpareBank 1 Forsikring AS were published in 2019. In the report, Finanstilsynet criticised both entities for inadequate AML risk assessments and procedures as well as violations of the rules for risk classification of customers and staff training that failed to meet the requirements of the AML legislation.

Auditors and external accountants

At all inspections, Finanstilsynet checks audit firms' and external accounting firms' compliance with the AML legislation. The inspections carried out in 2019 showed that audit firms and external accounting firms had failed to carry out adequate entity-specific risk assessments. The entities' AML procedures were generally not good enough, and there were shortcomings in their compliance with the regulations on customer due diligence and the identification of circumstances indicating that funds might be associated with money laundering or terrorist financing.

In 2019, Finanstilsynet prepared guidelines for auditors and audit firms (circular 14/2019) and for external accountants and accounting firms (circular 15/2019) on their obligations under the AML Act, good auditing practices pursuant to the Auditors Act and good accounting practices under the the Accountants Act when the customer is an obliged entity.

Infrastructure – Verdipapirsentralen and account operators

As part of its supervision of Verdipapirsentralen (the Norwegian Central Securities Depository – VPS) and account operators, Finanstilsynet initiated an extensive survey of AML controls in connection with the opening of VPS accounts. A report with the results from the survey will be published in the first half of 2020.

Mutual funds and collective investment schemes

Money laundering was on the agenda at all on-site inspections at fund management companies and alternative investment fund managers. Non-compliance with the AML Act was commented on in a number of supervisory reports. Experience has shown that some companies have inadequate risk assessments, procedures and training programmes.

Estate agency

In 2019, compliance with the AML legislation was addressed at 13 on-site inspections at real estate agencies and lawyers engaged in real estate broking. Five of these were thematic AML inspections. Finanstilsynet focused on the firms' AML risk assessments as well as procedures to prevent them from being abused for money laundering and to detect money laundering attempts. This process will be completed in the first half of 2020.

Finanstilsynet conducted a similar thematic inspection at eight commercial real estate agencies and one residential real estate agency in 2018. At seven of the agencies, compliance deficiencies were so serious that Finanstilsynet decided to levy administrative fines. The fines ranged from NOK 100,000 to NOK 300,000. A number of the entities did not perform AML risk assessments and had inadequate procedures for preventing and uncovering money laundering attempts, or did not monitor transactions in client accounts. Most of these entities had not established procedures for enhanced customer due diligence or closer investigation of suspicious transactions. In several of the entities, employees had not received the required training. One entity appealed Finanstilsynet's administrative fine decision to the Ministry of Finance. In September 2019, another real estate agency was given a NOK 50,000 administrative fine for non-compliance with the AML legislation.

In circular 11/2019, Finanstilsynet provides guidance to real estate agents, real estate agencies, legal practitioners and lawyers engaged in real estate broking.

The circular amplifies requirements for risk assessments, working and control procedures and training of employees, the obligation to carry out customer due diligence and transaction monitoring and the obligation to examine and possibly report matters that may indicate that funds are associated with money laundering or terrorist financing.

Evaluation of Finanstilsynet's AML measures

In 2019, the FATF carried out a five-year follow-up assessment of its 2014 mutual evaluation report on the Norwegian AML regime. The FATF concludes that supervisory activities have improved since 2014, but that further improvements are required before Finanstilsynet's AML measures are fully compliant with the FATF recommendations. These measures were also evaluated at the IMF's FSAP (Financial Sector Assessment Program) in 2019. The FSAP report will be available in 2020.

Regulatory development

Finanstilsynet has prepared a consultation document with proposed amendments to the AML Act and Regulations. Some of the proposed amendments will implement new EEA rules, while others are amendments that Finanstilsynet considers necessary. The proposals include rules for service providers of virtual currencies, the application of customer due diligence measures, termination/blocking of customer relationships and processing of personal data.

Consumer protection

Consumer protection is an important factor in the development of rules for the financial market and in the supervision of financial services providers. Regulatory development and supervision aim to safeguard the interests of consumers who purchase financial services.

Consumer protection is at centre stage in the statutory regulation of the financial market and in the supervision of financial services providers in the banking, insurance and securities markets. Financially sound, well-capitalised financial institutions and well-functioning financial markets are fundamental consumer interests, both for the community and for the individual. At the same time it is important for consumers to be well protected when purchasing and selling financial products and property, and to be able to base their decisions on good information and neutral advice.

Finanstilsynet collaborates with the Consumer Authority, the Consumer Council and the Norwegian Competition Authority to achieve better consumer protection in the financial sector.

Consumer protection is also an important task of the financial supervisory authorities in other countries and in international activities, and Finanstilsynet cooperates closely with the European supervisory authorities when new consumer-related regulations are to be framed.

Topical consumer matters

Consumer credit

In 2018, Finanstilsynet conducted a number of on-site inspections at banks offering unsecured credit and consumer loans. In 2019, the authority published a summary report addressing the key comments made after the inspections. See further account in the chapter *Banking and finance* on page 36.

Based on a proposal from Finanstilsynet, the Ministry of Finance adopted regulations on requirements for financial institutions' lending practices for consumer loans in February 2019, which were a continuation of the guidelines from 2017. With effect from the second quarter of 2019, quarterly reporting of a selection of entities' compliance with the regulations was established. Finanstilsynet monitors rule violations and checks compliance at on-site inspections.

Residential mortgage lending regulations

Finanstilsynet obtains quarterly directors' reports from 24 financial institutions and branches of foreign undertakings on compliance with the regulations, see account

on page 37. The Ministry of Finance adopted new regulations on 15 November 2019 which entered into effect on 1 January 2020. In December 2019, Finanstilsynet published a circular with a guide to the requirements in the regulations.

EU Mortgage Credit Directive

In 2019, Finanstilsynet prepared a consultation document proposing rules implementing the EU Mortgage Credit Directive. Finanstilsynet proposed a new Act on loan intermediation that will also apply to the intermediation of loans to consumers other than those regulated by the directive. See account on pages 40-41.

Interest rate caps on consumer loans

In November 2018, the Ministry of Finance asked Finanstilsynet to consider whether interest rate caps should be set and to review input on specific models for interest rate caps on consumer loans. In its March 2019 response, Finanstilsynet stated that interest rate caps are an invasive policy measure. It also recommended to gain experience from the measures that have already been implemented in the consumer loan market before contemplating the introduction of interest rate caps. See account on page 41.

Platforms for loan-based crowdfunding

Finanstilsynet's proposed rules for loan-based crowdfunding, presented in 2018, have been circulated for comment, and the Ministry of Finance has announced that it will nominate a working group mandated to consider crowdfunding of consumer loans. See account on page 41.

Circular on financial agents

In its circular on financial agents, Finanstilsynet emphasised the ban on the use of sub-agents. The market for consumer loans has become very complex due to the fact that many financial agents have teamed up with sub-agents that market loans in their own name. See account on page 42.

Debt information activity

The Ministry of Children and Family Affairs has given three entities a licence to operate as debt information undertakings. They started operations on 1 July 2019. The registers play a key role in enabling financial institutions to assess the customer's debt servicing capacity and give consumers an overview of their own debt. See account on page 81.

Insurance intermediaries

Finanstilsynet has conducted a number of inspections of insurance agent firms that mediate unit-linked life insurance on behalf of foreign life insurers. Among other

things, the inspections have uncovered the mediation of life insurance policies with complex underlying high-risk investments that have been unsuited to meet customers' needs. See account on page 49.

Regulations for guaranteed pension products

A working group has assessed the regulations for guaranteed pension products, and Finanstilsynet has been mandated by the Ministry of Finance to draft regulatory amendments based on the working group's report. See account on pages 51-52.

Information and advice concerning defined-contribution pension schemes

In most defined-contribution pension schemes, members can choose a different investment alternative for their pension than the one chosen by their employer. In order to enable members to make the best investment choices for their own pension savings, they must receive adequate and relevant information. In 2019, Finanstilsynet therefore conducted a survey of the information and advice given to members of defined-contribution pension schemes. See account on page 49.

Market warnings

In 2019, Finanstilsynet published six warnings against Norwegian entities and one warning against a foreign entity offering investment services without the necessary licence. In addition, the authority published 1,003 warnings from foreign supervisory authorities. See account on page 63.

Investment firms

The requirements set out in the Securities Trading Act on investor protection and the handling of conflicts of interest are of key importance in the supervision of investment firms. See account on page 61.

Mutual funds

A mutual fund is a regulated savings product offering a high degree of investor protection through legislation. Supervision in this area is largely geared to ensuring that consumer interests are protected. See account on page 64.

Estate agency

Finanstilsynet gives priority to real estate agents engaged in residential property brokerage. It is particularly important that consumers in this market have the necessary confidence in the real estate agent who mediates the property and undertakes the settlement.

Debt collection – purchase of non-performing loans

In October 2018, the Ministry of Justice and Public Security appointed a working group that will consider various aspects of the Debt Collection Act. Finanstilsynet participated in and acted as secretary for the working group, which proposed a number of amendments to strengthen consumer protection. The group presented its report to the Ministry in January 2020. The report will probably be circulated for comment during the first half of the year.

Current topics

Finanstilsynet's regulatory sandbox for fintechs

The regulatory sandbox for fintechs was opened for applications on 12 December 2019, with an application deadline of 12 February 2020 for participating in the first round. Finanstilsynet received ten applications within the deadline and two shortly thereafter.

The regulatory sandbox is a scheme where fintech firms can test new, innovative products, technologies and services while being followed up by Finanstilsynet. The sandbox is part of a broader information and guidance initiative for fintech firms that will enable technological innovation and open up for new players in the Norwegian financial market. The opportunity to test new technology may facilitate new business models and solutions where new players either challenge or cooperate with established institutions. It may also contribute to increasing fintech firms' understanding of the regulatory requirements, and to giving Finanstilsynet greater insight into new technological solutions.

In November 2019, Finanstilsynet published new webpages aimed at fintech firms. The pages contain information about current regulations and licensing requirements, links to relevant publications and contact information for enquiries. They also contain information about the regulatory sandbox, criteria for participation, application forms and deadlines. Finanstilsynet offers fintech firms guidance on regulations and licensing requirements, and on how to apply for the relevant licence.

Finanstilsynet has placed emphasis on establishing and maintaining a good dialogue with relevant stakeholders to get their input and assessments during the work on the sandbox. Several meetings have been held with representatives for potential users and with other supervisory authorities. Finanstilsynet is in dialogue with corresponding communities in other countries and participates in relevant European forums to exchange views and experiences.

Sustainable finance – climate risk

Financial markets and financial institutions are affected by physical climate change and by the transition to a low-emission society. Financial institutions are exposed to climate change through loans, insurance obligations and investments in equities, bonds and real estate. The follow-up of how institutions manage climate risk is therefore a priority for financial supervisory authorities in many countries, who are working on developing supervisory tools to monitor climate risk.

During 2019, Finanstilsynet carried out activities related to climate risk as part of its ongoing supervision. The authority checked that insurers and banks assess climate risk, and this topic was discussed at on-site inspections and in meetings with the institutions. Relevant and good information about 'green' investment options and risk associated with such products is a key element of consumer protection, and Finanstilsynet was monitoring the market for green investment products throughout 2019.

Finanstilsynet is building knowledge and expertise on climate risk, inter alia by participating in the Network for Greening the Financial System (NGFS) and in the work on this topic in the European supervisory cooperation. As part of the process to disseminate relevant knowledge, various issues and analyses related to climate risk were described in the *Risk Outlook* reports in 2019, and a theme page with climate-related information was set up on Finanstilsynet's website.

Debt information activity

The Debt Information Act came into force on 1 November 2017 and aims to facilitate the establishment of central registers for registration of unsecured loans to Norwegian consumers. Improved information about customers' unsecured loans will ensure a better basis for banks' credit assessments and help to provide a more complete picture of developments in household debt.

The Ministry of Children and Family Affairs has given Gjeldsregisteret AS, Norsk Gjeldsinformasjon AS and Experian Gjeldsregister AS a licence to start operating as debt information undertakings.

Finanstilsynet supervises the debt information undertakings. All financial institutions are required to make debt information available to these undertakings. The new debt registers will also give banks and finance companies information about the amount of consumer debt held by loan applicants, thereby providing a better basis for credit assessments and possibly preventing debt problems among individuals.

The debt information undertakings publish statistics on unsecured loans and certain other types of loans. Loans in finance companies that purchase portfolios of non-performing loans, and loans from foreign institutions that engage in cross-border activities are included in the debt information undertakings' statistics. In addition, the statistics include loans that are secured by third-party security (collateral that does not belong to the debtor) and car loans with a vendor's fixed charge older than five years. Loans with two or more co-borrowers will be registered in full in the debt registers for each of the borrowers. These data are not included in Finanstilsynet's investigation of financial institutions' lending practices for unsecured loans. Total loans in the statistics from the debt registers will therefore be higher than the figures published by Finanstilsynet.

In September 2019, Gjeldsregisteret AS published figures showing total registered debt of approximately NOK 170 billion. Adjusted for the effect of loans with co-borrowers, the loan volume was NOK 154 billion.

Administrative fines and ban on the exercise of management functions

In December 2019, Finanstilsynet sent a draft consultation document to the Ministry of Finance, proposing new rules authorising Finanstilsynet to impose administrative fines for violation of provisions in the Financial Institutions Act, the Act on Insurance Activity, the Act on the Management of Alternative Investment Funds and the previously proposed new Acts on insurance mediation and loan mediation, respectively.

In the consultation document, Finanstilsynet also proposed including new rules that will give Finanstilsynet the right to prohibit individuals from exercising management functions in supervised institutions in the Financial Institutions Act, the Securities Funds Act, the Act on the Management of Alternative Investment Funds and the previously proposed Acts on insurance mediation and on loan mediation. Another topic covered by the proposal is key information on packaged and insurance-based investment products.

The purpose of the proposal is to facilitate the use of additional supervisory instruments in accordance with the EU rules.

Finanstilsynet has previously announced that it will make an overall assessment of the need for administrative sanctions also under the Financial Institutions Act in light of the introduction of such sanctions in the securities area. The proposals are under consideration by the Ministry of Finance.



**MANAGEMENT AND CONTROL
OF FINANSTILSYNET'S OPERATIONS**

MANAGEMENT AND CONTROL OF FINANSTILSYNET'S OPERATIONS

Management structure and reporting

Finanstilsynet's Board of Directors, which is appointed by the Ministry of Finance for a four-year term, has overarching responsibility for Finanstilsynet's activities. The Director General, appointed for a term of six years with a possible extension of a further six years, is in charge of the day-to-day management.

Finanstilsynet is divided into three supervisory departments and one administration department, each headed by a department director. Each department is divided into sections, each headed by a head of section. Legal quality assurance is assigned to the General Counsel in the Director General's staff. A communications unit reporting directly to the Director General is responsible for external and internal communication. The department directors, the General Counsel and the Communications Director are members of Finanstilsynet's management team.

Finanstilsynet's activities are regulated by the Financial Supervision Act. This Act is supplemented by special laws governing the respective supervisory areas. Every four years Finanstilsynet draws up a strategy which together with the Ministry of Finance's letter of allocation forms the basis for annual activity plans. The strategy for 2019–2022 was adopted by the Board of Directors in December 2018. The daily management and the reporting to the Board are based on the annual activity plans.

The letter of allocation is the key governing document in the management dialogue between the Ministry of Finance and Finanstilsynet. In addition to the annual report, Finanstilsynet reports on the activities carried out in accordance with the annual activity plan and the letter of allocation at end-April and end-August. These reports form part of the basis for the Ministry's evaluation of Finanstilsynet's performance.

The Board meets each month to deal with important supervisory matters, such as the allocation and revocation of licences, the budget and the annual activity plans. The Board receives regular reports on Finanstilsynet's activities. The Board Chair participated in three meetings with the Ministry of Finance in 2019.

Finanstilsynet bases its supervisory activities in all areas on risk assessments and undertakes annual risk assessments of its operations. These analyses are endorsed by the Board in connection with its consideration of the activity plan and sent to the Ministry of Finance.

Finanstilsynet is subject to annual audit by the Office of the Auditor General. See chapter VI *Annual accounts*, page 89.

Operational efficiency and organisational development

Streamlining and digitalisation

For many years, Finanstilsynet has given priority to the development of IT systems to meet increased reporting requirements and to streamline case processing. This work continued in 2019.

Towards the end of 2019, Finanstilsynet adopted a digitalisation strategy that set out goals, principles and plans for digitalisation over the next few years. The digitalisation strategy is based on Finanstilsynet's strategy for 2019–2022 and its main goal, which is to promote financial stability and well-functioning markets. In order to meet this goal, supervisory activities must be efficient and risk-based and supported by necessary IT functions.

New technology facilitates interaction, automation, information management and analysis. New and comprehensive reporting requirements result in large amounts of data that to a greater degree than today can be used in supervisory activities. A modern and flexible IT architecture, good access to data and digital expertise are prerequisites for capitalising on the opportunities offered by digitalisation in the longer term.

In autumn 2018, Finanstilsynet initiated a study to identify technological opportunities in the organisation. Based on feedback from employees, needs and opportunities for streamlining supervisory activities and internal work processes through digitalisation were identified. The study provided important input to the work on the digitalisation strategy. Several of the proposals were followed up in 2019, such as the introduction of better digital interaction tools and extended use of modern analysis tools.

The proposals in the study included robotisation, machine reading/learning and artificial intelligence. Finanstilsynet has initiated a pilot project that tests machine reading and robotisation of straightforward tasks, such as control of prospectuses and annual financial statements. The project will contribute to developing knowledge and methods that can be used in several areas.

One of the improvement and streamlining measures implemented in 2019 was to use the 'Python' programming language for automation, data integration and data analysis. In autumn 2019, a new data extraction solution was launched that will streamline processes for data retrieval and processing.

Finanstilsynet has streamlined and automated reporting from alternative investment fund managers. The reporting solution has led to an increase in automatic

validation and feedback to reporting entities and thus made the process to follow up reporting more efficient.

Finanstilsynet had 110 active Altinn forms at the end of 2019. This has simplified and streamlined the processes for both Finanstilsynet and the supervised institutions. As an example, institutions' compliance with the residential mortgage lending regulations and the regulations on consumer lending practices is now reported via the Altinn internet portal. All banks submit applications for changes in capital via Altinn, and Finanstilsynet is working on a corresponding solution for insurance undertakings and pension funds.

Finanstilsynet's digitalisation strategy 2020–2022

The digitalisation strategy shows how Finanstilsynet will use IT systems, digital tools and data to realise the goals in its main strategy for 2019–2022. The strategy sets out an ambitious plan for digitalisation in Finanstilsynet within four broad priority areas:

1 Data drive and risk-based supervision

- Ensure easier access to and better utilisation of data
- Automate processes to free up specialist resources for core tasks

2 Effective interaction and communication

- Streamline work processes through better internal interaction
- Improve and simplify communication with external parties

3 Flexible and cost-effective IT architecture

- Strengthen the change capacity of Finanstilsynet's IT portfolio
- Support cost-effective operations and a secure and efficient data flow

4 Digital expertise

- Strengthen the control and development of key IT solutions
- Ensure better utilisation of Finanstilsynet's IT systems

Organisational development

Digitalisation and Analysis Department

The need to simplify and streamline activities through digitalisation and coordination of the work on IT development, reporting and analyses across the organisation was the main reason why Finanstilsynet changed its organisational structure in 2018 and established a department for digitalisation and analysis. The responsibilities of the department include reporting from supervised institutions, analysis, macroeconomic surveillance, supervision of ICT and payment services and internal IT development and operations.

The new department will contribute to better coordination and cooperation between key users and the IT unit, as well as improved control of IT service purchases.

New section for anti-money laundering and payment institutions

When Finanstilsynet adopted a new strategy, 'fight against crime' was included as a new operational goal. This operational goal includes anti-money laundering measures and addresses the need to increase and streamline supervision of institutions' compliance with the Anti-Money Laundering Act and strengthen supervisory competence in this field.

In order to enhance and coordinate Finanstilsynet's AML efforts, a new section for anti-money laundering and payment institutions was established on 1 April 2019, organised under the Banking and Insurance Supervision Department.

Internal control

Finanstilsynet has a transparent organisation with a clear division of responsibilities and authority and a line management structure. There is a set of common procedures and guidelines for operations, including case processing and security procedures. In addition, working procedures and checklists adapted to the various areas of supervision have been prepared. All guidelines and procedures are regularly updated. A code of ethics has been established for all employees and is reviewed at regular intervals.

Based on the risk assessments made by Finanstilsynet for the various areas of supervision, activity plans are prepared for individual sections and departments. An overall activity plan for Finanstilsynet is also prepared to specify the activities designed to meet operational goals and governance indicators. Management follows up the activity plans throughout the year to ensure that resource input and results are in keeping with plans and priorities, and that any divergencies are explained and addressed. If necessary, the plans will be adapted to new needs and assumptions that may arise during the year.

The greatest risk to Finanstilsynet's supervisory activity relates to its ability to have adequate specialist expertise in the various areas of supervision. Finanstilsynet therefore places great emphasis on sound management and a good personnel policy. The HR function is actively involved in recruitment and staff development processes.

Finanstilsynet's administrative functions support its licensing and supervisory activities. The archive system has been upgraded and the 'elnnsyn' solution has been implemented. The responsibilities of the finance function include public procurement, budget and accounting. Finanstilsynet has entered into an agreement with the Government Agency for Financial Management (DFØ) on the delivery of payroll and accounting services and with the Norwegian National Collection Agency on the collection of supervision fees.

The procurement of IT solutions and follow-up of IT development have been assigned to the IT function in cooperation with the department directors. Steering groups have been established for each supervisory area. The Director General and the Board make decisions

based on assessments made by a portfolio committee which proposes the prioritisation of overall activities.

Finanstilsynet has an internal controller who oversees and controls compliance with the code of ethics and other guidelines and procedures. The controller reports to the Board.

No significant weaknesses, faults or deficiencies were brought to light through the internal control system in 2019. The internal control system at Finanstilsynet provides a sound basis for ensuring purposeful, efficient operations, reliable reporting and compliance with relevant regulations and internal guidelines, policies and procedures. The agency is characterised by a high degree of stability, and errors or significant failure of procedures are rare.

Security and preparedness

Finanstilsynet attaches importance to security and to maintaining preparedness for possible crises in individual institutions, the financial infrastructure and markets. The agency also maintains preparedness for possible incidents in its own organisation. Internal procedures related to security and preparedness were updated in 2019, and drills were carried out to address potential crises in institutions and markets and in Finanstilsynet's organisation. Finanstilsynet uses the emergency response and crisis management system CIM in its work on preparedness.

Finanstilsynet continued its work on information security in 2019 and responded to various surveys about in-house information security and management systems for information security. Internal governing documents have been updated to comply with current regulations and meet Finanstilsynet's needs. Work is also in progress to establish tools that provide better opportunities for detecting breaches of information security measures. In order to heighten their awareness, Finanstilsynet's employees participated in a national security month consisting of e-learning courses aimed at increasing their knowledge about emails and online fraud.

Finanstilsynet conducted fire and evacuation drills in cooperation with Norges Bank in 2019.



ASSESSMENT OF FUTURE PROSPECTS

ASSESSMENT OF FUTURE PROSPECTS

A single EEA financial market

Finanstilsynet's remit has been widened over the past few years. This is mainly a result of the large number of EU regulations implemented in Norwegian law, but also reflects the fact that Finanstilsynet has become responsible for supervising new market players. The complexity of the regulations is increasing, and Finanstilsynet expects a further rise in new and challenging tasks emanating from new regulations.

Financial institutions increasingly provide cross-border services and establish operations in other EEA states, and cooperation with supervisory authorities in other countries is becoming more extensive. Supervisory cooperation is important in order to be best able to identify risks and ensure sound supervision of groups and institutions operating across national borders. Supervisory cooperation in the EEA is also an important arena enabling Finanstilsynet to be involved in the development of relevant regulations for the EEA financial sector. Supervisory cooperation in the EEA is of great significance, but resource-demanding.

The purpose of common rules and common supervisory practices in the EEA is to promote financial stability and well-functioning markets throughout the EEA. There is limited scope for national discretion in financial market regulation, and requirements for harmonised European supervisory practices restrict Finanstilsynet's scope of action with respect to priorities and working methods.

New risks in the financial markets

New regulations have opened up for new players and new business models. Digitalisation has enabled new players to challenge established institutions in areas such as payment services. Digitalisation may entail greater vulnerability. Finanstilsynet is keeping a close watch on developments within new financial technology and new international regulations in this area. Supervisory activity aimed at new entrants and business models must ensure robustness and protect consumer interests.

The risk of undesirable incidents resulting from operational failures or cybercrime has increased, and the consequences of such incidents will have greater spillover effects. This must be followed up through supervision. It is a challenging and important task for Finanstilsynet to contribute to limiting the consequences of undesirable incidents.

Climate change and the way society adapts to such change may affect financial stability. Finanstilsynet's follow-up of financial institutions must address new risks and vulnerabilities and take account of international measures and recommendations. A new EEA-relevant regulatory framework capturing climate risk is under preparation in the EU. Finanstilsynet is involved in the international processes, which includes assessing relevant supervisory practices, including stress tests.

Prioritisation of supervisory activity

Finanstilsynet's responsibilities are wide-ranging. Through its supervisory activity, Finanstilsynet shall monitor compliance with legal requirements, risk exposure, consumer and investor protection and the institutions' management and control, including the stability of technological solutions. In addition, Finanstilsynet performs a number of ongoing tasks commissioned by the Ministry of Finance relating to regulatory development and examination of other issues. It may be challenging for Finanstilsynet to keep ongoing supervisory activity at a satisfactory level.

In the period ahead, Finanstilsynet must continue to adapt its risk-based supervision to changes in the market and obligations under the EEA Agreement. In this connection, it is important to use available data and new digital tools. Relevant and accessible data form an important basis for supervisory activity, enabling early identification of risks in both individual institutions and the markets. In the coming years, Finanstilsynet must continue to recruit and develop good analytical capacity to process the data received from the institutions and undertake more overarching macroeconomic surveillance.

In Europe, serious deficiencies have been revealed in institutions' compliance with anti-money laundering and counter-terrorist financing legislation. Money laundering and terrorist financing may cause heavy costs to society. Prevention of money laundering and terrorist financing will require closer cooperation on risk management, analyses and international measures. Finanstilsynet has increased its supervision of institutions' compliance with AML legislation. A further increase in supervisory activity in this area must be considered on the basis of Finanstilsynet's total supervisory resources.

Illegal activities may weaken the confidence in the financial markets and undermine the activities of institutions that have the necessary licences and operate within prevailing rules. Finanstilsynet is increasingly expected to follow up illegal activities, for example market players that

operate outside or on the verge of regulation and supervision and give a false impression of being regulated and under supervision. Following up illegal activity is resource-demanding, and the firms may be small. When setting priorities, supervisory activities aimed at these firms must be weighed against supervisory activities aimed at licensed firms.

Investor and consumer protection

Consumers must take increasing responsibility for the management of their savings. This is primarily a consequence of the significant transition from occupational pensions with guaranteed returns to defined-contribution pension savings. New rules for the securities market include important provisions on consumer and investor protection, including institutions' obligations with respect to product governance, and Finanstilsynet's opportunity to ban products that are not suitable for consumers. The rules should help to ensure that institutions providing investment advice have the required knowledge and expertise to comply with the conduct of business rules and other rules on investor and consumer protection.

Finanstilsynet's role as resolution authority

Finanstilsynet was designated as resolution authority as from 1 January 2019. The rules for the resolution of banks, investment firms etc. set requirements for the emergency preparedness of the institutions and the supervisory authorities and entail a substantial expansion of Finanstilsynet's responsibilities. Finanstilsynet will draw up resolution plans for all credit institutions, refine its internal contingency plans in accordance with the new and comprehensive EEA regulations and cooperate closely with other national supervisory authorities.

Finanstilsynet's operations

Finanstilsynet's supervisory activities shall be risk-based. Nevertheless, due to Finanstilsynet's operating parameters, it has limited scope to make priorities based on this criterion. Finanstilsynet must, within the confines of the regulatory framework, EEA obligations, allocated resources and the activity requirements specified in the letter of allocation, prioritise the activities that Finanstilsynet believes will contribute the most to promoting financial stability and well-functioning markets.

Supervisory activities must focus especially on the risk and consequences of serious incidents and rule violations. This is essential to enable Finanstilsynet to reach its goal of financial stability and well-functioning markets.

Finanstilsynet is working continuously to identify and implement measures that may improve and streamline its operations. Streamlining and simplification are necessary to enable Finanstilsynet to carry out new, resource-demanding tasks while maintaining a satisfactory level of activity in all supervisory areas.

Digitalisation and the use of IT tools have contributed to, and will continue to contribute to, further streamlining through automation, more efficient reporting and analysis solutions and better information and interaction channels.



ANNUAL ACCOUNTS

ANNUAL ACCOUNTS

Comments from the Director General

The annual accounts are prepared and presented in accordance with the Regulations on Financial Management in Central Government and appurtenant circulars and requirements from the Ministry of Finance. The presented accounts with notes provide a true and fair view of Finanstilsynet's disposable appropriations, revenues and expenses, assets and liabilities in 2019.

The Storting determines Finanstilsynet's expenditure budget and revenue budget as part of the government budget. The 2019 operating expenditure budget (item 01) originally totalled NOK 389.4 million. The budget was increased by NOK 5.0 million as compensation for the public sector wage settlement. Including NOK 14.8 million carried forward from 2018, the aggregate disposable operating budget came to NOK 409.2 million. Compared with the balanced budget for 2018, the operating budget was increased by NOK 18.2 million in 2019.

Parts of Finanstilsynet's budget are allotted over item 45 *Major procurements and maintenance (IT)*. This appropriation is earmarked for IT development projects, and unused funds can be transferred to subsequent budget years independently of operating expenditure. In the budget for 2019, there was an appropriation of NOK 26 million which, together with NOK 13.7 million carried forward from 2018, brought disposable funds to NOK 39.7 million. The funds are used to modernise registers, case processing tools and Finanstilsynet's online solutions. The work to develop and adapt IT systems to meet European reporting requirements and to carry out necessary analysis of available information has been ongoing for several years and will continue over the coming years.

The appropriation report shows that aggregate expenditure in 2019 came to NOK 449.4 million, an increase of 11.8 per cent from 2018. The expenditure underrun for item 01 *Operating expenditure* was just below NOK 9.5 million, which Finanstilsynet has applied to carry forward to 2020. The expenditure underrun for item 45 was NOK 7.3 million, which Finanstilsynet has also applied to carry forward to 2020. The calculation of underruns is shown in Note B.

Overall salary expenditure came to NOK 313.1 million – 14.0 per cent more than in 2018. Salaries account for 73.4 per cent of the total amount expensed in 2019. The budget increase was primarily used to hire more employees in both 2018 and 2019. The number of FTEs worked in 2019 was 279, compared with 257 in 2018. The growth in salary expenditures can also be explained by

rising pension premiums to the Norwegian Public Service Pension Fund and salary increases. Pension premium payments totalled NOK 34.2 million in 2019, up 33.2 per cent from 2018. See a further account of the number of employees in Finanstilsynet on page 13. The expenditure underrun for item 01 *Operating expenditure* compared with the budget is partly due to the fact that it took longer than expected to recruit employees to the new positions.

Disbursements for investment and other disbursements to operations (see reporting by natural classification) show an increase of 7.1 per cent from 2018. The increase is due to the procurement of services for IT systems development. Planned IT systems to meet requirements from the EU, which were delayed in 2018, have now been completed. Parallel to this, an ongoing project to determine the main architecture for Finanstilsynet's IT projects has resulted in the suspension of a number of scheduled projects until 2020. Consequently, there was an expenditure underrun for item 45 of NOK 7.4 million in 2019.

Finanstilsynet charges fees for prospectus control under the Securities Trading Act, for processing applications for a licence to operate as a payment institution and for applications for a licence to engage in debt collection. Total fees paid in 2019 were NOK 10.9 million, compared with NOK 12.0 million in 2018. Compared with the budget, there was a revenue underrun of NOK 1.1 million due to the fact that Finanstilsynet vetted fewer prospectuses than expected when preparing the budget. Fees for the vetting of prospectuses came to NOK 10.3 million in 2019, compared with NOK 11.4 million in 2018.

Pursuant to section 9 of the Financial Supervision Act, Finanstilsynet's expenses are covered by the institutions under its supervision in the financial year. Under the Act, the expenses shall be distributed among the various groups of institutions according to the extent of the supervision. With effect from 2018, the apportionment of the overall levy among the various institutional groups is to be based on budgeted expenditure for the year. The supervisory levy is apportioned on the individual institution under detailed rules set out in regulations on the levying of expenses for supervision. After prior consultation with the trade organisations concerned, Finanstilsynet's supervisory levy for 2019 was communicated to the institutions for payment in May 2019. The overall claim came to NOK 426.3 million. Levies were charged to a total of 14,855 entities under supervision, including 84 foreign branches. The largest category of supervised entities is external accountants, numbering 11,571 at the start of 2019.

Relinquishment of gain and violation penalties are entered under Finanstilsynet's revenue chapter. These revenues are not part of the basis for calculating the supervisory levy. The new Anti-Money Laundering Act and Regulations, which entered into force in October 2018, gave Finanstilsynet greater powers to levy fines when rule violations are uncovered. Fines totalling NOK 29.5 million were paid in 2019.

The Office of the Auditor General audits the activity of Finanstilsynet. The audit report for 2019 is due to be available by 1 May 2020 and will be published on Finanstilsynet's website.

Oslo, 24 February 2020



Morten Baltzersen
Director General

Accounting policies

The annual accounts are prepared in accordance with the guidelines in point 3.4 of the Regulations on Financial Management in Central Government (the 'regulations') and requirements in circular R-115 dated 17 December 2019. Finanstilsynet's accounts are kept on a cash basis. Revenues and expenses are recognised as and when paid. The accounts follow the calendar year and contain all reported expenditures and revenues for the accounting year. Expenditures and revenues are entered in the accounts on a gross basis.

Finanstilsynet pays pension premiums to the Norwegian Public Service Pension Fund, but does not follow the provisions laid down in the Ministry of Finance's circular R-118 'Budgeting and accounting for pension premiums for public enterprises'. Finanstilsynet recognises pension expenses the accounts based on the premium calculated for the accounting year. For 2019, a pension premium of 18.65 per cent was computed on fixed salaries up to 12G, compared with 15.55 per cent in 2018 and 10.4 per cent in 2017. 2 percentage points of this is withheld from the employee. Pension premiums are paid in arrears in six instalments per year. The calendar year's final instalment falls due the following year. Hence there is a period displacement for the final instalment each year. As from 2020, the accounting treatment of pensions will be changed to avoid the annual period displacement.

Employer's contributions are computed and entered in the accounts to show the total salary expenditure.

Finanstilsynet is linked to the central government's consolidated accounts scheme at Norges Bank and has drawing rights equivalent to the Storting's appropriation. At year-end, the balance on each settlement account is reset to zero.

Appropriation reporting

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

The Norwegian Tax Administration, represented by the Norwegian National Collection Agency, is granted a debit authorisation in chapter 4602, items 03 and 86, and in chapter 5580, item 70. The Norwegian Government Agency for Financial Management has given Finanstilsynet special authorisation to diverge from the standard appropriation reports as laid down in 'Regulations on Financial Management in Central Government', para. 3.4.3.2, by adding further columns. Hence the report from the Norwegian Tax Administration/ the National Collection Agency is shown in the column 'Entered by others in accordance with authorisations'. The actual difference between the appropriation and the accounts is shown in the column 'Deviation from allocation'. The authorisation to diverge from the standard report initially applies up to and including the 2020 accounting year.

Reporting by natural classification

The reporting by natural classification with notes shows Finanstilsynet's reports to the central government accounts in 2019 based on the standard chart of accounts in the accounting year with comparatives for 2018.

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

Table 8: Appropriation report for the accounting year 2019, itemised

Expenditure chapter	Chapter name	Item	Item text	Note	Total appropriation	Accounts 2019	Expense overrun (-) or underrun	Entered by others in accordance with authorisations	Deviation from allocation
1602	Finanstilsynet	01	Operating expenses	A, B	409,244,000	399,767,065	9,476,935		
1602	Finanstilsynet	45	Major procurements and maintenance (IT)	A, B	39,741,000	32,391,020	7,349,980		
1633	Govt. VAT netting arrangement	01	Operating expenses		0	17,278,392			
Total expensed					448,985,000	449,436,477			

Revenue chapter	Chapter name	Item	Item text	Note	Total appropriation	Accounts 2019	Revenue overrun or underrun (-)	Entered by others in accordance with authorisations	Deviation from allocation
4602	Finanstilsynet	03	Administrative processing fees	A, B	12,000,000	10,636,000	-1,364,000	281,924	-1,082,076
4602	Finanstilsynet	86	Relinquishment of gain, violation penalties etc.	A, B	29,500,000		-29,500,000	29,550,069	50,069
5580	Sectoral levies set by Ministry of Finance	70	Finanstilsynet, contributions from supervised entities	A, B	425,000,000	10,643	-424,989,357	425,811,500	822,143
5700	Contributions to the National Insurance Scheme	72	Employer's contribution		0	38,942,604			
Total taken to revenue					466,500,000	49,589,247			

Net amount reported to the appropriation account **399,847,230**

Capital accounts

60050601	Norges Bank CA / receipts	20,297,221
60050602	Norges Bank CA / payments	-419,799,303
716106	Change in outstanding account with the Treasury	-345,148
Total reported		0

Holdings reported to the capital account (31 Dec.)

		31 Dec. 2019	31 Dec. 2018	Change
716106	Outstanding account with the Treasury	-13,854,202	-13,509,054	-345,148

Note A Explanation of overall allocation

Chapter and item		Brought forward from last year	Current year's allocations	Overall allocation
1602 01	Operating expenses	14,844,000	394,400,000	409,244,000
1602 45	Major procurements and maintenance (IT)	13,741,000	26,000,000	39,741,000
4602 03	Administrative processing fees		12,000,000	12,000,000
4602 86	Relinquishment of gain, violation penalties etc.		29,500,000	29,500,000
5580 70	Contributions from supervised entities		425,000,000	425,000,000

Explanation of revenues and authorisations granted

Chapter and item		Total appropriation	Entered by Finanstilsynet	Entered by others	Total revenues	Revenue overrun or underrun (-)
4602 03	Administrative processing fees	12,000,000	10,636,000	281,924	10,917,924	-1,082,076
4602 86	Relinquishment of gain, violation penalties etc.	29,500,000		29,550,069	29,550,069	50,069
5580 70	Contributions from supervised entities	425,000,000	10,643	425,811,500	425,822,143	822,143

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

Chapter and item	Headword	Expense overrun (-)/ underrun	Expensed by others in accordance with debt authorisations (-)	Expense overrun (-)/ underrun under debt authorisations	Revenue overrun/ underrun (-) in accordance with revenue overrun authorisations	Overall basis for amount brought forward	Max. amount to be brought forward*	Possible amount to be brought forward calculated by Finanstilsynet
1602 01		9,476,935	0	9,476,935	0	9,476,935	19,720,000	9,476,935
1602 45	'Maybe brought forward'	7,349,980	0	7,349,980	0	7,349,980	51,400,000	13,741,456

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

Explanation of use of budget authorisations

Debit authorisations received

By letter of 7 April 2016 the Ministry of Finance authorised Finanstilsynet to post salaries to project managers for IT development programmes on chapter 1602, item 45. Finanstilsynet did not make use of this authorisation in 2019.

Headword 'may be brought forward'

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

Debit authorisations granted (entered by others)

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

Authorisation to overstep operating appropriations against corresponding revenue overruns

Finanstilsynet received no revenue overrun authorisation in 2019.

Possible amount to be brought forward

The expenditure underrun in item 01 is calculated at NOK 9,477,000. This figure is below the limit for transfer of 5 per cent of the year's appropriation in item 01, and the entire amount is deemed possible to bring forward to 2019. The entire unutilised appropriation of NOK 7,350,000 in item 45 may be brought forward upon application.

Table 9: Statement of reporting by natural classification, 31 Dec. 2019

	Note	2019	2018
Operating revenues reported to the appropriation account			
Receipts of fees	1	10,636,000	11,746,400
Receipts of grants and transfers	1	0	0
Receipts of sale proceeds and rents	1	0	0
Other receipts	1	0	0
Total receipts from operations		10,636,000	11,746,400
Operating expenses reported to the appropriation account			
Disbursements to salaries	2	313,105,638	274,728,416
Other disbursements to operations	3	113,715,443	106,851,822
Total disbursements to operations		426,821,082	381,580,238
Net reported operating expenses		416,185,082	369,833,838
Investment and financial revenues reported to the appropriation account			
Receipts of financial revenues	4	0	0
Total investment and financial revenues		0	0
Investment and financial expenses reported to the appropriation account			
Disbursement to investments	5	5,337,003	4,348,411
Disbursement to purchase of equities	5,8 B	0	0
Disbursement to financial expenses	4	0	0
Total investment and financial expenses		5,337,003	4,348,411
Net reported investment and financial expenses		5,337,003	4,348,411
Collection activities and other transfers to central govt.			
Receipts of taxes, charges, fees etc.	6	10,643	67,141
Total collection activities and other transfers to central govt.		10,643	67,141
Grant management and other transfers from central govt.			
Disbursements of grants and benefits	7	0	0
Total grant management and other transfers from central govt.		0	0
Revenues and expenses reported on central govt. chapter			
Group life insurance account 1985 (ref. chap. 5309, revenues)		0	0
Employer's contribution account 1986 (ref. chap. 5700, revenues)		38,942,604	34,162,617
VAT netting arrangement account 1987 (ref. chap. 1633, expenses)		17,278,392	16,232,880
Net expenses reported on central govt. chapter		-21,664,212	-17,929,737
Net reported to the appropriation account		399,847,230	356,185,370
Overview of outstanding accounts with the Treasury			
Assets and liabilities		2019	2018
Receivables		36,000	13,500
Cash		0	0
Bank accounts with central govt. funds outside Norges Bank		0	0
Tax withholdings owed and other withholdings		-13,743,830	-13,403,276
Public charges owed		-146,372	-119,278
Other liabilities		0	0
Total outstanding account with the Treasury	8	-13,854,202	-13,509,054

Note 1 Receipts from operations	31 Dec. 2019	31 Dec. 2018
<i>Receipts from fees and charges</i>		
Prospectus control fees	10,336,000	11,356,400
Fees from payment and e-money institutions	240,000	390,000
Fees from account information service providers	60,000	0
Total receipts from fees and charges	10,636,000	11,746,400
<i>Receipts from grants and transfers</i>		
Total receipts from grants and transfers	0	0
<i>Receipts of sale proceeds and rents</i>		
Total receipts of sale proceeds and rents	0	0
<i>Other receipts</i>		
Total other receipts	0	0
Total receipts from operations	10,636,000	11,746,400

Note 2 Disbursements to salaries	31 Dec. 2019	31 Dec. 2018
Salaries	240,991,827	217,075,458
Employer's contribution	38,942,604	34,162,617
Pension expenses	34,244,229	25,696,782
Sickness benefit and other refunds (-)	-7,366,579	-8,148,858
Other benefits	6,293,558	5,942,417
Total disbursements to salaries	313,105,638	274,728,416
Number of FTEs worked	279	257

The number of FTEs worked has been calculated in accordance with the definition in PM-2019-13. In previous annual accounts, the number of FTEs equals the number of staff at year-end, adjusted for FTE percentage.

Note 3 Other disbursements to operations	31 Dec. 2019	31 Dec. 2018
Rent	18,814,892	18,188,372
Maintenance of own buildings and facilities	0	0
Maintenance and conversion of rented premises	2,716,074	4,372,041
Other expenses on operation of property and premises	7,094,802	6,162,145
Repairs and maintenance of machinery, equipment etc.	384,890	1,264,745
Minor equipment procurements	377,838	537,646
Lease of machinery, furniture etc.	10,279,861	9,758,918
Purchases of consultant services	32,481,827	38,540,795
Purchases of external services	11,885,101	750,331
Travel and per diem	7,407,247	6,438,578
Other operating expenses	22,272,911	20,838,251
Total other disbursements to operations	113,715,443	106,851,822

The note lines for the purchase of consultant services and other external services have been changed as of 2019. Purchases of services for ongoing operations are now defined as purchases of external services, while they were previously categorised as purchases of consultant services.

Note 4 Financial revenues and financial expenses	31 Dec. 2019	31 Dec. 2018
<i>Receipts of financial revenues</i>		
Interest revenues	0	0
Foreign exchange gain	0	0
Other financial revenues	0	0
Total receipts of financial revenues	0	0

<i>Disbursement of financial expenses</i>		
Interest expenses	0	0
Foreign exchange loss	0	0
Other financial expenses	0	0
Total receipts of financial revenues	0	0

Note 5 Disbursed to investments and purchase of equities	31 Dec. 2019	31 Dec. 2018
<i>Disbursed to investments</i>		
Intangible assets etc.	2,289,850	763,045
Sites, buildings and other real property	0	0
Infrastructure assets	0	0
Machinery and vehicles	0	0
Operating movable property, furniture, tools etc.	3,047,153	3,585,366
Total disbursed to investments	5,337,003	4,348,411

<i>Disbursed to purchase of equities</i>		
Capital contributions	0	0
Bonds	0	0
Investments in equities and participations	0	0
Total disbursed to purchase of equities	0	0

Note 6 Collection activity and other transfers to central govt.	31 Dec. 2019	31 Dec. 2018
Contributions from supervised entities	10,643	67,141
Total collection activity and other transfers to central govt.	10,643	67,141

Note 7 Grant management and other transfers from central govt.	31 Dec. 2019	31 Dec. 2018
Total grant management and other transfers from central govt.	0	0

Note 8 Final and preliminary account with the Treasury

Part A Difference between booked and reported account with the Treasury		31 Dec. 2019 Specification of <i>booked</i> account with Treasury	31 Dec. 2019 Specification of <i>reported</i> account with Treasury	Difference
Financial fixed assets	Investments in equities and participations*	0	0	0
	Bonds	0	0	0
	<i>Total</i>	0	0	0
Current assets	Accounts receivable	0	0	0
	Other receivables	36,000	36,000	0
	Bank deposits, cash etc.	0	0	0
	<i>Total</i>	36,000	36,000	0
Long-term liabilities	Other long-term liabilities	0	0	0
	<i>Total</i>	0	0	0
Short-term liabilities	Accounts payable	-7,346,670	0	-7,346,670
	Tax deductions owed	-13,029,774	-13,743,830	714,056
	Public charges owed	-146,437	-146,372	-65
	Other short-term liabilities	5,944,516	0	5,944,516
	<i>Total</i>	-14,578,365	-13,890,202	-688,163
Total	-14,542,365	-13,854,202	-688,163	

* Entities which own financial assets in the form of investments in equities and participations also complete Note 8B.

Part B Specification of investments in equities and participations

	Purchase date	No. of equities	Holding	Voting rights	Company's annual profits	Company's recorded equity	Carrying amount in the accounts
<i>Deposit</i> OBOS Banken account no. 9820.17.90980						1,366,291	
Carrying amount 31 Dec. 2019						1,366,291	0

The deposit in account no. 9820.17.90980 belongs to Boligbyggelagenes sikringsfond.

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