



**KREDITILSYNET**  
The Financial Supervisory Authority of Norway

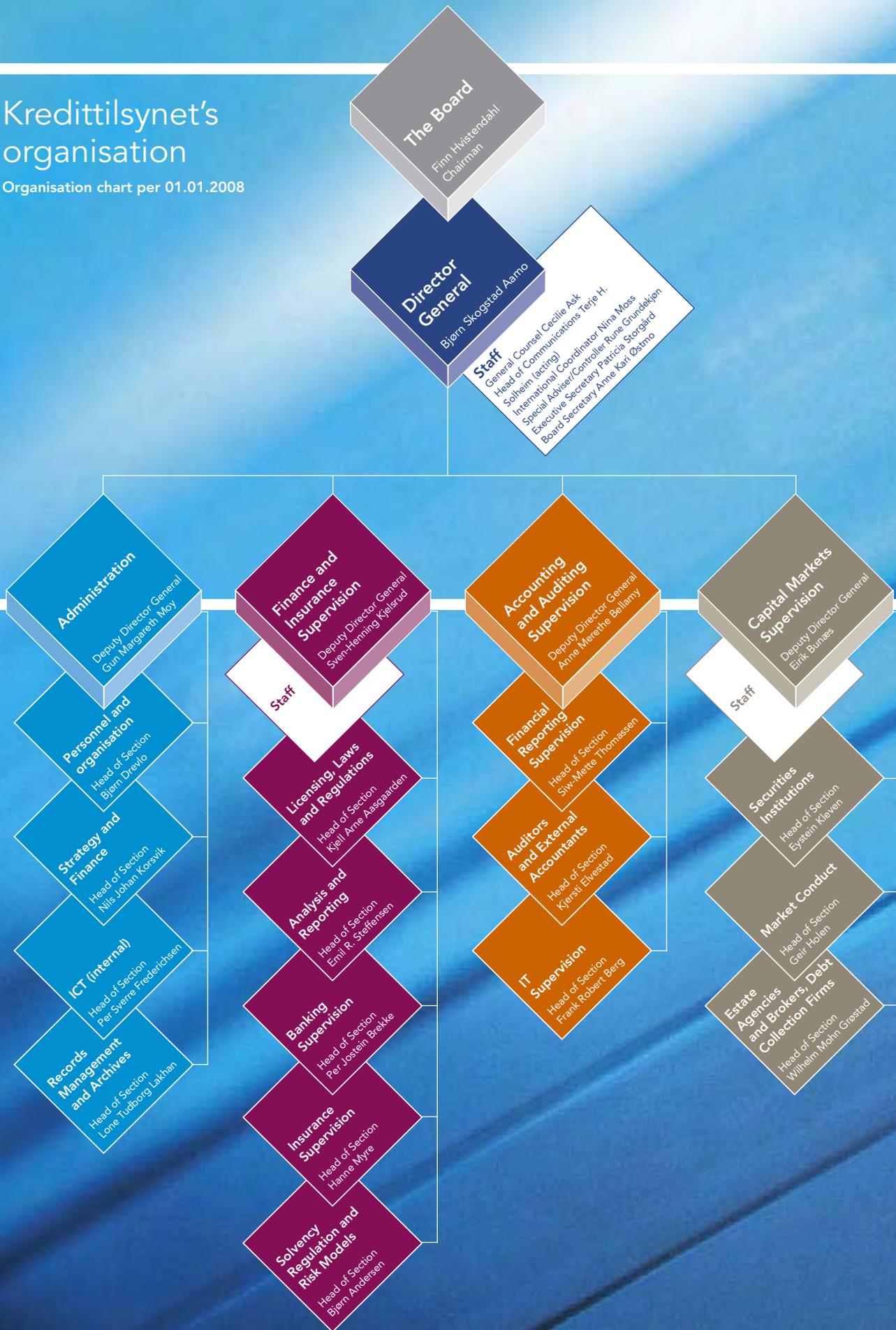
# Annual Report

2007



# Kredittilsynet's organisation

Organisation chart per 01.01.2008



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

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For analyses of financial market trends, see *The Financial Market in Norway 2007: Risk Outlook*.

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

(Financial Supervision Act, section 3)

# Preface

Providers and users of financial services and the authorities experienced three serious events in 2007:

- In the USA falling housing prices resulted in massive losses for investors in securities encompassing loans to people with poor debt-servicing ability, so-called subprime mortgages. The banks that had organised the sale of these securities also had to take large losses. The total losses are still unknown. The ripple effects caused a great deal of instability in the financial markets and large losses for investors and banks outside the USA as well.
- For the first time since the 1860s, a British bank, Northern Rock, experienced «a run» when tens of thousands of depositors lost faith in the bank and wanted to withdraw their money immediately, if necessary by queuing for days. The UK finance minister had to provide an immediate political guarantee for all deposits in the bank.
- A Norwegian investment firm, Terra Securities ASA, sold products that were unsuitable for the relevant buyers and provided inadequate information. Some Norwegian municipalities lost substantial amounts by investing in these products.

There is a clear connection between the three events. After several years of low interest rates and low losses, many investors were willing to buy new types of securities even if they did not fully appreciate the risks associated with them. Once the increasing risks associated with the fall in the American housing market became clear, there was a great deal of fear and demands for increased risk premiums. This uncertainty contributed to the liquidity in large sections of the securities market and for loans between banks falling strongly. For the first time in several decades, it became more expensive for banks to take out loans for their own activities than for ordinary industrial companies.

The consequences these events should have for regulations and supervision were discussed in several international bodies. There is a need for greater openness – transparency – with respect to the con-

tent of the products being sold. No one should sell or buy financial products if they are not able to assess the risks associated with them. Greater emphasis must be placed on monitoring liquidity. The need for well-qualified supervision of the different parts of the financial market is clear.

Kredittilsynet has closely monitored the potential effects on entities subject to supervision. Kredittilsynet has monitored the banks' liquidity situation particularly carefully. Norwegian banks, insurance companies, and pension funds have been careful, and the level of their investments in securities encompassing subprime loans or similar loans with unknown risk levels is very low. The effects of the international financial turmoil on Norwegian financial institutions are discussed in more detail in the report *The Financial Market in Norway 2007: Risk Outlook*, which accompanies this annual report. The most important effect appears to be an increase in costs for the banks' funding that takes place in the market.

At the start of 2008, the international financial instability and fear of a downturn in the American economy resulted in a strong fall in the equity markets. In such a situation, it is important that life insurance companies and pension funds that have invested substantial amounts in equity markets have sufficient capital buffers. Kredittilsynet has maintained a close dialogue with the life insurance companies in order to ensure that the companies maintained a good overview of their risk themselves and were managing it well.

2007 was another good year for Norwegian banks with minimal losses from loans, good financial results and satisfactory financial strength. It is important to protect the reserves that have been built up since economic conditions may become less favourable over time and result in somewhat larger losses.

Kredittilsynet has pointed out weaknesses in the banks' sale of structured products over several years. Kredittilsynet demanded better information be provided in Circular 4/2004, and more detailed

regulations were stipulated in 2006. The written information provided by banks has improved over time. However, a survey conducted in the autumn of 2007 showed that there has been no correlation between the costs and risk incurred by the customers in relation to the return they have experienced. The purchase of structured products financed by loans has often resulted in losses. On this occasion the banks' advice services have failed to do their job.

The new securities legislation stipulates clearer requirements concerning the content of advice. The customer's needs and knowledge should dictate the advice they require. Kredittilsynet has followed this up with regulations that stipulate that these requirements also apply to all sales of banks' structured products. The requirements concerning advice dictate that in practice loans should only be provided to fund such investments as the exception. Simple, inflexible bans on providing loans for such investments could easily be circumvented, for example by increasing lending secured by dwellings. Kredittilsynet believes that stipulating requirements relating to the quality of advice is the most effective approach; both for the customers and with respect to banks maintaining the level of trust they need in society as a whole.

Norwegian banks do not provide home mortgages that are subprime in nature. They most often know their customers and properly assess their debt-servicing ability. However, in the last 4–5 years there has been a marked increase in risk exposure with respect to home mortgages, with a high proportion of home mortgages fully financing purchases and less strict requirements concerning customer relationships and instalments. No less than 55 per cent of the banks' lending is now secured through security in people's homes. Kredittilsynet's home mortgage survey in the autumn of 2007 indicates that Norwegian banks are starting to become more careful with respect to their lending in this area. If this is the case, this will be beneficial for both customers and banks in a time when housing prices could just as easily fall further as quickly rise again. Kredittilsynet will monitor home loans carefully in 2008 as well.

Kredittilsynet's objective is to contribute to a well functioning market by supervising those who provide services in the financial market and those who offer services in the form of audits or accounting. Users must be confident that those who provide these services are competent and trustworthy. Nonetheless, it will always be the case that those who invest in the financial market or use various services are responsible for familiarising themselves with the relevant information and for the choices they make.

Given this, Kredittilsynet is trying to provide better information to users through its work on regulations in various areas, cooperation with consumer bodies, and its own information initiatives. Kredittilsynet is pleased Finansportalen.no is now online acting as an important platform for providing better information about financial products and services. Kredittilsynet has itself been providing its own guidelines via its website since the autumn of 2007. These contain good advice for those who want to avoid investment fraud.

A website has been established with Økokrim (The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime) providing information about money laundering. The collaboration between Økokrim, Oslo Børs (the Oslo Stock Exchange) and Kredittilsynet on combating breaches of the law and regulations governing behaviour in the market resulted in several important judgements being handed down in this area in 2007. A report has been prepared documenting the collaboration. This shows that if one is going to investigate suspected breaches of the regulations in a market that has grown strongly, there is a need to increase the resources allocated to Økokrim and Kredittilsynet.

Oslo, 21 January 2008

  
Finn Hvistendahl  
Chairman

  
Bjørn Skogstad Aamo  
Director General

The background of the page is a blurred image of a financial data screen, likely a stock exchange board, with various numbers and symbols in blue and white. A solid green horizontal band is positioned across the upper portion of the image, containing the title text.

## Kredittilsynet's goals and instruments

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## Kredittilsynet's main goals

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

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

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## Intermediate goals

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

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

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## Kredittilsynet's instruments

Kredittilsynet's instruments are:

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

### Supervision and monitoring

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

### Licensing

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

### Regulatory development

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

### Information and communication

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

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



## Important events in 2007



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## Supervision and monitoring

### **International financial turmoil – Kredittilsynet monitors Norwegian banks**

The increase in interest rates and the fall in housing prices in the USA resulted in a high level of defaults and increased losses on mortgages that were taken out by borrowers with poor debt-servicing ability. The ripple effects on the securities markets and the money markets resulted in dramatically increased credit risk premiums in these markets. Kredittilsynet investigated the Norwegian banks' exposure to subprime mortgages and found that it was not directly exposed, and was only indirectly affected to a limited degree. Insurance companies and pension funds were also examined, and the results showed that they too had little such exposure. The funding situation of the banks was also closely monitored during the second half of the year.

### **Kredittilsynet uncovers increases in credit risk after a thematic inspection of home financing**

In 2007, Kredittilsynet conducted a thematic inspection of home financing in eight banks. The primary aim was to shed light on lending practices (for home mortgages) and credit loans secured by homes (covered bonds secured by home mortgages). The thematic inspection revealed that customers' surplus liquidity was being over-estimated by several banks and that the use of interest-only arrangements in order to increase the size of the loans to customers with poor debt-servicing ability was increasing credit risk.

### **Nordic financial authorities test contingency plans in a crisis exercise**

In September 2007, a joint Nordic banking crisis exercise was held involving the ministries of finance, central banks and supervisory authorities in the Nordic countries, as well as the central banks of Estonia, Latvia, and Lithuania. The banking market in the Nordic Region is very integrated, and the aim was to test coordination and cooperation in a crisis situation.

### **Kredittilsynet monitors the banks' sales of structured products – greater risk with lending**

Early in January 2008, Kredittilsynet announced a survey of 15 banks' practices with respect to the sale of structured products. The survey covered various aspects of the sale and marketing of structured products, and showed that the dividing line between advice and selling is not clearly apparent in the banks' practices. Many people who have taken out loans to finance the purchase of structured products have lost money on these investments. Kredittilsynet would advise against banks granting loans to customers to invest in such products.

### **Kredittilsynet monitors online banking security**

Following correspondence from Kredittilsynet on behalf of the Ministry of Finance, the banks agreed measures aimed at increasing the security of using online banks after the systems were criticised in the autumn of 2006 because of a customer's typing error. Kredittilsynet has ensured that the measures have been followed up. Meanwhile, online banks are also the targets of attempted fraud, and

secure solutions and reliable online banking operations are important to both society and customers. Kredittilsynet publishes a Risk and Vulnerability Analysis of the financial institutions' use of ICT every year. The topics in this report include the security of online banking.

### **Kredittilsynet announces the withdrawal of Terra Securities ASA's authorisations as an investment firm**

On 27 November 2007, Kredittilsynet announced the withdrawal of all authorisations held by Terra Securities ASA allowing them to provide investment services pursuant to the Securities Trading Act. Kredittilsynet believed that the firm had violated good business practice in the provision of investment services to the municipalities of Rana, Hemnes, Hattfjelldal and Narvik. Terra Securities ASA had omitted to provide information about significant risk factors in advance of the municipalities making the investments and offered the products to a target group for whom the products were unsuitable. Terra Securities ASA chose not to respond to the notification and declared bankruptcy the following day.

### **Kredittilsynet reports Norsk Hydro ASA for possible breaches of the Securities Trading Act**

In July 2007, Kredittilsynet reported Norsk Hydro ASA to Økokrim for possible violations of the Securities Trading Act's provisions concerning proper information management. A Norwegian newspaper, *Dagens Næringsliv*, had published a draft of the company's quarterly report for the fourth quarter of 2006. The factors associated with the production of the quarterly report were, in Kredittilsynet's opinion, unsatisfactory for the handling of sensitive information. As a result of this, the company accepted a fine issued by Økokrim.

### **Kredittilsynet points out shortcomings in the financial statements of Global Geo Services ASA**

During a review of the 2005 financial statements Kredittilsynet asked questions concerning Global Geo Services ASA's application of the accounting regulations. Kredittilsynet concluded that there were substantial shortcomings with respect to impairments the firm had made with respect to patents owned by a subsidiary and instructed the firm to conduct a new assessment of impairments in line with the accounting regulations. The firm thereafter presented new financial statements for 2005.

### **Kredittilsynet assesses the audit of Nedre Romerike Vannverk AS**

Kredittilsynet assessed the audits of Nedre Romerike Vannverk AS and Sentralrenseanlegget RA-2 AS based on media coverage and the investigation initiated by the Nedre Romerike Intermunicipal Audit. The statutory auditor handed in his authorisation as an auditor and, since it was an audit firm that was elected as the auditor, Kredittilsynet continued its case against the audit firm. Kredittilsynet concluded that the auditing involved such major shortcomings that the companies could not be regarded as audited. This situation was regarded as a serious breach of the provisions of the Auditors Act.

## **Kredittilsynet withdraws Intrum Justitia AS' licence to carry out debt collection**

On 28 November 2007, Kredittilsynet withdrew Intrum Justitia AS' licence to carry out debt collection. The background for this was that Intrum Justitia AS had in several cases and over time committed serious breaches of, inter alia, the Debt Collection Act and regulations,

most recently when in 2006 and 2007 the company demanded debtors to pay excessive debt collection fees in around 3,600 cases. The company appealed the decision to the Ministry of Justice and the Police and received permission from Kredittilsynet to continue trading until the appeal has been considered.

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## Licensing

### **New banks receive licences**

Several banks started operations in 2007, including Pareto Bank ASA and Bank Norwegian AS. Following a recommendation from Kredittilsynet the Ministry of Finance also granted DnB NOR Bank ASA permission to purchase all the shares in SalusAnsvar AB, the Swedish financial group. DnB NOR also received permission to purchase the majority of the shares in BISE Bank in Poland through its subsidiary DnB NOR, which is registered in Denmark.

Several structural changes also took place in the savings bank sector, including Ankenes Sparebank and Narvik Sparebank merging under the name Narvik Sparebank, and Sparebanken Bien converting into a commercial bank.

### **Gjensidige Forsikring AS and Kaupthing Bank hf. receive permission to purchase a stake in Storebrand ASA**

On the basis of advice provided by Kredittilsynet, the Ministry of Finance granted permission to Gjensidige Forsikring and Kaupthing Bank to purchase up to 20 per cent each of the shares in Storebrand ASA. Kaupthing had applied for 25 per cent.

### **Implementation of the new capital adequacy framework**

The new capital adequacy framework (Basel II) came into force on 1 January 2007. The new rules allow institutions to apply to use internal models (IRB method) to calculate their capital requirements for credit risk. The five Norwegian banks that received permission from Kredittilsynet in February 2007 to use such models were among the first banks in Europe to receive such permission.

### **New companies result in stronger competition in the non-life insurance market**

The two newly started non-life insurance companies, Frende Skadeforsikring AS and DnB NOR Skadeforsikring, who received licences in 2007, are helping, together with Storebrand Skadeforsikring AS, who received a licence in 2006, to ensure stronger competition in the non-life insurance market.

### **Kredittilsynet recommends Storebrand Livsforsikring AS be allowed to purchase the SPP Group**

Following a recommendation from Kredittilsynet, the Ministry of Finance gave Storebrand Livsforsikring AS permission in November 2007 to purchase SPP, the Swedish insurance group, via a newly

established Swedish holding company. The SPP Group's activities include ordinary life insurance, unit-linked insurance, pension insurance, and occupational pensions.

### **Kredittilsynet monitors OTP regulations**

The Mandatory Occupational Pensions Act (OTP Act) came into force on 1 January 2007. All companies are obliged to establish occupational pension schemes for their employees. During 2007, Kredittilsynet issued a number of interpretative statements in connection with this act, and the agency sent nine advance warnings and ordered four firms to establish pension schemes pursuant to the act.

### **58 new investment firms receive authorisations**

The new Securities Trading Act came into force on 1 November 2007. According to the new regulations one now needs an authorisation in order to provide investment advice. A number of firms had to apply for new or expanded authorisations due to the legislative changes, 58 firms received authorisations from Kredittilsynet during 2007.

In 2007, Kredittilsynet changed the procedures for testing the suitability of managers of investment firms and managers of branches of investment firms. Kredittilsynet interviews the relevant people if the written documentation is insufficient. The interviews form part of the operational supervision of investment firms.

### **Theft from Kredittilsynet's premises – security routines reviewed**

Sometime between 18 July and 6 August 2007, five PCs were stolen from Kredittilsynet's premises. Everything indicates this was a crime for profit. The theft was reported to the police, though the case was subsequently stayed. According to Kredittilsynet's investigation no sensitive information was stored on the hard disks of any of the computers, in line with Kredittilsynet's internal guidelines. Security at Kredittilsynet's premises was reviewed and improved.

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## Regulatory development

### **Work on the new solvency framework (Solvency II) continues**

Kredittilsynet is participating in the work on the new solvency regulations for insurance companies through the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). The EU Commission presented a new proposed directive in July 2007.

Like the banks' capital adequacy regulations (Basel II) the directive is based on three pillars. In 2007, a third round of impact assessments was conducted in the EU/EEA. Kredittilsynet was responsible for the Norwegian analysis.

### **New Securities Trading Act and regulations in force from 1 November 2007**

The new Securities Trading Act came into force on 1 November 2007. The act replaces the existing Securities Trading Act and parts of the Stock Exchange Act. The range of activities that require authorisation has been expanded to cover investment advice and the operation of multilateral trading facilities.

### **New real estate agents regulations in force from 1 January 2008**

The new Estate Agency Act passed on 29 June 2007 came into force on 1 January 2008. The requisite regulations were drawn up by Kredittilsynet. The act stipulates new and stricter framework conditions in several areas in the sector. The aim is to strengthen consumer rights. The changes that have been made include stricter requirements concerning competence, stricter independence rules, stricter criteria concerning the responsibilities of boards and general managers with respect to professional quality, new rules for estate agents' remuneration and stricter requirements concerning information in prospectuses.

### **Legislative changes due to the new audit directive**

Kredittilsynet has produced a consultation paper containing the legislative and regulatory provisions necessary to implement the new

audit directive. The regulations are expected to come into force by no later than 1 July 2008, which is the implementation deadline for the directive. The Norwegian regulations largely fulfil the requirements stipulated by the directive concerning auditors and audit firms, and concerning public supervision and control. The most significant changes are the requirements that all firms of public interest must establish an audit committee, stricter requirements concerning the auditors of such companies, and requirements concerning the regular supervision of all audit firms.

### **Kredittilsynet suggests revising the internal control regulations**

In December 2007, Kredittilsynet circulated a proposal for consultation concerning internal control regulations for financial institutions and other firms subject to supervision. Kredittilsynet proposes that the regulations be better harmonised with the capital requirements regulations in order to avoid duplicating work in firms. It also proposes that the regulations should cover more types of firms, including accountants and debt collection firms.

### **New regulations instruct insurance companies to provide information about changes in premiums**

In May 2007, Kredittilsynet laid down new regulations that oblige all insurance companies to provide information about changes in premiums when insurance policies that cover objects are renewed, with the exception of policies associated with business activities. The regulations also continue the earlier obligations to provide information. The regulations came into force on 1 January 2008 and apply to all insurance companies that offer non-life insurance in Norway.

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## Information and communication

### **Kredittilsynet jointly arranges quality control seminars for 3,300 accountants**

In 2007, the Norwegian Association of Authorised Accountants (NARF) arranged seminars for approx. 3,000 accountants about the requirements for and practical facilitation of accounting activities. Kredittilsynet participated and contributed with information about accountants' obligations and implications of supervision.

### **The Norwegian Consumer Council launches Finansportalen.no**

On 14 January 2008, the Norwegian Consumer Council launched the online Finansportalen.no service, which provides an overview of financial products and services. The service is also intended to improve the information provided to consumers in the financial markets, and make it easier to compare prices and products. Kredittilsynet contributed to the establishment of the service. Links have been included from this online service to Kredittilsynet's web pages containing information about various financial products and regulations.

### **Increase in media enquiries to Kredittilsynet**

Kredittilsynet's work is increasingly being covered by the media. The media are very interested in the agency's opinion of markets and products with respect to various types of loans and savings products. Kredittilsynet is followed closely by the financial press. One example of this is the situation that arose following Terra Securities' sale of financial instruments to Norwegian municipalities in 2007.

### **Økokrim and Kredittilsynet launch website to combat money laundering**

The website is intended as a national resource in the work against money laundering and funding terrorism for those who have a duty to report, and other interested parties. It contains news, information about relevant legislation, money laundering trends, guidelines and other material relevant to the various groups with a duty to report.

### **Kredittilsynet warns against investment fraud**

Kredittilsynet publishes ongoing warnings on its website about enterprises that lack authorisation to provide investment services in Norway. In 2007, new information pages were published providing advice about how consumers can avoid becoming targets of attempted investment fraud.



## Organisational set-up and resource use

Kredittilsynet's Board of Directors bears overarching statutory responsibility for the agency's activities and handles important matters in relation to regulations and licences, budgets and action plans. The Board has five members. Members and alternates are appointed by the Ministry of Finance for a four-year period.



## Board of Directors

The Board nominated on 1 March 2006 comprises:

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

**Mette Bjørndal**, associate professor, first alternate board member  
**Jostein Skaar**, director, second alternate board member

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

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

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

Their alternates are senior adviser **Irene Støback Johansen**, senior adviser **Gro Opsanger Rebbestad** and senior adviser **Hans D. Christiansen**.

Eleven ordinary board meetings and one extraordinary board meeting were held in 2007. The Board dealt with a total of 36 administrative matters and 78 supervisory matters requiring decisions. The Board was also briefed on 59 administrative matters and 84 supervisory matters. The Board also receives a verbal briefing about any relevant matters that were or are being dealt with by the administration at every meeting.



**The Board of Directors of Kredittilsynet**

Back row from the left: Birger Vikøren, Finn Hvistendahl, Endre Skjørestad, Eli Aas, Knut Godager, Marianne Berg

Front row from the left: Nina Moss, Hilde C. Bjørnland, Mette Bjørndal

Photo: Jarle Nytingnes



**Kredittilsynet's management team**

Back row from the left: Gun Margareth Moy, Terje H. Solheim, Cecilie Ask, Eirik Bunæs  
 Front row from the left: Sven-Henning Kjelsrud, Bjørn Skogstad Aamo, Anne Merethe Bellamy  
 Photo: Jarle Nytingnes

## Priorities in 2007

Kredittilsynet's supervisory activities are based on the agency's statutory tasks, the Ministry of Finance's annual letter of allocation, which is based on the budget adopted by the Storting (the Norwegian Parliament), and Kredittilsynet's strategy. Based on the priorities set out in Proposition No. 1 to the Storting (2006–2007), which are acted upon in the letter of allocation, the Board of Directors of Kredittilsynet resolved that the following tasks should have highest priority in 2007:

1. Following up the new capital adequacy rules stipulated by the EU (Basel II) and through this risk based supervision so that institutions have capital adequacy in line with their risk profile. Kredittilsynet's work shall be based on the guidelines published by the Committee of European Banking Supervisors (CEBS).
2. Preparing for the introduction of the new solvency framework for insurance (Solvency II).
3. Ensuring proper supervision of listed firms' financial reporting and amending the accounting regulations for insurance/pensions firms to take account of the new Insurance Act and IFRS.
4. Following up the EU directive for the area of securities.
5. Preparing for the introduction of the new audit directive and prioritising supervision of the largest audit and accounting firms.
6. Conducting on-site inspections on a sufficient scale.
7. Following up operational risk with greater weight being given to ICT oriented supervision activities and regular risk and vulnerability analyses.
8. Monitoring the risk exposure of households and firms, and in the real estate and securities markets.
9. Prioritising the work on increasing efficiency and simplification, both in the supervision work and in the area of administration, which includes work processes in cases subject to a target concerning case processing time. Increasing the use of electronic solutions while carrying out activities shall continue to be prioritised.
10. Following up the new act relating to estate agencies, in addition to work on regulations.

## Goal achievement in 2007

The primary goal of contributing to **financial stability** through the inspection of firms and markets was satisfactorily achieved. Low levels of losses and few non-performing loans have helped to ensure that there was no serious stability problem in Norway in 2007. No banks or other financial institutions had to cease operations. The international instability in the financial markets had no major effects on the banks, however lending costs are increasing. The risk that has built up due to the growth in household debt and stronger growth in business debt is discussed in more detail in the report *The Financial Market in Norway 2007: Risk Outlook*, available on Kredittilsynet's website.

As far as the goal of **well functioning markets** is concerned, the large turnover and large amount of new capital raised through share issues appears to indicate that the securities market is a satisfactory source of capital. The system used for securities settlements functioned well in 2007. Nonetheless, there were several instances in which investors did not receive sufficient information about relevant financial products. Following media coverage, the sale of structured financial products by Terra Securities ASA to four municipalities was investigated, and its licence was withdrawn after Terra Securities ASA demanded settlement. This gave a clear signal to the market that investment firms must provide thorough and correct information, and not sell such products to buyers who do not understand the products. Several breaches of the regulations concerning conduct in the securities market were uncovered and these were followed up in cooperation with Økokrim or local police. Kredittilsynet is striving to develop a good basis for making assessments and relevant indicators that can be used to analyse how well the markets are functioning.

The prioritised **tasks** were largely implemented as planned:

1. Norway was among those countries in which all the regulations for the implementation of Basel II were in place from 1 January 2007, and among the first in which the banks were required to use models to calculate capital requirements. Risk based inspection has been carried out in accordance with the guidelines from CEBS.
2. Kredittilsynet has actively participated in the preparation of new solvency rules for insurance (Solvency II) in CEIOPS and the agency has conducted impact assessments and stress tests for Norwegian insurance companies.
3. The system for inspecting the accounts of listed firms was followed up with the inspection of 2006 accounts. New regulations for the annual accounts delivered by insurance companies and pension firms were drafted.
4. Kredittilsynet drew up draft regulations for the new Securities Trading Act and new Stock Exchange Act that implement the new EU directive for the securities area (MiFID, disclosure and offering obligations).
5. Kredittilsynet drew up the necessary draft changes to the Audit Act according to the new EU directive concerning audits. The larger audit firms were prioritised in the supervision work.
6. With the exception of auditors, the number of on-site inspections was largely in line with plans. See table 8.
7. Great emphasis was placed on the supervision of operational risk, through both on-site inspections and the preparation of new risk and vulnerability analyses. The security of online banks was paid particular attention.
8. Expanded inspections of the banks' lending for housing purposes and their loan processing practices were conducted.
9. Kredittilsynet is striving to increase the efficiency of its activities and make life simpler for firms subject to supervision. This includes reporting via Altinn.no. Standardising the forms and reporting methods will help to improve data collection routines and simplify the work of firms that report to Kredittilsynet. A new intranet and new electronic recruitment system have been developed.
10. Kredittilsynet drafted proposals for new regulations to follow up the new Estate Agency Act.

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## Administration, staff and gender equality

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

The Director General's salary at the end of 2007 totalled NOK 1,078,000, and the Chairman of the Board's remuneration was NOK 170,000.

46 vacancies were advertised in 2007 compared with 38 in 2006. 12 of these were in-house compared with 7 in 2006. Applicants totalled 408 in 2007 compared with 551 in 2006.

At the end of 2007, Kredittilsynet had 220 fulltime staff compared with 205 at the end of 2006. 51 per cent of the full time staff are women. 86 per cent of the staff hold university degrees or the equivalent.

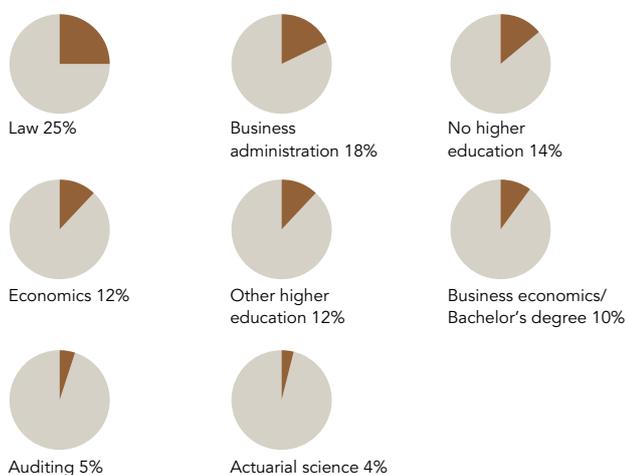
Women made up 43 per cent of Kredittilsynet's management team in 2007 and 43 per cent of all staff with managerial responsibilities. Women employees' pay measured 89.5 per cent of men's pay in 2007, compared with 90.0 per cent in 2006. Equal pay is a prioritised area in the internal pay policy.

The gender equality effort is anchored in the work of the environment and gender equality committee, which is attended by a gender

equality representative on a regular basis. The committee routinely reviews pay statistics for each job category, and for Kredittilsynet as a whole, to keep abreast of the pay equality position. A new action plan for equality was adopted in February 2007. The plan was produced on the basis of a broad understanding of the term equality, thus it now also covers different ethnic backgrounds, disability and age.

Kredittilsynet attaches great importance to building up and maintaining the expertise needed to perform effective supervision, and this is reflected in its pay and personnel policy. Whereas in 1995, 24 members of staff had substantial experience (generally more than five years) from industries under supervision, by the end of 2007 this figure had passed 50. So far Kredittilsynet has managed to recruit staff in a satisfactory manner. However, given the pressed job market we have today, this is a demanding task. Staff turnover in 2007 was 11 per cent compared with 9 per cent in 2006. Kredittilsynet is successfully retaining both staff with long experience and staff with a high level of competence that has been developed internally. A flexible pay and personnel policy is necessary to achieve this.

**Chart 1: Staff educational background as per 31.12.2007**



### Inclusive employment

Kredittilsynet emphasises preventing sick leave and following up the agreement concerning more inclusive employment (the "IA Agreement"). This follow-up requires close cooperation with the corporate health service and the Norwegian Labour and Welfare Administration (NAV). The working environment and equality committee regularly monitors sick leave and whether it would be appropriate to implement measures. Nonetheless, sick leave was 5.4 per cent in 2007 compared with 4.4 per cent in 2006. Many employees have heavy workloads, but there are no indications that the increase in sick leave is connected to working conditions. The IA Agreement is also designed to prevent discrimination of job applicants with functional impairments and to raise the de facto retirement age. Kredittilsynet stresses the goal of diversity with respect to ethnic background, functional capacity, gender and age in job adverts. At least one applicant from underrepresented groups must always be called in for an interview as long as they fulfil the qualifications criteria.

### Efficiency improvements

As part of the work on improving efficiency the agency has carried out a review of the work processes associated with cases in which case processing time is measured, this time for on-site inspections and licence work. Moreover, an electronic system for recruitment has been introduced and a total of seven forms for reporting data from supervised entities via Altinn.no have been developed. In addition Kredittilsynet is working to improve its internal ICT systems.

### New office premises for Kredittilsynet

Kredittilsynet has signed a lease with Norges Bank for new premises in Revierstredet 3 in the autumn of 2008. The move cannot take place before the end of 2009 due to delays. A supplementary agreement has been drawn up concerning, among other things, covering the costs due to the delay.

### Case processing time

In keeping with Kredittilsynet's strategy, specific targets have been set for the time spent on a selection of administrative cases and

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

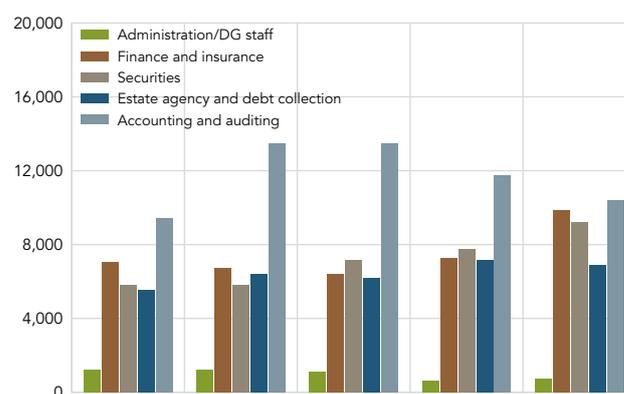
supervision to the next. Target achievement is reported on a quarterly basis, and detailed results are published on Kredittilsynet's website: [www.kredittilsynet.no](http://www.kredittilsynet.no).

Table 1: Case processing time in Kredittilsynet in 2007

	No. of cases	Target attainment
Total no. of cases with processing time target	2,423	85%
- Cases with 30-day deadline	1,949	88%
- Cases with deadline longer than 30 days	383	69%
Supervisory reports	176	68%
Supervisory observations	150	51%

Chart 2: Registered case documents – by sector\*

Total number of cases



	2003	2004	2005	2006	2007
Total number of cases	29,011	33,614	34,277	34,568	37,056

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

In 2007, there was an increase of 2,488 registered case documents compared with 2006. The increase largely concerns the finance and securities sector. A large part of the increase in the finance sector derives from amendments to insurance legislation that results in pension funds needing authorisation. Amendments to legislation

were also behind the increase in the number of case documents in the securities sector. More firms are subject to supervision thanks to the new Securities Trading Act, meaning more licence applications were submitted.

## Finances

### Expenditure

Kredittilsynet's budget forms part of the national budget and is established by the Storting. The budget for 2007 originally totalled NOK 184.8 million. A further NOK 9.8 million was appropriated in the revised national budget for the development of new systems for capital adequacy requirements reporting (COREP) and transaction reporting system (TRS). In addition, NOK 2.3 million was appropriated as compensation for the public sector wage settlement. Including funds of NOK 1.6 million carried forward from 2006, the budget came to NOK 198.5 million. Kredittilsynet received an additional NOK 4.5 million in refunds of maternity and sickness benefits. The aggregate disposable budget accordingly came to NOK 203.0 million, while aggregate expenditure came to NOK 198.2 million, an increase of 15.5 per cent on 2006. Total salary expenditure rose by 6.5 per cent, while expenditure on goods and services increased by 40.4 per cent.

Aggregate expenditure was close to NOK 4.8 million less than disposable revenues. Unutilised revenues are carried forward into 2008.

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

The closing letter dated 31 May 2007 from the Office of the Auditor General on the accounts for 2006 contained no adverse comments about the accounts or Kredittilsynet's implementation of the budget.

Table 2: Kredittilsynet's accounts

	2005	2006	2007
<b>Salaries bill</b>	114,439	126,058	134,216
Of which:			
Salaries and social costs (all positions)	111,090	123,314	129,511
Stand-ins/substitutes	2,391	1,646	3,817
Other emoluments (directors, consultants/other fees)	958	1,098	888
<b>Goods and services</b>	46,344	45,599	64,032
Of which:			
Operating expenses	17,381	17,395	24,047
Information	3,679	4,897	2,921
Service travel and meetings, subscriptions	6,446	4,271	6,513
Inspections and other supervision	3,123	3,219	2,280
Organisation development, management and competence development	6,102	4,405	4,953
IT expenditure	9,613	11,412	23,318
<b>Total expenditure</b>	160,783	171,657	198,248

Figures in NOK 1000s

(Preliminary accounts for 2007)

## Comments

The large increase in expenditure from 2006 to 2007 was primarily due to the expenditure on the development of the common capital adequacy reporting system (COREP) and the transaction reporting system (TRS), cf. the discussion above concerning additional appropriations for these projects. This is reflected in the figures for IT expenditure in table 2. Some of the expenditure that was previously recognised as information expenditure is now recognised as IT expenditure. This explains the fall in information expenditure. It is apparent from the table that operating expenses also increased a lot. One of the reasons for this was the need to sign new, short-term leases for office premises due to the postponement of the move into new premises in Norges Bank. The total leased area has also increased due to the increase in staff. There was also an increase in the expenditure on building alterations and maintenance, electricity, office equipment and inventory, recruitment and various security measures. The expenditure on inspections and other supervision fell. This was partly due to the fact that the number of inspections decreased in some sectors and also the fact that new working methods have resulted in more efficient resource utilisation. The increase in expenditure on service travel and meetings, and subscriptions was partly due to increased participation in meetings of international bodies and partly due to subscriptions to international bodies of which Kredittilsynet is a member.

## Revenues

Under section 9 of the Financial Supervision Act, Kredittilsynet's expenses are covered by the institutions under its supervision at the start of the financial year. The Storting therefore adopts a revenue appropriation equal to the expenditure appropriation. The act requires the expenses to be apportioned among the various institutional groups based on the extent of the supervision, and the expenses are therefore paid in arrears. Levies have also been claimed from branches of companies from other EEA states since the 2004 assessment.

The total amount levied for 2006 and due for payment in 2007 amounted to NOK 167.3 million. The levy was smaller than actual expenses because a) the levy is based on the budget appropriation, b) any amount carried forward from the previous year is deducted and c) part of the expenses are covered by the National Insurance Scheme through refunds of maternity and sick pay expenses. The levy proposed by Kredittilsynet for 2006 was approved by the Ministry of Finance on 11 June 2007 after prior consultation with the sector organisations concerned. The supervised entities liable to pay the amount levied for 2006 number 11,324, of which 65 are foreign branches. The largest group of supervised entities are accountants with 7,492 entities. In 2005 there were 10,893 entities. The apportionment of the levy among the various categories of supervised entities is shown in chart 3. The amount of the assessed levies paid by foreign branches is 2.6 per cent.

Chart 3: Levy distributed by supervised groups

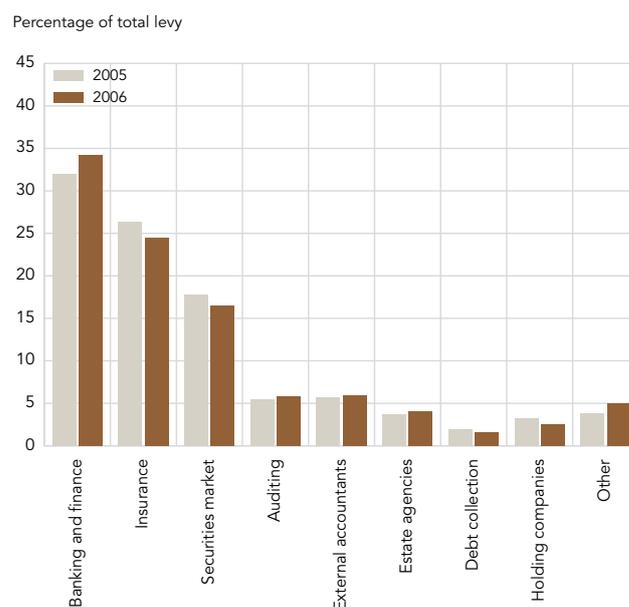


Table 3: Total levy as a percentage of the calculation base

Supervised groups	Calculation base	Percentage of calculation base		
		2004	2005	2006
Credit institutions	Total assets	0.0025	0.0022	<b>0.0022</b>
Insurance	Premium income	0.0345	0.0291	<b>0.0315</b>
Investment firms	Income from investment and ancillary services	0.1997	0.1500	<b>0.1015</b>
Management companies	Assets under management	0.0031	0.0025	<b>0.0020</b>
Estate agency	Commission income	0.1516	0.1216	<b>0.1200</b>
Debt collection	Debt collection proceeds	0.2122	0.1628	<b>0.1461</b>
Auditors	Turnover	0.2345	0.2356	<b>0.2634</b>

Table 3 shows the size of the levy as a percentage of the calculation base for various groups of supervised entities. External accountants are omitted from the table since they pay an identical annual levy irrespective of turnover (NOK 1,297 in the assessment for 2006). The levy fell from 2005 to 2006 for all groups apart from insurance and auditors for whom there was a slight increase. The levy for credit institutions remained unchanged. The levy burden has trended downwards in recent years despite a substantial increase in Kredittilsynet's expenditure: 9.9 per cent from 2005 to 2006 and 16.4 per cent from 2004 to 2006. The decrease in the levy burden relates to the strong financial development of the industries under supervision.

#### Resource input by area of supervision and area of activity

Table 4 shows an increase in resource input from 2006 to 2007 equivalent to eight full-time positions. Nonetheless, this was ten fewer than planned. The reason is that some new positions were filled later than envisaged, that vacancies rose substantially, and that long-term absence rose slightly. The table shows that resource input in most areas increased in 2006 with the exception of the securities market and financial reporting supervision, which saw a slight decrease.

#### Comparison of expenditure and resource use in the Nordic supervisory authorities

An updated version of a survey that compares the expenditure and internal resource use of the Nordic financial supervisory authorities was presented to the Nordic supervisory meeting in Oslo in August 2007. Even though it is difficult to compare resource use and prioritisation in the Nordic supervisory authorities because of the differences in supervision tasks, organisational structure, size and structure of the markets, and the fact that the supervisory authorities calculate the use of their resources very differently as the basis for assessments, the survey shows that the differences between the Nordic supervisory authorities are small with respect to resource disposition in financial supervision. The expenditure in Norway is no higher than in the other Nordic countries. Increasing pressure on the supervisory authorities within the banking and securities sector – partly due to the work involved in implementing the new capital adequacy regulations (Basel II) – resulted in a marked increase in the resources allocated to both banking and securities supervision from 2004 to 2006. The Swedish supervisory authority in particular strongly increased its staffing from 2004 to 2006, including within insurance supervision.

A public version of the report is available from Kredittilsynet's website.

Table 4: Resource input by area of supervision

	2005		2006		2007	
	FTEs	%	FTEs	%	FTEs	%
Banks	38.5	20.8	40.5	21.8	<b>41.7</b>	<b>21.5</b>
Finance companies	2.6	1.4	2.4	1.3	<b>2.5</b>	<b>1.3</b>
Mortgage companies	1.8	1.0	1.8	1.0	<b>2.4</b>	<b>1.2</b>
Insurance companies	25.7	13.9	25.6	13.8	<b>26.3</b>	<b>13.6</b>
Holding companies	3.8	2.0	3.5	1.9	<b>3.5</b>	<b>1.8</b>
Pension funds and trusts	5.0	2.7	4.0	2.1	<b>6.1</b>	<b>3.1</b>
Securities market	32.0	17.3	31.1	16.7	<b>30.5</b>	<b>15.7</b>
Estate agents	6.1	3.3	6.3	3.4	<b>7.1</b>	<b>3.7</b>
Debt collection	2.5	1.3	2.5	1.4	<b>2.7</b>	<b>1.4</b>
Auditors	7.5	4.1	7.8	4.2	<b>9.5</b>	<b>4.9</b>
Accounts in general	0.3	0.2	0.1	0.0	<b>0.6</b>	<b>0.3</b>
External accountants	4.8	2.6	6.0	3.2	<b>8.0</b>	<b>4.1</b>
Financial reporting	8.2	4.4	8.3	4.5	<b>6.9</b>	<b>3.6</b>
Miscellaneous	1.5	0.8	2.3	1.2	<b>2.2</b>	<b>1.1</b>
Undistributed	44.5	24.1	43.8	23.5	<b>43.6</b>	<b>22.5</b>
<b>Total</b>	<b>185</b>	<b>100</b>	<b>186</b>	<b>100</b>	<b>194</b>	<b>100</b>

## Information and communication

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

### Information

The information effort is directed in the first instance at institutions and sectors under supervision, and is based on the principles guiding the central government information policy. Kredittilsynet believes contact with sectors under supervision is important, and holds regular meetings with sector organisations. Similar meetings are held with collaborating public authorities. Collaboration

with the Norwegian Consumer Council is formalised in a special agreement.

### Increased media interest in the agency's work

Kredittilsynet's work is increasingly being covered by the media. The media are very interested in the agency's opinion of markets and products with respect to various types of loans and savings products. The financial press pays close attention to what Kredittilsynet is doing and there was extensive media coverage of the situation that arose after Terra Securities ASA had sold financial instruments to Norwegian municipalities in 2007.

## Organisational set-up and resource use

### Seminars and presentations

Kredittilsynet participates widely in seminars for sector organisations and institutions under supervision, and numerous presentations are given about the agency's activities and tasks, as well as on rules and guidelines affecting supervised entities. In 2007, Kredittilsynet, in cooperation with Oslo Børs, organised seminars on the new Securities Trading Act, new regulations for capital adequacy, the disclosure duty of issuers, and the stock exchange's trading rules. Kredittilsynet also participated in a number of seminars organised by the Norwegian Association of Authorised Accountants (NARF) for around 3,000 accountants, at which the agency talked about what being an authorised accountant means and Kredittilsynet's role as the supervisory authority for the sector.

### Circulars and press releases

37 circulars were issued in 2007 compared with 23 in 2006. A lot of work was also done on deleting out-of-date circulars. An overview of the out-of-date circulars was published in Circular 1/2008. Kredittilsynet also issued 45 press releases compared with 41 in 2006. One press conference was held at the end of February, to present the report *The Financial Market in Norway 2006: Risk Outlook*, the annual report and a new strategy.

### New intranet for Kredittilsynet

Early in 2008, Kredittilsynet launched a new intranet following extensive development work. The new intranet integrates a number of services and applications and is aimed at improving the internal communication in the organisation and making the workflow more efficient and comprehensible for staff.

### New website under development

In 2007, Kredittilsynet started work on developing a completely new website. Kredittilsynet's website is a primary channel for information from Kredittilsynet and contains a large quantity of information, as well as some reporting solutions and a list of firms under supervision. The current website will be developed further with various services up until the website is expected to be completed at the end of 2008, start of 2009.

### Website use

The website received 177,000 unique visitors in 2007, who accounted for a total of 506,000 visits. This is an increase of 46 per cent in unique visitors compared with 2006 and an increase of 18 per cent in total visits compared with 2006.

Table 5: Visits to Kredittilsynet's website

	2005	2006	2007
Unique visitors	97,000	121,000	177,000
Total visits	320,000	429,000	506,000

### Hvitvasking.no – web service provided by Økokrim and Kredittilsynet

Økokrim and Kredittilsynet are behind a new website that collates relevant information about anti-money laundering and anti-terror financing measures. The new website, Hvitvasking.no, which was launched on 1 November 2007, contains overviews of the regulations, reporting routines and various contact information relevant to anti-money laundering work. The editorial responsibilities and the costs are shared between Økokrim and Kredittilsynet.

### Document access

Kredittilsynet received a total of 455 requests for document access involving orders for 2,894 documents in 2007. Of these, 2,265 were full public disclosure documents, 201 were distributed as public versions, while 428 were not released since their entire content was barred from publication. The great majority of access requests come via e-mail.

Table 6: Requests for document access

	2005	2006	2007
Orders placed	1,374	2,501	2,894
Not released	159	237	428

## Key figures and data on supervisory activities

Table 7: Figures for supervised entities as of 31.12.2007

	2003	2004	2005	2006	2007
<b>Banks and financial institutions</b>					
Savings banks	129	127	126	124	123
Commercial banks	15	13	14	15	16
Foreign branches of Norwegian commercial banks	9	10	10	12	12
Norwegian branches of foreign banks	8	8	9	8	10
Finance companies	29	28	30	30	30
Foreign branches of Norwegian finance companies	2	2	3	4	4
Norwegian branches of foreign finance companies	21	22	17	20	21
Mortgage companies	10	11	11	11	11
Norwegian branches of foreign mortgage companies	1	1	1	1	1
<b>E-money institutions</b>					
E-money institutions	4	5	5	4	3
<b>Insurance</b>					
Life insurance companies	7	6	6	9	10
Unit Linked companies	6	5	5	2	0
Non-life insurance companies	46	46	46	44	44
Local marine insurance associations	13	13	13	13	13
Local fire insurance associations	20	20	20	20	20
EEA branches and foreign companies' general agents	30	33	39	41	46
Insurance mediators*	50	49	56	107	197
Private pension funds	107	95	93	91	86
Pension schemes	50	33	22	19	17
Municipal pension funds	30	30	29	28	29
<b>Holding companies</b>					
Holding companies	8	8	8	9	12
<b>Securities markets</b>					
Investment firms	87	78	75	85	132**
Norwegian branches of foreign investment firms	10	10	11	9	10
Management companies for securities funds	23	21	21	23	23
Clearing houses	2	2	2	3	3
The Norwegian Central Securities Depository	1	1	1	1	1
Regulated markets, incl. stock exchanges	3	3	3	3	6
<b>Auditors</b>					
Auditors	5,154	5,358	5,495	5,567	5,670
Auditing firms	514	518	569	730	789
<b>External accountants</b>					
External accountants	6,598	6,724	7,179	7,472	7,699
External accounting firms	2,566	2,542	2,632	2,652	2,691
<b>Estate agency</b>					
Estate agencies	542	572	642	682	717
Lawyers' practices incl. estate agencies	1,094	1,178	1,213	1,355	1,324
Cooperative building associations	47	41	39	38	37
<b>Debt collection</b>					
Debt collection agencies	123	114	121	117	112
Debt purchase business	10	10	8	6	8

\* The number of insurance mediators has increased since the Act on Insurance Mediation came into force on 1 January 2006. Insurance agents who distribute policies for Norwegian insurers are not included in this overview.

\*\* The number of investment firms with licences has increased significantly since the new Securities Trading Act came into force on 1 November 2007 (see also the presentation on page 44).

Kredittilsynet also supervises the financial reporting of some 300 listed companies.

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

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

	2003	2004	2005	2006	2007
Banks/finance	53	57	50	48	47
E-money institutions	–	–	–	1	–
Holding companies	–	4	2	–	2
Insurance	19	11	9	5	6
Insurance mediators	6	3	1	5	3
Pension funds	5	4	1	1	2
Investment firms	23	14	22	18	20
Other institutions in the securities market (incl. management companies for securities funds)	13	7	14	7	6
Auditors	19	65	52	52	22
External accountants	35	15	56	46	41
Estate agencies	12	18	22	40	51
Debt collection agencies	12	25	7	5	6
Data processing centres	2	2	5	3	4

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

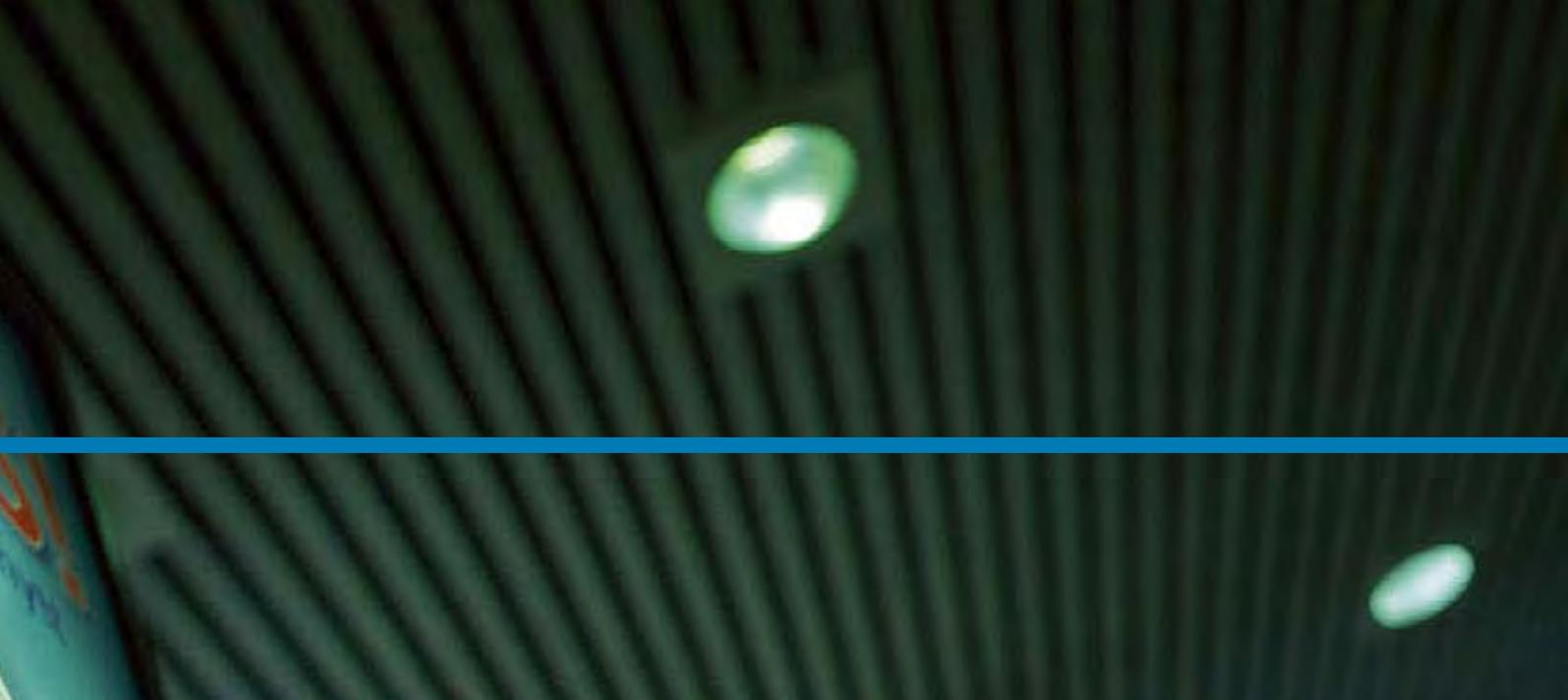
	2003	2004	2005	2006	2007
Banks/finance	6	4	9	7	5
E-money institutions	–	–	–	1	–
Holding companies	–	2	1	–	–
Insurance	1	2	1	2	2
Insurance mediators	–	–	–	–	–
Pension funds	–	–	–	–	–
Investment firms	4	4	5	2	3
Other institutions in the securities market (incl. management companies for securities funds)	4	4	6	3	2
Auditors	–	–	–	–	1
External accountants	4	1	1	1	1
Estate agencies	–	1	1	–	1
Debt collection agencies	–	1	2	1	1
Data processing centres	2	2	5	3	4
Other	–	1	–	1	–

20 IT inspections were conducted, either separately or in conjunction with ordinary on-site inspections. Kredittilsynet also conducted 35 simplified IT inspections and handled 10 notifications received under the Payments Systems Act.

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

	2003	2004	2005	2006	2007
Cases pursuant to Savings Banks Act (No. 1 of 24 May 1961)	46	69	71	71	53
Cases pursuant to Commercial Banks Act (No. 2 of 24 May 1961)	21	32	21	27	7
Cases pursuant to Financial Institutions Act (No. 40 of 10 June 1988)	53	130	131	149	119
Cases pursuant to Insurance Activity Act (No. 39 of 10 June 1988)	74	45	50	71	2*
Cases pursuant to the Insurance Activity Act (No. 44 of 10 June 2005)	–	–	–	–	58*
Cases pursuant to the Guarantee Schemes Act (No. 75 of 6 December 1996)	–	–	–	–	–

\* The Act of 10 June 2005 No. 44 on insurance companies, pension companies and their activities, etc, entered into force on 1 July 2006 by the Royal Decree of 30 June 2006 No. 774. The Act of 10 June 1988 No. 39 on insurance activity expired at the same time. The decisions made in 2006 include decisions made pursuant to both acts.



## Banking and finance

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



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## Trends and challenges

2007 was the first year in which the capital requirements regulations, Basel II, were in effect. The major banks that received approval to use internal models for calculating capital adequacy for credit risk submitted their risk and capital assessments (ICAAPs) for review and assessment by Kredittilsynet. This was a new situation for both the banks and Kredittilsynet, and these processes therefore involved some lessons for

all parties. Most of the small and medium-sized banks chose to avail themselves of the transitional rules and introduce Basel II from 2008.

Adapting to the new International Financial Reporting Standards (IFRS) in parallel with the introduction of the new capital requirements regulations was demanding for the banks.

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## Supervision and monitoring

### Monitoring and analyses

Monitoring and analysing the development of the economy, markets and the situation in the financial sector are necessary prerequisites for supervision of the financial strength of individual institutions. The analyses provide the background for Kredittilsynet's assessment of the general conditions in the financial sector, and for the supervision of individual institutions.

Half yearly analyses and assessments of potential stability problems in the financial sector are prepared as part of the macroeconomic monitoring. The banks are of key importance with respect to financial stability. Quarterly reports of the situation in banks, finance companies and mortgage companies, with an emphasis on result trends and financial strength, are also prepared. Press releases that summarised these analyses were issued in February, May, August and November. Overall assessments of the situation and different risks for Norwegian financial institutions in light of the developments in the economy and markets are published in the report *The Financial Market in Norway 2007: Risk Outlook*.

The analysis and monitoring work in 2007 paid particular attention to developments in the credit and housing markets in Norway, and to the international instability triggered by the crisis in the American housing market. The fall in house prices in the USA resulted in a high level of non-performing mortgages and increased losses on mortgages taken out by borrowers with very poor debt-servicing capacity. Strong falls in the value of securities issued with collateral in these subprime mortgages and great uncertainty about the magnitude and distribution of the losses resulted in ripple effects in other parts of the securities markets and financial markets. The focus was on assessment of the potential consequences for the Norwegian financial markets of the instability in international markets. The developments in the USA demonstrated the importance the housing markets and debt situation in households may have with respect to stability and confidence in the financial markets.

The banks' liquidity risk was the subject of particular monitoring in the second half of 2007 due to the instability in the international financial markets. Kredittilsynet examined the major banks' exposure to American subprime mortgages and continuously monitored their liquidity situation. A survey was conducted of the liquidity situation

and risk of significant losses due to exposure in the American housing market of all the banks, finance companies and mortgage companies in September to analyse the situation in smaller and medium-sized institutions as well. The result of the survey confirmed that Norwegian banks are not directly exposed to subprime mortgages to any great degree. There were signs of somewhat more short-term financing in Norwegian banks as well. Nonetheless, the high deposit-to-loan ratio and financing through long-term borrowing of Norwegian banks contributed to a satisfactory liquidity situation in the Norwegian banking market in the second half of 2007.

The banks' results for 2007 confirmed that the banks were not particularly affected by the international turmoil. The results were somewhat weaker in 2007 than in 2006. The banks' net interest income continued to fall, despite the high level of growth in volume. In 2007, the banks experienced some losses due to the general credit risk mark-up in the financial markets. Norwegian banks' loan losses were very small, and helped to ensure good profitability in 2007.

The Norwegian economy grew very strongly in 2007. Unemployment was at its lowest level in 20 years, and inflation also remained low. The debt burden of households continued to increase in 2007 as well. However, the rise in house prices fell off markedly throughout the year, and fell slightly in the second half of the year. The vulnerability in parts of the household sector increased in 2007 due to increased debt and interest rate burdens, very little use of fixed interest rate agreements and the increasing scope of interest-only arrangements. In 2007, Statistics Norway was commissioned by Kredittilsynet to conduct surveys of the micro data about households' sensitivity to interest rates. Kredittilsynet also undertook surveys of the loan-to-value ratio and other factors associated with the banks' credit practices with respect to mortgages. For the first time, a survey of this sort covered all banks, not just the largest 30. In addition, a similar survey was carried out for equity-release loans. This form of loan with collateral in the borrower's home grew strongly in 2007, while the growth in traditional repayment loans fell. On-site inspections of the major banks were also carried out in 2007 in which special attention was paid to credit practices with respect to mortgages. The inspections showed there remained room for improvement in the banks' credit practices.

The upturn in the Norwegian economy was accompanied by high levels of profitability and high equity ratios in Norwegian companies. Due to improvements in results the companies' interest rate burden did not increase despite the very strong growth in debt. Given this strong growth in company debt, Kredittilsynet analysed the exposure and banks' risk assessments for loans in various sectors, including shipping, fish farming and property management in 2007. Due to the strong increase in rent and sale prices for business property, Kredittilsynet held a seminar in 2007 in which the situation in these markets was reviewed with banks and other market actors.

Kredittilsynet has for many years monitored securities investments financed by debt. This was also done in 2007. These investigations also covered the financing of investments in structured products; see the separate discussion below. The scope of such lending is modest for the banks as a whole, and amounts to around three per cent. In some banks the level of such activity is substantial. In the summer of 2007, Kredittilsynet also investigated any forced sales of securities due to the fall in the equity market.

### **On-site inspections**

Risk-based supervisory methodology based on international supervisory standards is applied at on-site inspections. 47 on-site inspections of banks and finance companies were conducted in 2007.

The on-site inspection method is based on the use of risk modules. In the case of banks, modules for credit risk, market risk, liquidity risk, operational risk and a module for overall management and control are used. The modules form the framework for analysing the risks and risk levels in the company and the company's management and control of the risks.

### **Supervisory follow-up of the capital adequacy rules**

One principal element of the supervision is the new capital adequacy rules (Basel II) that came into force on 1 January 2007. The new regulations are intended to improve risk management in the banks and ensure greater correspondence between the risk and equity. The banks have been allowed to postpone their transition to the new regulations until 2008. A large number of smaller and medium-sized institutions availed themselves of this opportunity.

### **Calculation of the minimum requirements for own funds**

The new regulations allow institutions to apply to Kredittilsynet to use internal models (IRB models) to calculate the minimum capital requirements for credit risk. Between 2005 and 2007, Kredittilsynet

did a great deal of work on processing IRB applications. The processing is based on a common understanding between European supervisory authorities of procedures and assessment criteria for making decisions about granting authorisation to use IRB models. One of the prerequisites for this is very detailed applications and documentation in a format drawn up by Kredittilsynet.

In February 2007, Kredittilsynet granted authorisation to DnB NOR Bank ASA, Sparebanken Nord-Norge, SpareBank 1 SR-Bank, Sparebanken Midt-Norge and Sparebanken Vest to use foundation IRB methods for this calculation. Conditions were stipulated concerning fully documenting compliance with the individual, detailed criteria within the first six months of 2007. These five Norwegian banks were the first in the Nordic region, and among the first in Europe, to receive formal IRB authorisation. Later in the year Nordea Bank Norge and DnB Boligkreditt also received authorisation to use IRB.

It is anticipated that over time the banks that use IRB models will be subject to lower capital requirements for credit risk than banks that use the standard method. The reduction in the minimum requirement will be limited during a transition period up to 2010. The banks' own funds should constitute at least 95 per cent of the capital requirements calculated pursuant to the Basel I regulations in 2007. In 2008, they shall constitute at least 90 per cent and at least 80 per cent in 2009.

Kredittilsynet will monitor both the use of the models and the risks the banks take. The monitoring system will be developed in 2008.

### **Assessment of actual capital needs (ICAAP)**

As well as calculating the minimum requirement for own funds pursuant to pillar 1, pillar 2 in the new regulations requires that the institutions conduct an internal capital adequacy assessment process (Internal Capital Adequacy Assessment Process – ICAAP). Kredittilsynet has highlighted the importance of boards being heavily involved in the capital adequacy assessment process.

The actual capital must cover the risks that are not taken account of in the calculation of the minimum requirements pursuant to pillar 1. It must also cover the risk associated with the fact that the quantifying of the risk and capital requirements is based on methods and data that involve some uncertainty. The institutions must take account of the fact that the capital requirements should be future-oriented and take account of business plans, growth and access to the capital markets. The capital base must be sufficient to survive an economic downturn with negative results and difficulties in obtaining new capital.

### Kredittilsynet's review of the bank's capital adequacy assessment process (SREP)

Kredittilsynet is tasked with evaluating the institutions' capital adequacy assessment process (Supervisory Review Evaluation Process – SREP), including the level of their own funds in relation to the calculated minimum requirement and in relation to the institutions' risk profile, as well as whether or not the capital adequacy assessment process forms an integral part of the management and control systems in the institution.

The Committee of European Banking Supervisors (CEBS) has drawn up common guidelines for the supervision process. Kredittilsynet bases its supervisory practice and the evaluation of the institution's capital adequacy assessment process on the principal aspects of these guidelines. Kredittilsynet presented the evaluation principles in Circular 21/2006.

In 2007, Kredittilsynet evaluated the capital adequacy assessments of the seven banking groups that use or have applied to use IRB. The banks received Kredittilsynet's feedback with a discussion of the elements that should be developed further. An evaluation is also taking place of the capital adequacy assessment process in six other banks that in 2007 chose to report in accordance with the standard method in Basel II.

### Disclosure of financial information

The new regulations concerning capital requirements also regulate the institutions' disclosure of information about capital and risk factors in the bank (pillar 3). Kredittilsynet made observations about some of the provision in this part of the regulations in Circular 27/2007.

### Thematic inspections

In 2007, a thematic inspection was conducted concerning mortgages in eight banks in order to analyse possible changes in lending practices in connection with loans with collateral in people's homes. At the same time the banks' practices pursuant to the Financial Institutions Act with respect to advising people against borrowing and providing information to customers about the consequences of interest rate rises were also surveyed.

The thematic inspection revealed that several banks were over-estimating the liquidity of customers. The report also states that the use of interest-only arrangements that enable customers with poor debt-servicing capacity to get higher loans was increasing the credit risk. Banks that grants long-term credit loans should reserve the right

to demand that the credit be renewed during the period of the loan. Banks should review the scope of cases that deviate from the most important criteria for approving loans as part of monitoring the risk associated with mortgages.

A summary of the inspection, *Thematic Inspection of Mortgages*, is available in Norwegian on Kredittilsynet's website. Kredittilsynet's report *The Financial Market in Norway 2007: Risk Outlook* discusses the situation in the credit and housing markets in more detail.

### Combating money laundering and terrorist financing

In 2007, four on-site inspections and one off-site inspection were conducted with the supervision of compliance with money laundering regulations as the primary theme. Compliance with the money laundering regulations was also included in general inspections.

The inspections uncovered serious breaches of the money laundering regulations such as no established electronic monitoring system and inadequate identity checks.

In the fourth quarter of 2007, written enquiries were sent to all finance companies concerning the establishment of systems for monitoring transactions electronically.

Norwegian measures aimed at combating the money laundering of proceeds and the financing of terrorism were evaluated by the Financial Action Task Force (FATF) in the first half of 2005. Kredittilsynet has followed up the observations in the report, including by sending information to those companies with a duty to report and special supervision of companies that carry out currency activities. Norway was supposed to report back about which measures had been implemented two years after the evaluation by FATF. Kredittilsynet sent its contributions to the Ministry of Finance and the Ministry of Justice and the Police.

### Nordic banking crisis exercise

A joint Nordic crisis exercise was conducted in September 2007. The exercise included the ministries of finance, central banks and banking supervision authorities in the Nordic countries, as well as the central banks in Estonia, Latvia and Lithuania. The exercise took place over four days. The banking market in the Nordic-Baltic region is heavily integrated and the purpose of the exercise was to test existing systems for coordination and cooperation between the participating institutions in the Nordic region. The exercise's

scenario involved an economic downturn, increased loan losses in the Nordic banks, instability in the foreign currency exchange markets and rising interest rates in the financial markets. At the same time it was assumed that major banks were experiencing technical problems. The exercise provided useful experience in crisis management. It also showed that coordinating crisis management between authorities in multiple countries is a demanding job.

### Investigation of structured products

In 2007, Kredittilsynet conducted a survey of structured products among 15 banks. In this context structured products are defined as investment products consisting of a deposit or bond element and a derivative element. The themes covered by the inspection included return history, the sale and marketing of structured products, internal training of advisers/sales staff, the banks' revenues relating to the products, and the financial benefits for the advisers/sales staff relating to the sale of structured products. The results of the inspection indicate that the returns on equity financed, structured products have on average not yielded greater returns than risk free investments. Overall, debt financed investments yield even more modest returns and in many cases also negative returns. The dividing line between advice and sales is not clearly apparent. The inspection indicates that sales and debt financing of structured products are decreasing. The results of the inspection were published on Kredittilsynet's website on 3 January

2008. This issue will be followed up with specific regulations, see the discussion under "Regulatory development" on page 33.

### Alternative solutions for administration of crisis hit banks

In 2006, the Banks' Guarantee Fund established a working group to examine the consequences of a bank experiencing problems with respect to its financial strength and liquidity. Its task was to consider alternative solutions for how such a situation should be handled such that depositors and borrowers were affected as little as possible. Kredittilsynet participated in the working group, which presented its report in March 2007. Kredittilsynet also participates in a working group that is looking at following up and countermeasures for the problems that were uncovered.

### Membership of deposit guarantee scheme for branches of foreign banks

In 2007, Kredittilsynet signed cooperation agreements with the Swedish, Icelandic and Danish banking supervision authorities in connection with the branches of Danske Bank A/S, Nordnet Bank AB and Kaupthing Bank hf. in Norway joining the deposit guarantee scheme.

Membership ensures the depositors in the branches the same cover as with the Norwegian scheme.

## Licensing

### Supervision of ownership of financial institutions

In 2007, the following authorisations were issued pursuant to the Financial Institutions Act's rules on ownership of financial institutions:

- Spring Capital AS' acquisition of primary capital certificates of SpareBank 1 SR-Bank – up to 20 per cent
- Glitnir Banki hf.'s acquisition of shares in Bank 2 ASA – up to 20 per cent
- Gjensidigestiftelsen's acquisition of a qualified interest in Gjensidige Forsikring BA

Besides these, time limited authorisations were granted in connection with a share issue in Storebrand ASA:

- Kaupthing Bank hf.'s acquisition of shares in Storebrand ASA – up to 25 per cent
- J.P. Morgan Securities Ltd's acquisition of shares in Storebrand ASA – up to 25 per cent
- UBS Limited's acquisition of shares in Storebrand ASA – up to 25 per cent

### Savings bank structure

Several structural changes took place in the savings bank sector in 2007. Kredittilsynet processes applications for licences and mergers and forwards its recommendation to the Ministry of Finance.

- In February, the Ministry of Finance granted permission for the merger of Ankenes Sparebank and Narvik Sparebank. The new savings bank will be called Sparebanken Narvik.

- In October, the Ministry of Finance granted Sparebanken Bien permission to convert to a limited liability savings bank, with Stiftelsen Sparebanken Bien as the owner of all the shares in Sparebanken Bien AS.
- In March 2007, the Ministry of Finance refused an application from Tingvoll Sparebank and Sparebanken Møre concerning the transfer of the business in Tingvoll Sparebank to Sparebanken Møre, and an application from Sparebanken Sogn og Fjordane concerning conversion to a commercial bank. The particular grounds given by the Ministry of Finance was that the Storting would have to take a position concerning some important questions of principle before any authorisation could be granted. The Bank Law Commission is currently examining these more closely.

## Licence applications

### Merger between BBS Handel og Varekjøp AS and Teller AS approved

Based on Kredittilsynet's recommendation the Ministry of Finance approved a merger between BBS Handel og Varekjøp AS and Teller AS in July. The former company is a subsidiary of Bankenes Betalings-Sentral AS (BBS AS), which decided to spin-off the business in it and two other subsidiaries. Permission was granted at the same time to establish a financial group with BBS AS as the parent company.

Meanwhile, in October, an application to change the merger model was received to the effect that BBS AS and Teller AS would become independent sister companies and be part of a financial group with Blå Holding AS as the parent and owner company. In December 2007, the Ministry of Finance approved such a merger, but stipulated a requirement that Blå Holding AS must be a financial holding company.

### Folkia AS

Based on Kredittilsynet's advice the Ministry of Finance approved the establishment of the finance company Folkefinans AS (Folkia AS after its change of name). The requirement concerning share capital was set at an amount in NOK that equals EUR 5 million. The company expects to commence operations during the first quarter of 2008.

### Bank Norwegian AS

In September 2007, the Ministry of Finance gave Bank Norwegian AS permission to start banking activities. The conditions on which the permission was granted included that the bank should be founded with contributed capital of at least NOK 270 million. Another condition was that Norwegian Air Shuttle ASA should not have a greater

than 20 per cent interest in Norwegian Finans Holding ASA. Senior employees of Norwegian Air Shuttle ASA and shareholders with interests in Norwegian Air Shuttle ASA of 10 per cent or more had to be included in relation to this limit. The bank commenced operations in November 2007.

### Pareto Bank ASA

Based on Kredittilsynet's recommendation the Ministry of Finance granted Pareto Bank ASA permission to establish a commercial bank with NOK 510 million in share capital in November 2007. The bank's head office will be in Oslo and it will target its activities at larger retail customers and their companies. The bank will in particular concentrate on securities and project financing, as well as mediating savings and investment products.

### DnB NOR Bank ASA's acquisition of SalusAnsvar AB

Based on Kredittilsynet's recommendation the Ministry of Finance granted DnB NOR Bank ASA permission to acquire 100 per cent of the shares in SalusAnsvar AB (publ.) in October 2007. SalusAnsvar AB is the parent company of a Swedish finance group that primarily sells insurance and life insurance products on an agent basis, and also some banking products. The company owns three companies with licences from the Swedish supervisory authority to operate insurance activities: Livsforsikringsaktiebolaget SalusAnsvar, SalusAnsvar Grupplivforsikringsaktiebolag and SACO SalusAnsvar Forsikrings AB.

### The Landkreditt Group

Based on Kredittilsynet's recommendation the Ministry of Finance granted the Landkreditt Group permission to restructure with the loan association (Landkreditt) as the group's parent company. The change is due to new statutory regulations based on the Bank Law Commission's report NOU 2006: 17. The permission entails Landkreditt being able to transfer its operational activities to Landkreditt Bank AS and be approved as the parent company of a finance group organised according to the holding model.

## Other supervisory matters

### Duty of confidentiality

In March 2007, Kredittilsynet issued Circular 10/2007 to all banks and finance companies with a request that they review their routines and internal control of routines to ensure they were complying with the duty of confidentiality. Kredittilsynet conducted some inspections in some companies and brought up the issue in cooperation meetings

with the banks' organisations. The background for this was Håvard Melnæs' book *En helt vanlig dag på jobben* ("Just an ordinary day at work") (Kagge Forlag) about the journalistic practices of a Norwegian magazine, *Se og Hør*, which discussed leaks of some individuals' account information. The finance sector is subject to very specific and clear confidentiality rules that appeared to have been breached. The confidentiality provisions will also be followed up during on-site inspections.

### Bonds with pre-emptive rights

New rules concerning bonds with pre-emptive rights came into force in 2007. BN Boligkreditt AS, DnB NOR Boligkreditt AS, SpareBank 1 Boligkreditt AS, Storebrand Kredittforetak AS and Terra

Boligkreditt AS have applied for and received authorisation to operate activities involving the issuing of preferential bonds.

### Reorganisation of Glitnir Banki hf.'s activities in Norway

Kredittilsynet sent its recommendation to the Ministry of Finance in September 2007 that Bolig- og Næringsbanken ASA and Glitnir Bank ASA should receive permission to merge with Bolig- og Næringsbanken ASA as the company taking over. In addition Kredittilsynet recommended that permission be granted for other changes to the Glitnir Group's organisation of activities in Norway. In December, the Ministry of Finance gave Glitnir permission to reorganise its activities in Norway.

## Regulatory development

### Capital adequacy regulations

New capital adequacy regulations for credit institutions and investment firms came into force on 1 January 2007. In 2007, Kredittilsynet issued supplementary information and guidelines with respect to the capital adequacy regulations in a circular. Kredittilsynet's supervision of the regulations is discussed in the section "Supervision and monitoring", pages 28–29.

### Accounts

The Annual Accounts Regulations for banks and finance companies were amended in March 2007. Pursuant to the new regulations companies can present their company accounts in accordance with IFRS. For more information about the Norwegian accounting regulations for banking and insurance, see chapter "Financial reporting supervision", page 55.

### Liquidity management

Based on Kredittilsynet's proposal the Ministry of Finance laid down new regulations for liquidity management in Norwegian banks with effect from 1 July 2007. The regulations replace earlier quantitative limits with more qualitative requirements on good liquidity management.

### Customer mobility in the banking sector – account number portability

A working group has at the request of the Ministry of Finance evaluated measures and schemes that could make it easier for

customers to change banks in order to increase customer mobility in the banking market and thus also competition between the banks. One particular question that the group was asked to look at was the possibility of keeping one's bank account number when changing banks. The working group consisted of participants from Kredittilsynet, the Norwegian Financial Services Association (FNH), the Norwegian Savings Banks Association, the Norwegian Consumer Council, the Norwegian Competition Authority and Norges Bank. Their conclusion was that the socio-economic benefits would not balance the costs associated with account number portability. The banking sector has itself started work on developing recommendations on how to make it easier for customers to change bank. According to the plan these recommendations will apply from 2008. It was recommended that the need for public regulation would be looked at more closely once the banking sector's own measures have had a chance to work for a while. Kredittilsynet was asked in a letter in January 2008 to follow up the sector's measures in this area.

### Ban against product packaging – Kredittilsynet's response to the Ministry of Finance's enquiry

Kredittilsynet evaluated the effect of the product packaging regulations on behalf of the Ministry of Finance. Among the things Kredittilsynet evaluated were measures for more efficient regulation of product packaging. In Kredittilsynet's opinion there is no basis for further regulation of product packaging, e.g. a total ban against premium reductions, etc, as a reward for taking out more policies in the company.

### Preferential bonds

New rules concerning mortgage companies' ability to finance lending activities by issuing bonds with pre-emptive rights came into force on 1 June 2007. The rules are intended to facilitate mortgage companies' acquisition of long-term capital on favourable terms, and lend it out again, for example as home mortgage loans.

### Management in banks

In March 2007, it was decided that neither the CEO nor other senior executives should be a member of the Board of Directors of savings banks and commercial banks. The provisions concerning joint meetings between the Board of Directors and the Board of Trustees/Committee of Shareholders' Representatives have been abolished.

### Proposed new money laundering act

In November 2006, the Ministry of Finance established a law committee to evaluate measures to combat money laundering and the financing of terrorism. Kredittilsynet participated in the committee. The committee's proposed new money laundering act was circulated for comment in the autumn of 2007, and the Ministry of Finance is planning to present a draft act early in 2008. The new regulations implement the EU's third generation directive and several of the Financial Action Task Force's (FATF) recommendations in Norwegian law. It is suggested that differentiated and risk based customer checks be implemented. In the case of customer relationships with an assumed high level of risk of money laundering and terrorism financing, stronger control measures have to be implemented. Kredittilsynet submitted

a consultation statement in September in which it emphasised the need to make the draft act and regulations more easily accessible and in principle gave its assent to abolishing the requirement concerning meeting up in person for customer checks. However, Kredittilsynet is critical concerning the proposal for almost unlimited access to outsourcing customer checks.

### Name provisions – the use of names other than their company name by financial institutions

The Ministry of Finance asked Kredittilsynet to prepare draft statutory rules that generally prohibit financial institutions from using secondary business names, i.e. names other than the company's legal name. Kredittilsynet has presented two alternative proposals that aim to address the prohibition intention. The first would entail a complete prohibition against the use of secondary names, while the second will provide a basis for clearing up current practices, but allow secondary names on certain conditions. The matter is being considered by the Ministry of Finance.

### New regulations relating to advice when selling structured products

Kredittilsynet has proposed amendments to the regulations relating to the duty to inform when offering to sell structured products for financial institutions. The regulations were circulated for consultation on 18 October 2007 and adopted by Kredittilsynet early in 2008. The most significant amendment is that the provisions in chapter 10 of the securities regulations now apply to financial institutions such that the regulation is as similar as possible for financial institutions and investment firms.

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## Information and communication

In 2007, there was a great deal of contact between Kredittilsynet and institutions in connection with the introduction of the new capital adequacy regulations. Meetings and presentations were held about the new requirements to which banks and Kredittilsynet will be subject due to Basel II. There were also meetings with the individual institutions about Kredittilsynet's evaluation of the institution's own assessments of risk and capital requirements (ICAAP).

There has been cooperation with the sector in connection with the development of the new reporting system for capital adequacy in Norway (Common Reporting – COREP).

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

# Insurance and pensions

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



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## Trends and challenges

New business rules for life insurance companies and pension funds in the Insurance Act were implemented on 1 January 2008. Kredittilsynet has also ensured that the life insurance companies have a satisfactory basis for calculating expected life expectancy.

The EU is continuing to develop the new solvency regulations. Norway is laying the groundwork for a flexible transition to the new risk

sensitive rules. In 2007, Kredittilsynet adapted risk modules, which are an important supervisory tool, and made improvements to the reporting of stress test results by insurance companies. Supervision of the mediation activities in insurance was paid greater attention in 2007 after the implementation of the new Insurance Mediation Act. Since 1 January 2006, 160 new licences have been granted to insurance mediators.

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## Supervision and monitoring

### Monitoring and analyses

The monitoring and analysis of developments in the economy, market and the situation in the financial sector are necessary prerequisites for financial strength supervision vis-à-vis individual institutions. The analyses provide the background for Kredittilsynet's assessment of the general conditions in the financial sector and for the supervision of individual institutions.

Quarterly reports are prepared on profitability, financial strength and balance sheet composition in life insurance companies and non-life insurance companies, while pension funds are discussed in two of these reports. Press releases in February, May, August and November summarise the situation in the companies. Overall assessments of the situation and the various risks Norwegian financial institutions face in light of developments in the economy and markets are published in the report *The Financial Market in Norway 2007: Risk Outlook*.

A great deal of attention was paid to the international financial instability in the analysis and monitoring of insurance in 2007, and the consequences this could have for Norwegian insurance companies. The trends in the international financial markets have for many years been low interest rates, very low risk premiums and high returns. The crisis in the American housing markets probably triggered imbalances that have been accumulating over time. The monitoring work focused on the consequences for the insurance companies' results, exposure and financial strength of a correction of such imbalances. Attention was also paid to changes in market risk due to the repricing for risk in international markets and changes in the composition of institutional investors' portfolios.

Uncertainty about the distribution and magnitude of losses from exposure to American subprime mortgages resulted in ripple effects, also on securities other than securities issued with collateral in such mortgages. Investors in the equity markets also required risk premiums and the equity markets fell for periods of time. The interest rates for government bonds fell, partly due to movement to secure investments.

Because of the falls and increased uncertainty Kredittilsynet surveyed the life insurance companies' buffer capital situation and the stress tests more closely in August 2007. In September, Kredittilsynet asked the life insurance companies and the major non-life insurance companies and pension funds to report any direct exposure to subprime mortgages through structured products or any indirect exposure, including exposure through hedge funds. The results showed that the insurance companies had little such exposure. Following the revelations about Norwegian municipal investments in structured products mediated by Terra Securities ASA, Kredittilsynet sent letters to all municipal and private pension funds asking about exposure to such products. One pension fund had invested 0.5 per cent of its assets under management in a structured product with exposure to the American municipal loan market through Terra Securities ASA.

The international financial instability affected the insurance companies' results primarily through the general fall in value of private bonds due to ripple effects from the crisis in American housing markets. Nonetheless, significant applications of property and increases in the equity markets for the year as a whole helped to improve the companies' results. Both equity components and buffer capital fell in 2007. Lower finance income contributed to reduced results for the non-life insurance companies in 2007.

### On-site inspections

Kredittilsynet monitors the developments in insurance companies through on-site inspections, stress tests and analyses. Assessments were made of risk exposure, management and control in the largest insurance companies.

Companies are selected for on-site inspections using risk-based supervisory methodology based on international supervisory standards. In 2007, on-site inspections were conducted in four non-life insurance companies, two life insurance companies, two pension funds and three insurance mediation companies.

The method for on-site inspections in insurance companies and pension funds is based on the use of risk modules. In the case of insurance

companies modules for insurance risk are used, as well as modules for market and credit risk. The modules provide the framework for analysing the level of risk in the company and the company's management and control of these risks. The assessment factors are based on the modules that have been developed and used in the banking sector in recent years, recommendations from international insurance supervisory authorities (IAIS) and previous experience from supervision. The methodology is being developed in line with the ongoing development of the new solvency regulations by the EU/EEA.

Kredittilsynet's supervision of insurance mediators covers around 70 insurance mediators and 35 agents of foreign insurance companies. In the case of mediators, it is the market conduct rules that are the important factor when trying to prevent conduct that could result in reduced confidence in the insurance market. The aspects inspected includes the proper management of clients' assets, the duty to inform, brokers' independence, whether the control of foreign insurance providers is sufficient and whether the company has liability and accident insurance.

### Measuring and reporting risk exposure

In the summer of 2006, the Ministry of Finance asked Kredittilsynet to develop the criteria for stress tests in life and non-life insurance companies. The plan is to have periodic reporting from the insurance companies in order for Kredittilsynet to regularly measure risk exposure. The Ministry has emphasised that the stress tests should result in better risk measurement and risk control in the companies and provide experience that will be relevant with respect to the implementation of the new solvency regulations, Solvency II. The stress tests are not intended to result in concrete capital adequacy and placement limits.

Reporting by the companies based on the new supervision methods will improve Kredittilsynet's ability to monitor the companies' financial strength. The information will be used in the ongoing supervisory assessment of the individual companies, for the preparation of sector analyses, and to improve the companies' introduction of Solvency II.

### Other reporting

Due to the new insurance and accounting regulations Kredittilsynet has implemented significant changes in the reporting from both insurance companies and pension funds from and including the 2008 financial year. The new reporting system was sent to the supervised entities in December 2007.

The insurance companies, pension funds and Kredittilsynet's system will have to undergo major changes due to the new Insurance Act, new accounting regulations and new reporting systems.

### Rise in pension costs due to people living longer

The main challenges for pension schemes (pension funds and pension schemes in the life insurance companies) in Norway and the rest of the world is increased life expectancy. In the case of pension schemes this entails increased costs that have to be paid for by increased premiums and premium reserves. The Norwegian Financial Services Association (FNH) has prepared a new, up-to-date mortality calculation basis that assumes a continued fall in mortality until 2020. This basis for calculating does not include security and profit margins since the EU rules only allow life insurance companies to cooperate on calculation bases without security and profit margins.

Kredittilsynet has stipulated a requirement concerning a minimum level of reserves in relation to the new basis for mortality and will closely follow up the companies' security margins during a period of escalation until the reserves have been built up to the stipulated level. Kredittilsynet has also suggested to the Ministry of Finance that people who move their pension policy should be included in the recipient company's escalation plan when they move.

### Nordic supervision cooperation

In 2007, Kredittilsynet participated in the work on an overall risk assessment for the Sampo Group and If.

After Sampo sold Sampo Bank in the spring of 2007, the Sampo Group changed from a combined banking and insurance group to a pure insurance group. The cooperation agreement between the Finnish, Swedish and Norwegian supervisory authorities concerning the supervision of Sampo is thus being revised.

In connection with the fact that Vesta Forsikring AS was converted into a branch of the Danish company TrygVesta Forsikring A/S, a Memorandum of Understanding (MoU) was signed between the Danish Financial Supervisory Authority (Finanstilsynet) and Kredittilsynet. The agreement regulates the exchange of information, Kredittilsynet's right to participate in on-site inspections initiated by Finanstilsynet, and Kredittilsynet's right to start on-site inspections on its own initiative concerning factors stipulated in more detail in the agreement. A separate agreement was signed concerning the reporting of statistics from the Norwegian branch directly to Kredittilsynet.

## Licensing

### **Supervision of ownership of financial institutions – individual cases**

See the discussion under “Licensing” in the “Banking and finance” chapter, page 30.

#### **Kaupthing Bank hf.’s stake in Storebrand ASA**

In December 2006, Kaupthing Bank hf. applied for permission to own up to 25 per cent of the shares in Storebrand ASA. The Ministry of Finance followed Kredittilsynet’s recommendation that Kaupthing should be allowed to own up to 20 per cent of Storebrand. In October 2007, Kaupthing reapplied for permission to acquire 25 per cent of the shares in Storebrand. Kredittilsynet’s recommendation in November was to refuse permission to permanently own 25 per cent of the shares, but recommended granting permission to temporarily own 25 per cent for up to one year in the event of an acquisition as a guarantor in connection with Storebrand’s share issue. The Ministry of Finance followed the recommendation concerning temporary ownership, but has so far not issued a decision on the matter.

#### **Gjensidige Forsikring BA – issuing of primary capital certificates**

In November 2007, following a recommendation by Kredittilsynet, the Ministry of Finance granted Gjensidige Forsikring BA permission to increase its primary capital by issuing primary capital certificates. It also granted permission to reclassify NOK 3,860 million in book equity as paid up primary capital.

#### **Assessment of consolidation of ownership – Storebrand ASA**

In the autumn of 2007, Kredittilsynet assessed whether Storebrand ASA’s owners Kaupthing Bank hf. and Exista hf. should be consolidated as owners. Any consolidation would be of significance in relation to the rules governing limits of ownership in financial institutions. In October, Kredittilsynet concluded that, given the available information, sufficient grounds did not exist to conclude that Kaupthing Bank and Exista should be consolidated.

#### **Storebrand Livsforsikring AS’ acquisition of the SPP Group**

In November 2007, following a recommendation by Kredittilsynet, the Ministry of Finance granted Storebrand Livsforsikring AS permission to acquire the Swedish insurance group SPP via a newly estab-

lished Swedish holding company. The activities within the SPP Group include ordinary life insurance, unit-linked insurance, pension insurance and occupational pensions. The purchase sum of NOK 16,000 million is financed through a pre-emptive rights issue in Storebrand ASA and Storebrand Livsforsikring AS and by a subordinated loan. The issue was carried out in December 2007 with a considerable over-subscription. The terms on which the permission was granted was that the group had to present a plan for the development of equity in the group during the first quarter of 2008 and that policy holders in Storebrand Livsforsikring AS should not pay the costs associated with the transaction. Another condition was that if the core capital adequacy of the Storebrand ASA group and Storebrand Livsforsikring AS at the end of 2007 and 2008 is less than 6 per cent, or the solvency margin is not at least 150 per cent, Kredittilsynet can stipulate conditions relating to limits in the dividends from the companies.

#### **KNIF Trygghet Forsikring AS**

In April 2007, following a recommendation by Kredittilsynet, the Ministry of Finance granted KNIF Trygghet Forsikring AS permission to provide non-life insurance and one year collective group life insurance. The activities will primarily be targeted at Christian organisations and institutions.

#### **Netfonds Livsforsikring AS**

In April 2007, following a recommendation by Kredittilsynet, the Ministry of Finance granted Netfonds Livsforsikring AS permission to offer individual assets insurance with investment choice. The company will be part of the Netfonds Groups, which offers a self-service for online securities trading. Sale and distribution of policies will also be done online only.

#### **Pallas Forsikring AS**

In June 2007, following a recommendation by Kredittilsynet, the Ministry of Finance granted Pallas Forsikring AS permission to operate non-life insurance activities within all classes of cover. The startup capital requirement was set at NOK 40 million. The company has not started using the licence yet.

#### **Application for licence as a non-life insurance company – Vega Marine Forsikring AS**

In June 2007, Vega Marine AS applied for a licence to operate non-life insurance activities. Kredittilsynet submitted its recommendation to

the Ministry of Finance in September and the company was granted a licence in December.

### **Maris Energy Insurance AS**

In June 2007, following a recommendation by Kredittilsynet, the Ministry of Finance granted Maris Energy Insurance AS permission to operate non-life insurance activities within oil and gas production. The startup capital requirement was set at NOK 250 million. The licence has not been used yet.

### **Gjensidige Forsikring BA's acquisition of Tennant Insurance Group AB**

In June 2007, following a recommendation by Kredittilsynet, the Ministry of Finance granted Gjensidige Forsikring permission to acquire all of the shares in Tennant Insurance Group AB and subsidiaries. Tennant Insurance Group AB offers traditional non-life insurance in Norway and Sweden through its subsidiaries.

### **Frende Livsforsikring AS and Frende Skadeforsikring AS**

In November 2007, following a recommendation by Kredittilsynet, the Ministry of Finance granted permission to establish Beta Livsforsikring AS and Beta Skadeforsikring AS – or Frende Livsforsikring AS and Frende Skadeforsikring AS, as the companies are now called following a name change. The largest owners are the savings banks Sparebanken Vest (49.99 per cent), Sparebanken Øst (16.75 per cent), Fana Sparebank (14.01 per cent) and Helgeland Sparebank (10 per cent).

### **Norgespensjon AS – defined contribution pensions company**

In January 2007, Norgespensjon AS applied for a licence to establish a defined contribution pensions company pursuant to chapter 8 of the Insurance Act, and in June 2007 became the first company to receive a licence.

### **Vesta Forsikring AS converted to branch**

The Norwegian non-life insurance company Vesta Forsikring AS was converted into a branch of the Danish company TrygVesta Forsikring A/S with effect from 30 June 2007. Following the conversion about 50 per cent of the non-marine policies signed in Norway are covered by branches of foreign companies.

### **Gjensidige Forsikring BA's acquisition of KommuneForsikring A/S**

In January, following a recommendation by Kredittilsynet, Gjensidige Forsikring BA was granted permission to acquire the Danish company KommuneForsikring A/S and its subsidiary Kommunernes Arbejdsskadeforsikring A/S.

### **The Norwegian Public Service Pension Fund providing group life insurance to freestanding enterprises**

Because of the new Insurance Act, Kredittilsynet reconsidered whether the Norwegian Public Service Pension Fund (SPK) can offer group life insurance to freestanding (non-state) enterprises. In December 2007, Kredittilsynet sent a letter to the Ministry of Finance stating that the Insurance Act and insurance directives do not prevent SPK, without a licence pursuant to the Insurance Act, offering group life insurance to freestanding enterprises.

### **Monitoring of the Mandatory Occupational Pensions Act (OTP)**

Kredittilsynet administers the Mandatory Occupational Pensions Act, the Defined Contribution Pensions Act and the Company Pensions Act. The duty to establish an occupational pension scheme pursuant to the Mandatory Occupational Pensions Act came into effect on 1 January 2007. Kredittilsynet issued a considerable number of interpretations in 2007 in connection with these acts.

Pursuant to the Mandatory Occupational Pensions Act, Kredittilsynet can order companies that do not have a pension scheme that complies with the act to rectify the situation within set deadline. If such an order is not complied with by the deadline, Kredittilsynet can decide that the company should pay a cumulative fine until the situation is rectified.

In 2007, Kredittilsynet sent nine advance warnings and four orders to companies with a statutory duty to establish an occupational pension scheme for their employees. All of the concluded cases resulted in the company establishing pension schemes that complied with the act. So far Kredittilsynet has not imposed a cumulative fine on any company for failing to establish such a scheme.

### **Guaranteed interest rate for life insurance**

Kredittilsynet assessed the need to change the maximum guaranteed interest rate for life insurance as per 1 January 2008. Following an overall assessment based on the fact that both long-term and short-

term interest rates had risen, and practical factors, Kredittilsynet decided not to change the maximum guaranteed interest rate as per 1 January 2008, neither for new earnings in already established policies nor for new policies. As on previous occasions, Kredittilsynet based its decision on the fact that it is the individual company's responsibility to use a justifiable guaranteed interest rate based on an assessment of the macroeconomic indicators and that there was justifiable cause to set a lower guaranteed interest rate than the maximum currently permitted.

#### **Coordination of retirement pension with disability pension in the event of a special age limit**

During its consideration of a matter associated with the pension scheme in SAS Braathens AS, Kredittilsynet determined that the

Company Pensions Act does not prevent decided coordination between a retirement pension from the pension scheme and a disability pension from the National Insurance Scheme in those cases where members are subject to a special retirement age. SAS Braathens Pilots Association appealed the decision and the case was submitted to the Ministry of Finance in June 2007.

#### **Appeals board for insurance and reinsurance broking activities**

An appeals board for insurance broking activities and reinsurance broking activities was established in December 2007. The board will consider disputes between principals and insurance broking companies or reinsurance broking companies. Kredittilsynet is the secretariat for the board.

## Regulatory development

### **The Insurance Act**

The new Insurance Act came into force in July 2006, while the act's chapter 7 concerning pension funds and chapter 9 concerning group and individual life insurance first came into force on 1 January 2008. The new rules meant that life insurance companies and pension funds became subject to new rules from 2008 concerning pricing products, a requirement to divide up assets under management between owners and customers, and new rules about profit sharing.

The new regulations for pension funds that came into force on 1 January 2008 meant that pension funds that wanted to continue operations had to apply for a licence. Kredittilsynet informed the pension funds about the transition to the new rules in Circular 25/2007. This also suggested how applications and articles of association should be formulated. Kredittilsynet received 104 applications from existing pension funds before 1 December 2007, and these pension funds can continue operating until their application has been considered. One licence was also issued to a new pension fund.

Kredittilsynet has endeavoured to make the transition to the new Insurance Act as smooth as possible and has prioritised accommodating the need to discuss issues associated with the transition. Both companies and sector organisations have found this necessary. Questions of interpretation associated with the new act have been discussed with the Ministry of Finance on an ongoing basis.

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

The EU Commission's proposed new directive concerning solvency rules for insurance companies was presented in July 2007. Kredittilsynet has participated in the work together with the other insurance supervisory authorities in the EU/EEA in the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).

Like the banks' capital adequacy regulations (Basel II) the directive is based on three pillars. Pillar 1 contains all the quantitative solvency capital requirements. Pillar 2 contains rules for supervisory control and monitoring. This pillar also contains provisions about internal control and rules about the insurance companies' self-assessment of risk and solvency/financial strength. Pillar 3 contains rules about market discipline, which also covers the insurance companies' duty to inform with respect to the public sector and supervisory authority.

In 2007, the EU/EEA conducted a third survey about the effect of the proposals on the new solvency regulations – Solvency II. Kredittilsynet was responsible for the Norwegian part of the survey and four Norwegian life insurance companies and 16 Norwegian non-life insurance companies participated. The report summarising the results from Norway is available on Kredittilsynet's website. An overarching summary report has been produced by the European supervisory body for insurance, CEIOPS. The report will be used in the future work on the proposed directive.

The proposed directive entails a complete upgrade of the regulations associated with the supervision of insurance groups and especially insurance groups that consist of companies in multiple EU/EEA states. A substantial transfer of supervisory tasks and competence to the supervisory authority in the insurance group's home state is envisaged.

Assuming the timetable is adhered to, the Solvency II framework will apply in the EU/EEA countries from the second half of 2012. In practice the Solvency II requirements concerning technical provisions and solvency capital will thus first be applied in the 2013 financial year.

### **Ban on product packaging**

Kredittilsynet evaluated the effect of the product packaging regulations on behalf of the Ministry of Finance. See the discussion in the "Banking and finance" chapter, page 32.

### **Measures for increasing competition in the paid-up policies market**

In October 2007, Kredittilsynet sent a proposed consultation paper to the Ministry of Finance about competition in the market for paid-up policies with proposals concerning regulatory changes. The proposal was based on an enquiry from Silver Pensjonsforsikring AS to the Ministry of Finance, which argued in favour of removing the exclusive right to issue paid-up policies, shortening the termination notice period from two months to two weeks, and removing the current transfer fee when transferring paid-up policies.

Kredittilsynet has proposed abolishing the exclusive right the insurance company that insures a pension scheme has to issue paid-up policies and that the termination notice period for paid-up policies be shortened to one month. It has not been suggested that the right of insurance companies to require transfer fees be abolished.

### **Implementation of the reinsurance directive in Norwegian law**

The reinsurance directive stipulates common rules for reinsurance companies in the EU/EEA and ensures the reinsurance companies' access to the internal market through the right to establish cross-border activities. Kredittilsynet has prepared a proposal concerning the implementation of the directive in Norwegian law. The Ministry of Finance circulated the matter for consultation in the spring of 2007 and amendments to the law were suggested in December.

### **Activities that offer coverage for fines**

In the autumn 2006, Kredittilsynet became aware of six companies that were offering compensation schemes for fines such as speeding fines. Kredittilsynet determined that these were insurance activities that required a licence. None of the companies held a licence to operate the insurance activities and in February 2007 Kredittilsynet ordered all the companies to cease operations. One of the companies continued to operate from the UK. Kredittilsynet asked the UK Financial Services Authority (FSA) to assess the activities in light of English insurance legislation. The FSA agreed with Kredittilsynet that these were insurance activities that required a licence. Operations ceased before FSA had a chance to act with respect to the company.

### **Insurance broking activities and insurance agent activities in the same company**

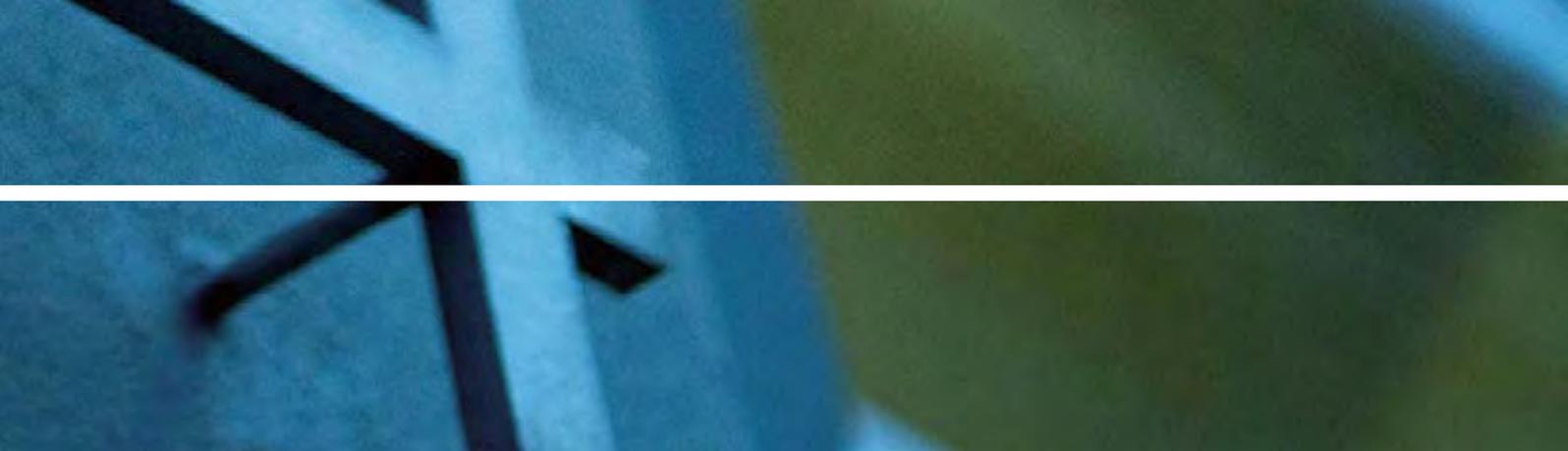
In October 2007, Kredittilsynet recommended that insurance practices be changed such that insurance broking activities and insurance agent activities could be operated in the same company. The brokers' independence must be ensured via the rules concerning the duty to inform. The case was presented to the Ministry of Finance for any comments. The government's proposed ban on insurance brokers receiving commission from insurance companies may be of importance with respect to any implementation of the change in practice.

### **Diversification requirements in the asset management regulations**

The Ministry of Finance asked Kredittilsynet to reassess whether or not the requirements concerning risk diversification for life insurance contracts with investment choice contravene EEA rules. The Ministry also asked the supervisory authority whether life insurance with investment choice could be regulated via product requirements in tax legislation. Kredittilsynet recommended that the proposed risk diversification requirements in the asset management regulations be included as product requirements for tax-favoured life insurance with investment choice.

### **Duty to provide information about premium changes**

In May 2007, Kredittilsynet stipulated new regulations that force all insurance companies to provide information about changes in premiums upon the renewal of insurance contracts that cover objects with the exception of contracts linked to commercial activities. The regulations also bring forward the existing regulations of disclosure.



The regulations applied to all insurance companies that offer non-life insurance in Norway from 1 January 2008. The need for measures to improve competition in the non-life insurance market was raised in a letter to Kredittilsynet from the Norwegian Consumer Council in June 2006. Any breaches with regards to disclosure will be followed up in Kredittilsynet's supervisory work.

### **Amendment to the accounting regulations for insurance companies**

Kredittilsynet has sent a consultation paper to the Ministry of Finance containing proposed amendments to the accounting regulations, etc, for insurance companies. The background for the proposed amendments is the developments in the field of accounting, nationally and internationally, due to the new Insurance Act. Kredittilsynet proposes that the accounting regulations for insurance companies be amended further to adapt to IFRS.

### **Broker commission in insurance**

Insurance brokers can receive commission from insurance companies. Questions have been raised about whether or not this could affect the insurance brokers' independence. Based on the Bank Law Commission's proposal the Ministry of Finance proposed a ban against commission being paid from insurance companies to insurance brokers. In its response to the consultation paper Kredittilsynet expressed strong doubt that there is a need for public law regulation through a ban. In the opinion of Kredittilsynet confidence in the independence of brokers can be achieved through the provisions concerning the duty to inform. Pursuant to the proposal it will only

be permissible for foreign insurance companies to give commission to insurance broking companies. The commission shall in these circumstances be forwarded to the customer.

### **Consultation – draft new regulatory provisions for measuring and monitoring risk in the new asset management regulations**

Kredittilsynet's proposed new asset management regulations for insurance companies and pension companies were circulated for consultation in 2006. In 2007, Kredittilsynet prepared a supplementary proposal concerning measuring and monitoring risk through the use of stress tests. In the summer of 2007, the Ministry of Finance circulated Kredittilsynet's proposed regulatory provisions concerning stress tests in insurance companies, with a deadline for comments of 15 September. The matter is currently under consideration by the Ministry of Finance.

### **Consultation – new disability benefit and new retirement pension for disabled people**

The proposed amendments to the regulations for the calculation of disability benefit and retirement pension for disabled people were circulated for consultation in 2007. The background for the report was the Report to the Storting No. 12 (2004–2005) *Pension Reform – Security for Pensions*. In its statement Kredittilsynet emphasised issues associated with the practical coordination between the National Insurance Scheme's disability pension and occupational pensions from insurance companies and pension funds. The statement has been sent to the Ministry of Finance.

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## Information and communication

The agency focuses strongly on maintaining a good dialogue with companies subject to supervision and trade organisations. In 2007, there was a great deal of contact between Kredittilsynet and the companies in connection with the introduction of the new Insurance Act. Kredittilsynet held several lectures and participated in seminars about the subject. There was also a close dialogue between the supervisory authority and the sectors in connection with the restructuring of the reporting by insurance companies and pension funds.

Kredittilsynet contributes information about the situation in the insurance market by publishing accounts, *The Financial Market in Norway: Risk Outlook* reports and other analyses, as well as by

holding seminars and providing information to the media. Public versions of various reports, including thematic inspections and information about decisions concerning matters of principle with respect to orders/decisions are available on Kredittilsynet's website.



## Securities market

The overarching objective of regulation and supervision of the securities market is to ensure a properly functioning source of capital for business and for saving and investment. Supervision focuses on the actors' financial position and operations, and on their compliance with business rules and regulations and with general rules of conduct.

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## Trends and challenges

Major changes were implemented in the regulations for the securities market in connection with the implementation in 2007 of the Markets in Financial Instruments Directive (MiFID), the Transparency directive and the directive concerning takeover bids, etc. The directives were implemented through two new acts, the Securities Trading

Act and the Stock Exchange Act. The new regulatory framework is based on the principles used in earlier regulation, but contains more detailed rules. The understanding and practise of the new legislation entail challenges for both market participants in the markets and Kredittilsynet.

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## Investment firms

A large number of new investment firms received authorisation to provide investment services in 2007. The new firms largely represent a new segment in the securities market that has previously not required authorisation. The large number of new firms could entail

supervisory challenges. More complicated financial products are also being introduced. This results in supervisory challenges associated with the sale and marketing of the products.

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## Supervision and monitoring

In 2007, Kredittilsynet conducted 16 on-site inspections of investment firms. Four IT inspections were also conducted, i.e. specific inspections of the investment firms' IT solutions. The number of on-site inspections was somewhat lower than the target. This was a consequence of reduced capacity due to vacancies, extensive regulatory work and, not least, the extraordinary work involved with authorisation applications and work on major individual cases, e.g. Terra Securities ASA. However, the consideration of authorisation applications meets some of the need for insight into a firm's activities and organisation – especially with the suitability interviews that are conducted with the firms' relevant management in cases where written documentation provides an inadequate basis for authorisation.

Investment firms vary widely in terms of size, organisational set-up and the investment services they offer. Kredittilsynet uses risk-based criteria to select firms for on-site inspection. These include liquidity, capital adequacy, changes in revenues, earnings, customer complaints, and suspected breaches of good conduct of business rules. Priority is also given to large firms, firms that have recently received an authorisation, firms that have undergone substantial changes and firms that have not been inspected for some time.

Kredittilsynet's on-site inspections are designed to promote firms' compliance with the requirements for good business practice and an informed attitude to risk, and a high level of customer protection in the securities market is maintained by ensuring that the firms comply with the requirements for good business practice. One important aspect of on-site inspections in 2007 was to investigate whether firms that had previously operated activities that did not require an authorisation were operating in compliance with the Securities Trading Act and pertinent regulations.

### **Withdrawal of Terra Securities ASA's authorisation to provide investment services**

On 27 November 2007, Kredittilsynet warned Terra Securities ASA that the firm's authorisation to provide investment services pursuant to the Securities Trading Act might be withdrawn. The warning was based on Kredittilsynet's preliminary assessment that the firm appeared to have committed serious and systematic breaches of good business practice in the provision of investment services to the municipalities of Rana, Hemnes, Hattfjelldal and Narvik. Terra Securities ASA had omitted to inform them of significant risk factors prior to the municipalities' investments being made and had offered complex financial instruments to a target group for whom the products were unsuitable. In Kredittilsynet's opinion continued operation would be against the public interest. Terra Securities ASA was given a deadline of 6 December 2007 to respond to the advance notice.

On 28 November 2007, Terra Securities ASA wound up its activities and filed for bankruptcy. An order by the Oslo Bankruptcy Court on the same day required the estate to undergo liquidation proceedings. Terra Securities ASA's authorisation to provide investment services was immediately withdrawn due to the bankruptcy proceedings.

After the opening of the bankruptcy proceedings, Kredittilsynet monitored the work involved in winding up the business carefully to ensure a satisfactory securities settlement process and that the customers' interests were addressed in the best possible manner.

### **Withdrawal of Handelspartner Securities ASA's authorisation to provide investment services**

On 16 April 2007, Handelspartner Securities ASA was granted authorisation to provide investment services and Kredittilsynet carried out an on-site inspection of Handelspartner Securities ASA on 5 September 2007. During the course of the inspection it was

discovered that the firms' management lacked competence in the securities trading regulations and extensive breaches of the Securities Trading Act were uncovered. The most serious breaches included the provision of the investment service "active management of investors' portfolios of financial instruments on a client-by-client basis and in accordance with investors' mandates" and the investment service

"dealing in financial instruments on own accounts" without the firm having an authorisation to provide these investment services. Kredittilsynet regarded the withdrawal of the firm's authorisation to provide investment services as the only appropriate reaction. The firm ceased operations with effect from 5 December 2007. Kredittilsynet's individual decision was appealed to the Ministry of Finance.

## Regulatory development

### **New Securities Trading Act from 1 November 2007**

Kredittilsynet expended considerable resources in 2007 on developing regulations for the securities market in order to implement the MiFID Directive (2004/39) and the Transparency Directive (2004/19). These directives have been implemented by the new Act on Securities Trading of 29 June 2007 no. 75 (Securities Trading Act) and the new Act on Regulated Markets of 29 June 2007 no. 74 (Stock Exchange Act). The Securities Trading Act and the Stock Exchange Act came into force on 1 November 2007, replacing former acts.

In March 2007, Kredittilsynet sent draft regulations for the Securities Trading Act to the Ministry of Finance. The draft regulations were produced by a working group led by representatives from Kredittilsynet. The working group also involved representatives from the Ministry of Finance, Oslo Børs, the Norwegian Securities Dealers Association and the Norwegian Financial Services Association (FNH). The working group's draft provided a significant portion of the basis for the Ministry of Finance's laying down of the regulations relating to the Securities Trading Act (the securities regulations) and the Stock Exchange Act (the stock exchange regulations). The new Securities Trading Act expands the range of activities that require an authorisation. It is very important that investment advice is now a licensed investment service. The exemptions from the obligation to hold an authorisation for transmitting orders to investment firms and the general exemption from the obligation to hold an authorisation for trading commodity derivatives have not been continued in the new act. In addition, the operation of multilateral trading facilities also now requires an authorisation. The Securities Trading Act and the securities regulations build on the general principles in the previous legislation. Pursuant to the requirements concerning good business practice in the new Securities Trading Act, investment firms must classify their customers as non-professional, professional or qualified counterparties.

Kredittilsynet spent substantial resources clarifying questions and issues linked to the interpretation of and compliance with the Securities Trading Act, including through dialogue with the Ministry of Finance. In connection with this Kredittilsynet issued Circular 23/2007 on important regulatory changes due to the new act, including changes in the scope of the obligation to hold an authorisation, and Circular 24/2007, which deals with the scope of the obligation to hold an authorisation for investment service activities linked to commodity derivatives.

### **Transaction reporting**

In 2007, representatives from Kredittilsynet participated in various forums at a European and Nordic level in the collaboration on the development of a transaction reporting system (TRS), i.e. the investment firms' reporting to Kredittilsynet transactions involving financial instruments listed in regulated markets within the EEA. The collaboration continues in 2008, and the supervisor will among other issues consider joint maintenance of the system and discuss methods for analysing and following up the reporting.

The securities market legislation will impose new duties on Kredittilsynet linked to the receipt and exchange of transaction reports. The transaction reporting system Kredittilsynet will use was developed by the Swedish Financial Supervisory Authority (Finansinspektionen) in a collaborative project with the other Nordic countries and Lithuania. Kredittilsynet will select an external supplier to operate the system on the basis of a tender competition.

The external operator is expected to be in place during the first half of 2008. This is necessary to fulfil the obligations in the letter of intent concerning the exchange of transaction reporting with other countries' supervisory authorities.

## Licensing

### Authorisation process

The expansion of the obligation to hold an authorisation resulted in Kredittilsynet receiving a substantial number of applications for authorisations to provide investment services in 2007. 58 new authorisations were granted to investment firms and two authorisations to investment firms that pursuant to the previous regime were only licensed to perform marketing. Of these, 47 authorisations were granted in the second half of the year up to when the act came into force on 1 November. In addition, during the year, ten authorisations were granted to existing investment firms to provide new investment

services (expanded authorisations), eight were granted pursuant to the earlier Securities Trading Act and two pursuant to the new one.

The work on authorisations also included 14 applications in which the consideration of the application resulted in the applications being refused, rejected or withdrawn. A total of 82 applications for authorisations were processed in 2007. In July 2007, Kredittilsynet announced that applications received before 1 September 2007 would be decided on before 1 November. All of the applications received before the deadline were decided on before 1 November.

Table 11: Investment firms

	2005	2006	2007
Firms with authorisation	75	85	132
Branches of foreign firms	11	9	10
New firms with authorisation	5	15	58
Firms that handed in their authorisation	7	5	7
Firms that had their authorisation revoked	1	0	2

### Assessment of suitability to manage investment firms

In 2007, Kredittilsynet changed its administrative procedures for testing the requirements concerning the suitability of relevant managers of investment firms and managers of branches of investment firms. Kredittilsynet had previously tested this on the basis of written documentation. In 2007, Kredittilsynet started interviewing the relevant

people in cases where the written documentation did not provide adequate information. The new practice is resource demanding. The interviews will form part of Kredittilsynet's operational inspections of investment firms. In 2007, 75–100 interviews were conducted. Around two thirds of those called in for interviews satisfied the provisions of the act during the period following the change of practice. This proportion has increased over time.

## Information and communication

In 2007, as previously, Kredittilsynet held two information seminars for investment firms in cooperation with Oslo Børs. Main topics were updates on the legislation pursuant to the Securities Trading Act. Kredittilsynet also arranged a separate information seminar about the new transaction reporting system. Apart from this, Kredittilsynet participated in seminars arranged by the trade organisations.

Kredittilsynet has also added a specific page to its website containing information about the new regulations and decisions that the agency

has made in connection with the new Securities Trading Act. Similarly, it has added a web page that contains information about the transaction reporting system (TRS).

### Market warnings – information about investment fraud

In 2007, Kredittilsynet was again apprised of many foreign firms that had approached Norwegian investors offering financial services without the requisite authorisations. Kredittilsynet published market

warnings on its website, cited warnings given by foreign supervisory authorities and posted notices in the media to warn consumers against dealing with such firms. Not only are the firms not authorised, but they are often running some form of fraud implying that people might lose their investment. By publishing market warnings

on its website and links to warnings published by foreign supervisory authorities, as well as through media coverage, Kredittilsynet has warned people against dealing with such firms. Kredittilsynet's website also contains information about investment fraud and how investors can protect themselves against fraudsters.

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## Management companies for securities funds

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### Supervision and monitoring

At the end of 2007, 23 management companies were licensed to manage securities funds. 11 of these were licensed to carry on business described in the Securities Trading Act, section 2-1, paragraph 4, as "active management of investors' portfolios of financial instruments on a client-by-client basis and in accordance with investors' mandates". The number of securities funds managed by the companies fell from a total of 447 to a total of 402.

Two ordinary on-site inspections were conducted at management companies in 2007. In addition, one on-site IT inspection was carried out, which involves inspecting the management company's IT solutions. The number of on-site inspections carried out was somewhat lower than the target. The reason for this was a lack of capacity due to unfilled staff posts and the extensive work involved in authorisation applications because of the new Securities Trading Act.

Kredittilsynet carried out a general survey to uncover the Norwegian securities funds' exposure to falls in value in the

American subprime market. The survey covered all funds in all management companies for securities funds subject to supervision in Norway. The management companies' reports showed that only a few funds were directly exposed through owning equities or fixed income securities issued by American finance companies. A few funds were indirectly exposed through investments in equities or fixed income securities in other American firms and/or finance companies outside the USA. However, Kredittilsynet's overall assessment is that the exposure of Norwegian securities funds to the subprime market is very low.

Furthermore, a survey was conducted to see whether the management companies for securities funds were complying with the Securities Trading Act's requirements concerning the production of marketing materials. In connection with this, enquiries were sent to some management companies asking for a report on the marketing of selected funds. The marketing of some funds was changed in order to comply with the regulations as a result of the survey. One management company decided to wind up one fund.

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### Regulatory development

On 26 November 2006, Kredittilsynet sent draft amendments to the regulations on differentiating management fees for securities funds to the Ministry of Finance. Kredittilsynet suggested that the regulations should be amended such that the differentiation would take place on the basis of the value of the unit holder's investment in the fund and that the discount should apply to the entire investment. On 19 December 2007, the Ministry of Finance laid down new regulations on

differentiated management fees for securities funds. The regulations are partly based on the draft regulations drawn up by Kredittilsynet. The differentiation pursuant to the new regulations shall be based on the value of the individual unit holder's investment in the individual fund. However, the Ministry of Finance has maintained the principle that the differentiated discount rates should apply within their intervals. The regulations came into force on 1 January 2008.



## Licensing

### Changed administration practice for significant amendments to articles of association

In the event of amendments to articles of association that are not obviously in the interests of all unit holders, because they entail substantial changes to the fund's original investment mandate and/or the fund's management fees would increase, Kredittilsynet's approval depended on the active consent of all unit holders. Kredittilsynet has now changed this practice. Approval of these types of amendments can now be expected if 90 per cent of the unit holders passively consent. The condition for approval of amendments to articles of association on this basis is that the management companies have followed a detailed and described procedure. See Kredittilsynet's Circular 14/2007.

### Revenue sharing agreements

Kredittilsynet has decided to change its administration practice with respect to the ability of management companies for securities funds' to sign agreements with customers concerning revenue sharing. This type of agreement cannot be used to introduce differentiated management fees in securities funds in general. The change of administration practice is a measure aimed at accommodating the sector's wishes for greater flexibility when negotiating prices with major customers with special negotiating strength. The change is described in detail in Circular 14/2007.

## Information and communication

In 2007, Kredittilsynet participated in an information seminar at the Norwegian Mutual Fund Association (VFF). The topic of the seminar was the importance of the new Securities Trading Act

for management companies for securities funds and the changed administration practice for the approval of significant amendments to articles of association.

## Market infrastructure

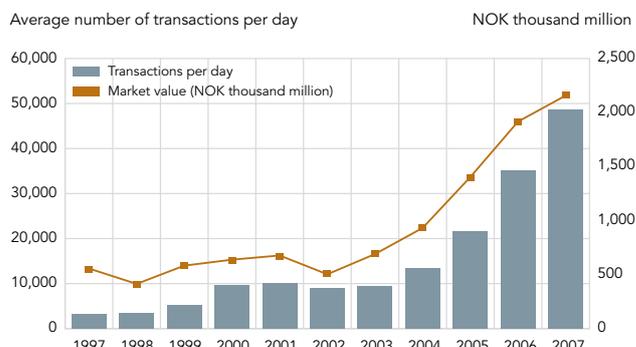
## Supervision and monitoring

Kredittilsynet supervises Oslo Børs ASA, the Norwegian Central Securities Depository (VPS), VPS Clearing ASA, Nord Pool ASA, Nord Pool Clearing ASA, NOS Clearing ASA, International Maritime Exchange ASA (Imarex), Fish Pool ASA and FishEx ASA. The securities market infrastructure was monitored closely in 2007, which included two on-site inspections. One IT inspection was also conducted, i.e. a specific inspection of the company's IT solutions. Turnover volumes in the equity market were also high in 2007, and the number of new listed companies on Oslo Børs remained high. Foreign investors' ownership share remains substantial and is increasing.

### Prospectus control

Pursuant to the Securities Trading Act, Kredittilsynet bears overall supervisory authority with respect to the control of prospectuses.

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



Source: Oslo Børs

The figures for 2007 do not include trading on Oslo Axess.

The regulations relating to the execution of prospectus controls delegates this responsibility to Oslo Børs. As part of its overall control Kredittilsynet receives a written report from Oslo Børs in line with the regulations' provisions. The report includes confirmation that the tasks have been executed pursuant to the law, regulations and the stock exchange's internal guidelines and instructions.

### **Inadequate compliance with the duty to report own transactions**

In November 2007, Kredittilsynet received a report from Oslo Børs which stated that the Chairman of the Board of Oslo Børs had sold 15,000 shares in Orkla ASA on 1 August 2007 and that this was first reported to the stock exchange on 19 September 2007. In a letter dated 3 December 2007 Kredittilsynet stated that the regulations concerning employees and officers had been breached. Kredittilsynet asked Oslo Børs to consider whether or not the Chairman still fulfilled the conditions the Securities Trading Act stipulates concerning board members, including the fact that board members should not "have demonstrated improper conduct that provides a basis for assuming the position or office cannot be fulfilled properly". The Chairman resigned his position on 5 December 2007. On the same day Oslo Børs discovered that the Chairman's trade was reported to the stock exchange via an automated reporting routine via VPS. Kredittilsynet found it doubtful that the report fulfilled the conditions stipulated in the regulations and did not alter the conclusions in the letter dated 3 December 2007.

### **Electricity market and electricity derivatives market**

Kredittilsynet has actively worked together with the Norwegian Competition Authority and the Norwegian Water Resources and Energy Directorate (NVE) on supervising the electricity market since 2003. The prices and the underlying market factors for electricity and CO<sub>2</sub> quotas have been monitored closely. The collabora-

tion with the two other agencies will continue. Prices in the electricity market were high in the Nordic region throughout 2007, from a historical perspective, even though the prices on the spot market in the summer of 2007 were somewhat lower. Reservoir levels in Norway and Sweden were around average at the start of the year, but a lot of rain in the summer resulted in higher reservoir levels than normal. The prices in the spot market fell significantly throughout the summer, while at the end of the year there was a significant increase in prices. Forward contracts were high throughout the period and indicate that the actors in the market expect price increases in the future. One of the reasons for such an increase could be that CO<sub>2</sub> quota prices are expected to have a significant effect on the production costs for electrical power elsewhere in Europe from January 2008.

### **Freight derivatives**

Price volatility in the freight derivatives market and bunker derivatives was high. Freight rates were also volatile throughout 2007. The volume traded over Imarex and settled via NOS Clearing is increasing. NOS Clearing is encountering international competition for some of its products. On-site inspections were conducted at both Imarex and NOS Clearing in 2007.

### **Fish derivatives market**

The prices for standardised salmon derivatives were low in 2007 compared with the previous year. EU provisions meant salmon delivered in the EU market were subject to minimum price restrictions, especially in the second half of 2007. This affected derivative prices. The market for salmon derivatives is still small, even though there is still thought to be potential for increased turnover. The reference prices for the underlying market for salmon are calculated somewhat differently by Fish Pool and FishEx, even though both of the regulated markets operate in almost the same market.

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## Licensing

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

In August 2007, Kredittilsynet recommended the merger between Oslo Børs Holding ASA and Verdipapirsentralen Holding ASA. The recommendation stipulated conditions. These were that the individual tasks necessary to carry out register activities and securities settlements, which also include tasks that are critical for

core activities, shall remain in Verdipapirsentralen ASA. The Board of Verdipapirsentralen ASA must also have a composition in which at least half of the members are independent of Oslo Børs ASA.

The Ministry of Finance approved the merger in November 2007, but stipulated more and somewhat stricter conditions for the merger.

### **FishEx and Fish Pool permitted to operate regulated markets with fish and seafood as the underlying commodities**

Following a recommendation from Kredittilsynet, FishEx was granted permission by the Ministry of Finance in March 2007 to operate an authorised market place. In May, Fish Pool was also granted an authorisation by the Ministry of Finance to operate an authorised

market place following a recommendation from Kredittilsynet. After the new Stock Exchange Act came into force, FishEx and Fish Pool received authorisations to operate regulated markets. Nord Pool Clearing ASA received an expanded authorisation as a clearing house for derivative contracts traded on FishEx, while NOS Clearing will operate as a clearing house for derivative contracts traded on Fish Pool.

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## Market conduct in the securities market

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### Supervision and monitoring

The overarching goal of the supervision of the general rules for market conduct is to help maintain the Norwegian market's reputation and thus its function as a well functioning source of capital.

The rules covering unlawful insider trading, market manipulation and due care in handling inside information are centre stage. Kredittilsynet also oversees compliance with the rules on the drawing up of insider lists, the duty to investigate, the prohibition against unreasonable business methods, notification rules and rules requiring disclosure of acquisitions of large shareholdings. Hence a number of supervised entities are involved: investors, advisers, issuers and their partners, including investment firms. The object is to bring to light and prosecute unlawful conduct in the securities market and, insofar as the conduct rules are applicable, in the markets for commodity derivatives. Kredittilsynet aims to show potential law-breakers that contraventions incur risk, and it will also apply other measures that are believed to have a deterrent effect with respect to criminal acts.

Many of the large number of cases dealt with by Kredittilsynet in 2007 were referred to it by Oslo Børs. Several cases were also reported to Kredittilsynet by investment firms. Kredittilsynet also initiated a number of investigations based on its own observations in the market.

Several of the insider cases handled by Kredittilsynet were time-consuming. As in 2006 this was especially true when the investigations involved other countries. In some cases Kredittilsynet had to work its way through 5–6 layers of managers before the genuine owners

were identified. Kredittilsynet utilised cooperation agreements with foreign supervisory authorities while conducting investigations. Kredittilsynet similarly assisted foreign supervisory authorities in their investigations in a number of cases.

In 2007, Kredittilsynet investigated several cases of suspected market manipulation and breaches of the provisions concerning unreasonable business methods. Investigations were also prompted by suspected breaches of notification rules and rules requiring disclosure of acquisitions of large shareholdings.

#### **Reports to the prosecuting authority and follow-up of reported cases**

Two cases of suspected unlawful insider trading and/or breaches of the duty of confidentiality were reported to the prosecuting authority in 2007, as were two cases of market manipulation. Kredittilsynet also reported two failures to disclose acquisitions of large shareholdings and nine breaches of the disclosure rules and issued warnings after minor breaches in these areas.

In 2007, Kredittilsynet reported Norsk Hydro ASA for possible breaches of the Securities Trading Act's provisions concerning proper information management after a Norwegian newspaper, *Dagens Næringsliv*, published a draft of the company's quarterly report for the fourth quarter of 2006. The factors associated with the production of the quarterly report were, in Kredittilsynet's opinion, unsatisfactory for the handling of sensitive information. The organisation and technical office solution chosen meant that several people could have access to the draft quarterly report,

including because separate printers were not used to produce the report. On 14 December 2007, Økokrim imposed a fine on Norsk Hydro ASA amounting to NOK 300,000 for breaching the Securities Trading Act's requirement concerning proper information management. The fine was accepted.

As far as following up reported cases is concerned, Kredittilsynet assisted Økokrim in connection with the prosecution of one major insider trading case. A staff member from Kredittilsynet was seconded to Økokrim and participated in Økokrim's work on the case until the main hearing in Oslo City Court had concluded. Kredittilsynet also participated in police operations and provided the police with subsequent assistance in interviews. Assistance was also provided on request to various police districts in connection with cases that had not been referred to them by Kredittilsynet. Kredittilsynet views the assistance it provides to the prosecuting authority in winding up cases of securities crime as money well spent in terms of the agency's overarching goals. The cooperation also helped to ensure that more of Kredittilsynet's staff have a better insight into the police's methods, at the same time as the police enhanced their competence within the field of securities.

Besides the cooperation in individual cases, the focus in 2007 was on extensive contact between Kredittilsynet, Oslo Børs and Økokrim in the form of regular meetings and informal contact. Kredittilsynet also has a good relationship with Nord Pool. The goal of the cooperation is to increase the efficiency of the overall market monitoring.

### Court decisions

- In June 2007, the Interlocutory Appeals Committee of the Supreme Court handed down a judgement concerning the admission of evidence pursuant to the rules in the Financial Supervision Act. The main question in the case concerned the scope of the protection against self-incrimination pursuant to the Securities Trading Act. The appealing party pleaded that the high court should have provided common grounds for a refusal to answer all questions that would be asked during the admission of evidence. The high court stipulated that there must be an opportunity to conduct a concrete assessment of the reasons for refusal in relation to the individual questions. The committee agreed and the appeal was dismissed.
- In June 2007, Kristiansand City Court handed down a judgement against two people for i.a. breaches of the Securities Trading Act's

rules concerning the use of unreasonable business methods in the trading of financial instruments. The defendants were found guilty of failing to provide adequate information when they contacted a number of people with offers concerning sales of shares. The judgement has been appealed by the defendants.

- In November 2007, three people were found not guilty in Agder High Court of those points in the charges that concerned breaching the Securities Trading Act's rules concerning the use of unreasonable business methods. The case originated from the same portfolio of cases mentioned above. The judgement has been appealed.
- In July 2007, Oslo City Court handed down a judgement in a major insider trading case against a former PR adviser and two investors. The PR adviser was found guilty of three counts of having urged an acquaintance to purchase shares at a time when he possessed inside information. The recipient of the information was also found guilty of three counts of having traded shares on the basis of inside information and of having urged another person to trade shares. A third person was also found guilty of having traded shares on the basis of inside information received from an acquaintance of the PR adviser and for having forwarded this information to others. The case received wide media coverage and resulted in the conviction of three of the defendants. The judgement is legally enforceable as far as the matter of guilt is concerned, but the sentence has been appealed.
- On 15 September 2006, Agder High Court found one person guilty of breaching the rules concerning the misuse of inside information, cf. the then Securities Trading Act's section 14-3, first paragraph, cf. section 2-1, first paragraph. The defendant was sentenced to 21 days imprisonment. He also had to endure the seizure of approx. NOK 29,000 from him and companies associated with him. The defendant appealed the case to the Supreme Court and the Interlocutory Appeals Committee of the Supreme Court allowed the appeal against the sentence to be heard. It was stated that sentences for insider trading should, on the basis of considerations concerning general deterrence, normally involve imprisonment. It was further stated that the specific sentence must be judged on the basis of the size of the placement and the nature of the relevant inside information. The appeal was then dismissed.

## Regulatory development

The provisions concerning the duty to report acquisitions of large shareholdings, periodic reporting and the issuer's disclosure of information that must be reported, i.a., were changed in the new Securities Trading Act. Kredittilsynet headed a group that drafted proposed regulations concerning these provisions. Kredittilsynet also drafted proposed regulations in connection with the establishment of new securities regulations intended to regulate the process surrounding the Norwegian Post and Telecommunications Authority's competence to release telecommunications providers from their duty of confidentiality. Kredittilsynet also produced a circular concerning the duty to report acquisitions of large shareholdings – Circular 3/2008, since this duty has been expanded in the new Securities Trading Act.

In 2007, Kredittilsynet, Oslo Børs and Økokrim produced a report on the three institutions' cooperation on combating securities crime. The report was produced at the request of the Ministry of Finance and forms part of the government's action plan to combat financial crime. The report is wide-ranging in scope and includes a description of the importance of the securities market to society as a whole, and the value of investing in combating securities crime. The report describes the three institutions and their roles in the securities market, and how they work to reveal and deal with suspected breaches of the rules. The report also discusses whether the framework conditions for the cooperation are good enough and the resources situations in the three institutions.

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## Licensing

### Preparing for new tasks

The implementation of MiFID and the reporting directive in the new Securities Trading Act and the new Stock Exchange Act means that Kredittilsynet will shortly and in the longer term be assigned new tasks associated with the supervision and control of conduct and reporting in the securities market. It is expected that some of the tasks that are currently delegated to Oslo Børs will be transferred to Kredittilsynet according to deadlines that have yet to be determined. In the case of prospectus control, the ability to delegate will cease with effect from 31 December 2010. In the case of delegation pursuant to the reporting directive, operational control will be able to be maintained until 20 January 2013, in most areas. It is necessary to start planning for the transfer of prospectus control in good time such that the necessary organisational modifications, budgeting and recruitment can be properly implemented. There is also a need to carry out a systematic review and assessment of the technical securities supervision and control tasks it may be appropriate to assign to Kredittilsynet in the long-term. The Director General of Kredittilsynet has on the basis of

this established an internal committee that has started examining the supervision and control tasks currently delegated to the market place that are associated with the conduct and reporting regulations in the securities market that Kredittilsynet must and/or should take over. The report will be completed by the end of 2008.

### Transaction reporting

Kredittilsynet's supervision should improve due to the establishment of a system for reporting transactions (TRS), discussed in more detail on page 44. This reporting could also encompass transactions involving financial instruments that are listed in regulated markets in other EEA countries. This will make it easier, for example, for Kredittilsynet to follow up suspected insider trading in foreign listed instruments carried out through Norwegian investment firms. The customer identification linked to all or parts of the reporting will also make it easier for Kredittilsynet to conduct checks across investment firms. The analysis system associated with the transaction reporting will also allow some checks to be made automatically.

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## Information and communication

In 2007, Kredittilsynet arranged two seminars for investment firms in which compliance with the rules of conduct was one of the topics. Kredittilsynet also provided information about various

matters through press releases and information published on its website. Several lectures were also arranged for market actors on the regulations and their practice.



All listed companies are required to apply the International Financial Reporting Standards (IFRS) when preparing and presenting consolidated accounts. Kredittilsynet is tasked with ensuring that they do this correctly. The supervision encompasses all Norwegian-registered enterprises that are listed on a stock exchange, an authorised market place in Norway or on a regulated market elsewhere in the EEA. It also encompasses enterprises that do not report under IFRS. Foreign enterprises listed on Oslo Børs were not covered by Kredittilsynet's supervision arrangements up to 31 December 2007. The supervision applies to periodic reporting such as annual accounts at group and company level, board of directors' reports and interim accounts.

## Financial reporting supervision



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## Trends and challenges

There has been a high level of activity in the securities market ever since the start of financial reporting supervision. There are more new listings on Oslo Børs and the establishment of Oslo Axess has generated further activity and more new listings of companies that have to apply the International Financial Reporting Standards (IFRS). This is resulting in a steadily increasing number of issuers becoming subject to financial reporting supervision, and many of

these companies have no previous experience with IFRS. In addition to this, the new Securities Trading Act requires that companies whose head office is in a country outside the EEA must choose a European “home country”. In the case of companies listed on Oslo Børs, there is reason to assume that they will choose Norway as their “home state” and Kredittilsynet as their supervisory authority.

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## Supervision of listed companies' financial reporting

One important aim of the EU's financial action plan for a well functioning market for capital and investment services in the EEA is to protect investors' interests and thereby promote deep, liquid capital markets in Europe. To ensure good financial reporting all listed companies must apply the international financial reporting standards when preparing their consolidated accounts.

National enforcement bodies have been established to supervise the companies' application of IFRS to increase reliability of the presented accounts. The supervision of financial reporting must be carried out based on the same standards across the entire EEA. Preparation of standards in this field is entrusted to the Committee of European Securities Regulators (CESR) by the EU Commission. Kredittilsynet bases its work on the standards prepared by CESR.

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## Financial reporting supervision in general

The supervision includes all Norwegian-registered issuers listed on a stock exchange or authorised market place in Norway or on a regulated market elsewhere in the EEA. Both listed issuers as well as issuers that have applied for listing are included. Foreign companies from other EEA countries that are listed on Oslo Børs are subject to the supervision of the supervisory authorities in their respective home countries. Issuers listed on Oslo Børs that are not registered in the EEA were not covered by the supervision arrangement up to 31 December 2007. The national government, municipalities and county municipalities are not encompassed by the supervision, neither are municipal or inter-municipal enterprises/companies. However, state-owned enterprises are covered by the arrangement.

The supervision covers the companies' periodic reporting, i.e. annual accounts (at both a group and company level), directors' report and interim reports, irrespective of the accounting standards applied.

A combination of techniques is applied in selecting enterprises for control. A three-pronged model has been established in which some companies are selected based on submitted reports, while others are selected based on risk analysis prompted by reports received via the Altinn.no internet portal. A rotation system will be employed to ensure that the financial reporting of all enterprises is checked within a given period.

### Supervision of financial reporting

At the end of 2007 about 300 companies (Norwegian-registered share, primary capital certificate and bond issuers) were subject to Kredittilsynet's supervision of financial reporting. About 80 of these were bond issuers. The growth in the number of listed companies subject to Kredittilsynet's supervision of financial reporting is high. During 2007, more than 40 Norwegian-registered issuing companies were admitted to listing on Oslo Børs and Oslo Axess.

In 2007, Kredittilsynet reviewed all or parts of the financial reporting of 31 companies. Particular attention was focused on issuers of equity instruments such as shares and primary capital certificates. In addition a limited thematic examination was conducted of the additional information provided about accounting-related pension liabilities. This survey covered 48 companies.

As a result of this review, 7 cases were subjected to closer scrutiny. Several of these cases had yet to be finalised at the end of the year. There was received one report from the companies, their elected representatives, senior employees or auditor indicating that the financial reporting of the issuers did not provide a fair presentation in conformity with the provisions of the Securities Trading Act. Kredittilsynet also reviewed all listed companies' auditor reports.

## The Accounting Expert Panel

An important complement to Kredittilsynet's resources is The Accounting Expert Panel. The panel was appointed by the Ministry of Finance on 13 October 2005 based on Recommendation No. 17 to the Odelsting (2004–2005). The recommendation was submitted to the Odelsting by the Standing Committee on Finance and Economic Affairs. Kredittilsynet is The Expert Panel's secretariat. The Expert Panel met six times in 2007, and had 11 matters referred to it for comment or discussion. Some matters have been considered more than once. Panel's advice is announced as part of Kredittilsynet's final letters as and when they become public. In December 2007, the Ministry of Finance decided to expand The Expert Panel by two members. The two new members are Signe Moen and Ståle Christensen. The Expert Panel's other members and alternate members were reappointed at the same time.

### The Expert Panel as per 1 January 2008:

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

## Major individual issues

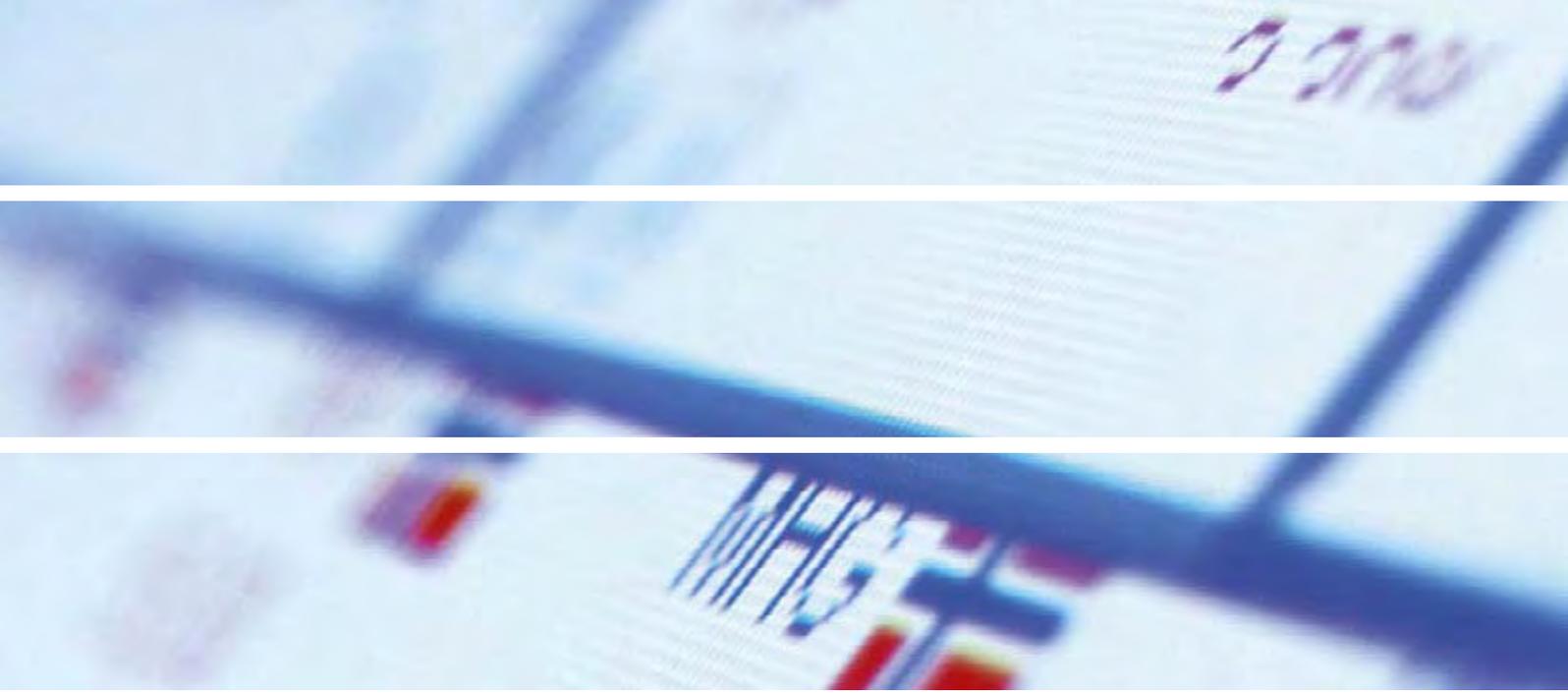
### Reversals of impairment loss, etc

During the review of the annual accounts for 2005, Kredittilsynet raised questions about one company's application of IAS 36 *Impairment of Assets*. The company had reversed a previous year's impairment loss of patents owned by a subsidiary. The recognition of this reversal in profit and loss in the consolidated accounts for 2005 was equal in magnitude to the group's total sales revenues. The company's basis for reversing the item was a non-binding Letter of Intent concerning the sale of a smaller post in the subsidiary. The agreement included among other factors a liquidation preference that meant that the buyer would receive three times the invested amount in the event any future sale, liquidation, etc. Given this, Kredittilsynet was of the opinion that one could not discern a reliable estimate of the patent assets' fair value on the basis of the non-binding Letter of Intent. The company was ordered to reverse the reversal unless alternatively it was possible to determine the patents' recoverable amount by calculating their value in use.

In addition, Kredittilsynet asked question about the impairment test the company had undertaken of its most material asset, a multi-client seismic library. Kredittilsynet's review concluded that there were significant deficiencies in the impairment test, and the company was ordered to conduct a new impairment test in line with IAS 36 *Impairment of Assets*. The company concluded that the effects of these two aforementioned factors were important and reduced the equity by about NOK 185 million. In line with Kredittilsynet's decision, the company thus presented new annual accounts for 2005.

### Scope of IAS 11 Construction Contracts

Kredittilsynet had in the review of the annual accounts for 2005 raised questions about one company's application of IAS 11 *Construction Contracts* when it recognised assets manufactured (produced) according to contract. The company used a stage of completion method as the income recognition principle for three contracts when recognising the production and delivery of a large number of night



vision goggles and night vision binoculars. In Kredittilsynet's opinion these contracts did not satisfy the criteria required by the standard and fell outside the scope of the standard. In the annual accounts

for 2006 the company chose to bring the accounts into line with Kredittilsynet's opinion. This resulted in the comparable figures for earlier periods being restated.

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## Regulatory changes and development

The Annual Accounts Regulations for banks and finance companies were amended on 31 March 2007 such that the institutions' company accounts could be presented pursuant to IFRS. Banks and finance companies included in a listed group have a duty to apply IFRS or the rules concerning the simplified application of IFRS when they prepare separate company accounts. Other banks and finance companies can choose from the following set of rules when preparing their company accounts: 1) IFRS, 2) simplified IFRS or 3) the accounting legislation's ordinary rules. Kredittilsynet published guidelines to the amendments to the regulations in Circular 17/2007.

The Annual Accounts Regulations for insurance companies were amended on 31 March 2007 such that non-life insurance companies can assess investment properties at their fair value and property for their own use according to the value-adjusted method in accordance

with IFRS. The regulations were also amended such the reinsurance in non-life insurance companies is recognised in the accounts in accordance with IFRS. Kredittilsynet published guidelines to the amendments to the regulations in Circular 19/2007.

Kredittilsynet sent a draft discussion paper to the Ministry of Finance on 27 September 2007 containing proposals for the adaptation of The Annual Accounts Regulations for insurance companies to IFRS and for new rules for life insurance. The draft discussion paper also included a proposal, as a temporary solution, that pension funds should apply The Annual Accounts Regulations for insurance companies to the extent these are suitable. On 9 November 2007, the Ministry circulated a memo based on Kredittilsynet's proposed discussion paper with a deadline for submitting comments of 4 January 2008.

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## Information and communication

Early in 2008, Kredittilsynet published a circular containing its experiences and findings from the review of the financial reporting in 2006. In addition, CESR published other countries' cases in two publications in 2007. This helps to ensure identical application of IFRS within the EEA.

Information for and communication with the market and important user groups are of great importance, not least with respect to the confidence in the capital market. Kredittilsynet provides infor-

mation through a combination of its website, circulars, press releases, seminars on specific themes and extensive presentations, as well as annual reporting.

In addition to this, Kredittilsynet has direct contact with all the listed companies. Kredittilsynet also publishes letters to listed companies to show the supervisory authority's practice when reviewing a company's financial reporting. All final letters are published on Kredittilsynet's website.



## Auditing

Kredittilsynet's tasks in relation to auditors include the approval or licensing of individuals and firms in accordance with applicable legal requirements, as well as registration and supervision. Supervision includes checking that auditors are maintaining their independence, and that their professional duties are performed in a satisfactory manner and in compliance with law, regulations and good auditing practice.



## Trends and challenges

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

The profession faces various challenges including those associated with the additional duties related to the audit of public interest entities following legislative amendments when the new auditing directive

come into force in the summer of 2008. The accounting regulations require familiarity with IFRS. Auditors also have to determine the correctness of the evaluations made. The auditing standards set for the profession must be complied with, irrespective of the type of audit client. These are subject to continuous development and stricter documentation requirements. Any expansion of the exemption from the duty to undergo auditing could have a significant effect on the profession.

## Supervision and monitoring

Kredittilsynet checks whether auditing assignments are performed in compliance with the Auditors Act including the good auditing practice requirement, and whether auditors are maintaining their independence. Kredittilsynet also checks whether the requirements that apply to auditing activities are being fulfilled, and that quality assurance of the audit work has taken place, for example that the obligations pursuant to the money laundering regulations are complied with and that the audit firm and auditor submit accounts and tax returns on time.

Since 2002, Kredittilsynet has coordinated its supervisory activity with the quality assurance conducted by the Norwegian Institute of Public Accountants (DnR) in respect of its members. Under the arrangement all members who are auditors in charge are checked by DnR over a five-year period. Kredittilsynet checks non-members, ensuring that all statutory auditors in charge are subject to quality assurance within the same period. Should DnR's quality control bring to light circumstances that could prompt withdrawal of an auditor's licence, the matter is reported to Kredittilsynet for further action. Two cases were reported by DnR in January 2008 based on the institute's quality assurance performed in 2007. See page 59 for DnR's report for 2007.

Kredittilsynet also carries out supervision prompted by its own risk assessments, reports received and other indicative factors, for example in the media. Matters that come to light in other entities supervised by Kredittilsynet and in connection with Kredittilsynet's financial reporting supervision may also lead to scrutiny of the work of the relevant auditor. Kredittilsynet particularly focuses on the four major international audit firms. One of the reasons for this is that they audit listed companies. This focus is essential when it comes to achieving well functioning markets in which market participants can trust the financial reporting by these companies. Good audit quality helps to reinforce this trust.

117 cases were concluded in 2007, of which 105 covered inspections of statutory auditors and 12 covered audit firms.

Kredittilsynet received 82 reports regarding auditors in 2007. Since Kredittilsynet's resources are largely targeted at cases in which it appears clear that the auditing has not been performed in compliance with the Auditors Act and good auditing practice, a large proportion of the cases showed significant deficiencies and in the most serious cases it resulted in a withdrawal of the licence.

Table 12: Withdrawal of auditors' licences

	2003	2004	2005	2006	2007
State authorised auditors	0	0	2	5	3
Registered auditors	3	4	2	9	4
Audit firms	1	0	0	1	0

### Supervision of the largest audit firms and the auditing of listed companies

Kredittilsynet conducted an inspection of PricewaterhouseCoopers AS (PwC) as part of its prioritised supervision of the major audit firms. The policies and procedures that apply at any given time to an audit firm and which shall be complied with by statutory auditors

and others on the audit team will therefore in practice be of great importance to the quality of all audit engagements the firm undertakes. Kredittilsynet found that PwC's guidelines comply with the provisions of the Auditors Act, and good auditing practice, and had no specific observations related to the firm's procedures. The firm also meets the Auditors Act's requirements for audit firms.

## Auditing

In October 2007, a similar firm inspection of Ernst & Young AS was conducted, including a review of the audit of two listed companies. This inspection will be concluded in 2008.

In connection with the inspection of PwC, Kredittilsynet selected one major listed group for inspection. In this case Kredittilsynet identified overreliance on the work carried out by the group's internal audit function. Auditors can alter the type and timing of audit procedures they carry out, as well as reduce the scope of the procedures if a company has an effective internal audit system. However, in order to perform a financial statement audit in compliance with the Auditors Act the auditor's own audit procedures must be of a scope that provides the auditor with an adequate and independent basis for expressing an opinion on the financial statements. PwC will take Kredittilsynet's remarks into account in its future audit work.

### Audit of Nedre Romerike Vannverk AS

Kredittilsynet assessed the financial statement audits of Nedre Romerike Vannverk AS and Sentralrenseanlegget RA-2 AS based on media coverage and the investigation initiated by the Nedre Romerike Intermunicipal Audit. The statutory auditor handed in his authorisation as an auditor and, since it was an audit firm that was elected as the auditor, Kredittilsynet followed up the case with the audit firm. Kredittilsynet noted significant deficiencies in the audit performed to the extent that the companies could not be regarded as audited. This situation was considered a serious breach of the provisions of the Auditors Act. The audit firm has submitted a report about the measures taken to prevent similar errors.

### Off-site inspections

All auditors and audit firms are subject to an off-site inspection every second year. Such an inspection was conducted in the autumn of 2007 having auditors report their answers through Altinn.no. The report will be finalised in the spring of 2008.

## Licensing

Table 13: Number of authorised auditors and audit firms

	31.12.2005	31.12.2006	<b>31.12.2007</b>	<b>Approved in 2007</b>
State authorised auditors	2,469	2,554	<b>2,642</b>	<b>81</b>
Registered auditors	3,026	3,113	<b>3,028</b>	<b>78</b>
Audit firms	569	730	<b>789</b>	<b>94</b>

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

Kredittilsynet authorises auditors as either "registered" or "state authorised public accountants". "State authorised public accountants" are subject to higher educational requirements than are "registered public accountants". In order to qualify for authorisation, auditors

need to pass a practical examination. The examination is prepared by an examination board and is organised by the University of Agder. The examination was held for the third time in the autumn of 2007. A total of 62 candidates took the examination and all of whom passed.

## Regulatory development

At the request of the Ministry of Finance, Kredittilsynet has prepared a consultation paper containing the legislative and regulatory provisions necessary to implement the new auditing directive. The regulations are expected to come into force by no later than 1 July 2008, which is the implementation deadline for the directive. The Norwegian regulations largely fulfil the requirements stipulated by the directive concerning auditors and audit firms, and concerning public supervision and control. The most significant change is the requirement that all public interest firms must establish an audit committee in the form of a working group under the board. It is proposed that banks and other credit institutions, insurance companies and listed companies be regarded as public interest firms. Special requirements concerning the auditors who audit such firms will also apply.

Kredittilsynet contributes a secretary and one member to the "Audit Obligation Committee".

The Auditors Act provides for the adoption of regulations concerning an appeals board that shall decide appeals against Kredittilsynet's orders to withdraw an auditor's authorisation and other orders made under the act. Kredittilsynet has drafted regulations concerning such an appeals board in response to a request from the Ministry of Finance. This was sent to the Ministry of Finance on 13 March 2007. A joint appeals board for auditors and authorised external accountants is proposed.

# Information and communication

Kredittilsynet has a good working relationship with DnR and the Tax Administration when it comes to supervising auditors.

International cooperation in the area of auditing continues to increase significantly, both at a Nordic level, within the EEA and globally. See

the discussion in the “International activities” chapter, pages 79–80. Kredittilsynet also responds to numerous media enquiries regarding auditing. In major cases involving investigations by the Tax Administration, Økokrim and others, the spotlight has also been on the role of auditors and Kredittilsynet’s supervision.

## DnR’s Quality Assurance – Annual Report 2007

With reference to the “Guidelines for collaboration between Kredittilsynet and Den norske Revisorforening (DnR – the Norwegian Institute of Public Accountants) regarding quality assurance review of statutory auditors”, the Board of DnR hereby presents a summary of the results of the quality assurance reviews conducted in 2007.

### Organisation of quality assurance reviews in 2007

The quality assurance system is described in “Details of the quality assurance system 2007” as posted at [www.revisorforeningen.no](http://www.revisorforeningen.no). It is designed with a view to checking compliance with good auditing practice, including audit standards, and focuses on the provisions of the Auditors Act concerning auditors’ finances, independence, indemnity and continuing education.

The review team comprised 41 state authorised and registered auditors, all with a broad professional background.

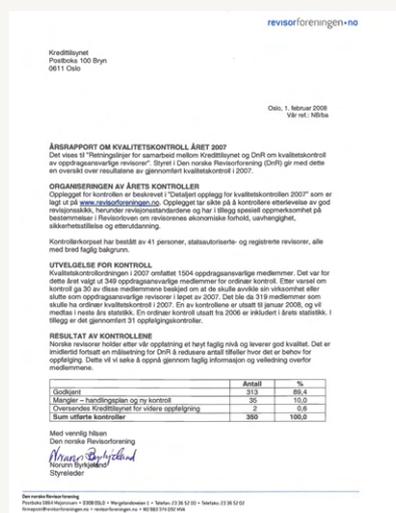
### Selection of reviews

In 2007, the quality assurance system encompassed 1,504 statutory auditors. 349 statutory auditors were selected for ordinary review. Following notification of the quality assurance review, 30 of these auditors reported that they were winding up their business or retiring as statutory auditors during the course of 2007. 319 statutory auditors were therefore meant to undergo ordinary quality assurance review. One of the reviews was postponed until January 2008 and will be included in next year’s statistics. One ordinary review that was postponed in 2006 is included in this year’s statistics. A further 31 statutory auditors were subject to follow-up review.

### Result of the quality assurance reviews

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

	Number	%
Approved	313	89.4
Deficiencies noted – action plan and new review this year	35	10.0
Referred to Kredittilsynet for further action	2	0.6
<b>Total number of reviews conducted</b>	<b>350</b>	<b>100.0</b>



Yours sincerely

(Signed)

Norunn Byrkjeland

Chairperson

The Norwegian Institute of Public Accountants

# External accounting services

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



## Trends and challenges

The external accounting sector is growing. Around 276,000 firms in Norway had outsourced their accounting to authorised external accountants as per 31 December 2005. The external accounting sector still consists of a very large number of firms, and earnings are weak. Around 95 per cent of external accounting firms had fewer than ten employees and around 36 per cent have less than NOK 1 million in annual turnover. The five largest external accounting firms and groups are responsible for approximately 15 per cent of the sector's total turnover. Authorised external accountants'

level of training is clearly higher than before. Just under 60 per cent of all authorised accountants now have university or college educations of longer than two years. Even though the competence requirements are stricter, including when it comes to continued education, smaller external accounting firms find staying up-to-date especially challenging. The regulations that apply for accounting are becoming increasingly complex. In addition to this, the risk associated with IT systems in external accounting firms is increasing.

## Supervision and monitoring

Kredittilsynet checks whether accounting assignments are discharged in compliance with the Authorisation of External Accountants Act including compliance with good accounting practice. This includes checking that the obligations pursuant to the money laundering regulations are being complied with and that quality control of the work takes place in cases where staff who are not authorised external accountants are used, that the external accounting firm and authorised external accountants deliver accounts and tax returns on time, etc.

Because of the large number of authorised external accountants and external accounting firms, the quality controls performed by the Norwegian Association of Authorised Accountants (NARF) is included in Kredittilsynet's assessment. The quality control report produced by NARF for 2007 is presented on page 63. In addition to the reporting by NARF, Kredittilsynet's inspections are initiated on the basis of reporting by the Tax Administration, trustees of bankrupt estates, principals, media coverage, etc. Some inspections are also conducted

when there is no basis for suspecting that breaches of regulations exist. In the assessment of which authorised external accountants are going to be inspected by Kredittilsynet weight is given to whether they are members of NARF. Kredittilsynet has particularly focused on the largest external accounting firms, including through annual contact meetings.

Kredittilsynet processed a total of 180 supervisory cases in 2007. Of these 132 involved statutory accountants and 48 external accounting firms. Kredittilsynet's resources are largely targeted at cases in which it appears clear that the accounting activities have not been discharged in compliance with the applicable regulations. A large proportion of the supervisory cases therefore conclude with observations and in the most serious cases the withdrawal of authorisation as an accountant. See also the discussion of Kredittilsynet's lectures and seminars during the course of the year in the "Information and communication" section, page 63.

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

	31.12.2004	31.12.2005	31.12.2006	31.12.2007
Withdrawal	4	18	11	49
Withdrawal – firm	–	–	1	19
Suspension*	–	–	–	1

\* Applies from 30 June 2006

Of the total 68 decisions concerning withdrawal in 2007, 53 were based on a lack of response or feedback with respect to off-site inspections that were carried out in 2006, involving 37 individuals and 16 firms.

### Off-site inspections

Off-site inspections are conducted every second year. All authorised external accountants and external accounting firms are required to answer a questionnaire that is submitted via Altinn.no. The responses are used to produce statistics and provide a basis for further analyses of the external accounting sector. The responses also provide a basis

for follow-up in relation to individual authorised external accountants. This also applies to external accounting firms who have reported that they have negative equity. Those who report that the obligations to submit annual accounts and/or tax returns have been breached two years in a row are contacted. The report from the off-site inspections in 2006 was completed in the spring of 2007.

### Unlawful external accounting activity

Kredittilsynet investigates entities carrying on business in violation of the Authorisation of External Accountants Act. 24 written reports were received in 2007. After further investigations Kredittilsynet

## External accounting services

issued nine orders to cease activities for which authorisation is required.

Kredittilsynet has limited available resources to investigate situations involving unlawful external accounting activities. It is in the user's

own interests to ensure they obtain the competence and security inherent in the authorisation scheme. It is therefore important that users of external accounting services themselves check that the external accountant they are using has authorisation and is registered in Kredittilsynet's register, which is available on the agency's website.

Table 15: Unlawful external accounting activity

	2003	2004	2005	2006	2007
Reports received	38	74	29	47	<b>33</b>
Activities suspended	12	9	12	18	<b>9</b>
Reports to the police	3	1	0	2	<b>0</b>

## Licensing

The Authorisation of External Accountants Act and the authorisation of external accountants regulations were amended with effect from 1 July 2006. The amendments necessitated closer supervision by Kredittilsynet. In February 2007, around 320 external accounting firms were ordered to comply with the provision of the Authorisation of External Accountants Act stipulating that the CEO must be an

authorised external accountant. In November, more than 70 of these firms were notified their authorisation would be withdrawn due to failure to comply. Around 1,000 previously authorised external accountants were contacted in April 2007 and made aware of the transitional rule giving them the opportunity to be authorised pursuant to the earlier criteria within a set deadline.

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

	31.12.2005	31.12.2006	31.12.2007	Approved in 2007
External accountants	7,179	7,472	<b>7,966</b>	<b>599</b>
External accounting firms	2,632	2,652	<b>2,691</b>	<b>200</b>

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

## Regulatory development

Kredittilsynet sent out a consultation paper containing proposed amendments to the authorisation of external accountants regulations concerning lawyers who provide external accounting services to others as part of their professional activity. Kredittilsynet has amended the regulations so that that law firms are subject to a requirement that they have a technical manager, instead of a general manager, who is an authorised external accountant. The deadline for lawyers who provide external accounting services that require authorisation was extended from 31 December 2007 to 31 December 2009. Kredittilsynet can grant a further extension of the deadline in special circumstances on the basis of an application.

The Authorisation of External Accountants Act provides for the adoption of regulations concerning an appeals board that shall decide appeals against Kredittilsynet's orders to withdraw authorisation and other orders made under the act. Kredittilsynet has

drafted regulations concerning such an appeals board in response to a request from the Ministry of Finance. This was sent to the Ministry of Finance on 13 March 2007. A joint appeals board for auditors and authorised external accountants is proposed.

At the request of the Ministry of Finance, Kredittilsynet examined whether the regulation of external accounting services needed to be changed due to the requirements of the Services Directive (Directive 2006/123/EU). Kredittilsynet's assessment is that the provisions of the Services Directive, which regulate the free exchange of services, should not be implemented in Norway. This assessment was based on the fact that this is an occupation that in Norway is regulated by law in the public interest. The terms for receiving authorisation as an external accountant are not regarded as discriminatory or disproportionate, meaning the services directive does necessitate amendments to these provisions.

# Information and communication

Kredittilsynet has a good working relationship with the professional organisations and the Tax Administration concerning supervision of authorised external accountants. Kredittilsynet also participates in seminars and handles enquiries from the media and others linked to issues concerning authorised external accountants and the administration of the regulations.

## Quality control seminars

During the period May to September 2007, NARF arranged 36 seminars involving a total of 2,991 participants. The topics covered were the requirements that apply to external accounting firms and how their activities can be organised to ensure compliance with the requirements

of the Authorisation of External Accountants Act, which include good accounting practice. Kredittilsynet gave lectures at these seminars about the obligations that come with being authorised as an external accountant, and what being subject to the supervision of Kredittilsynet means. The invitations to those who were not members of NARF were sent by Kredittilsynet to ensure that as many people in the sector as possible were invited to the seminars. From a supervisory point of view, it was especially important to Kredittilsynet to reach authorised external accountants who are not subject to NARF's quality control system, and who do not have access to the professional support such membership provides. It is therefore positive that as many as 1,022 of those who participated in the seminars were not members of NARF.

## NARF's Quality Control – Annual Report 2007

In 2007, the Association's quality control programme was conducted pursuant to the plan for the control programme sent in 2006 for that year. A total of 360 quality checks were conducted in 2007, of which 52 involved follow-up checks. More than half of these checks involved firms that have previously been checked, but not in the last six years, cf. current cooperation agreement concerning the frequency of checks.

3,000 participants, approximately one third were authorised external accountants who were not members of the Association. The seminars resulted in noticeably improved quality at the Association's members, cf. the statistics below.

## Quality control seminars

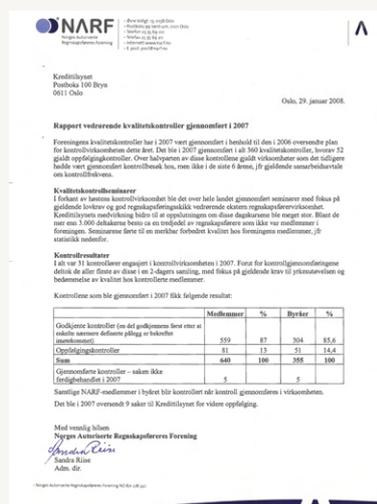
Prior to the autumn's control programme, seminars focusing on the applicable statutory requirements and good accounting practice vis-à-vis authorised external accounting services were held throughout the country. Kredittilsynet's participation helped to ensure that the turnout at these daylong courses was very good. Of the more than

## Control programme's results

A total team of 31 was involved in the control programme in 2007. Besides carrying out of the checks, most of these took part in a 2-day seminar that focused on the applicable requirements vis-à-vis the execution of their tasks and the assessment of quality at checked members.

The quality control programme in 2007 produced the following results:

	Individuals	%	Firms	%
Approved (some approved only after some specified instructions were confirmed as having been carried out)	559	87	304	85.6
Follow-up controls/measures	81	13	51	14.4
<b>Total</b>	<b>640</b>	<b>100</b>	<b>355</b>	<b>100</b>
Conducted checks – case not concluded in 2007	5		5	



All NARF members in a firm are checked when checks are carried out in the firm.

Nine cases were referred to Kredittilsynet for further follow-up in 2007.

Yours sincerely

(Signed)  
Sandra Riise  
Managing Director  
Norwegian Association of Authorised Accountants



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

## Estate agency



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## Trends and challenges

The level of activity in the sector has increased significantly in recent years in parallel with a long period that has seen a good, stable property market. The activity in the market flattened out somewhat in 2007, and many firms reported negative operating results and/or negative equity. A slowdown in sales will have immediate effects on the earnings in the sector, with the problems this can entail vis-à-vis satisfying the requirements concerning positive equity and the proper management of clients' funds. New regulations came into force on 1 January 2008. These include stricter requirements concerning the competence of those carrying out estate agency.

### High level of activity in the estate agency sector in 2007 as well

There was a net increase of 35 firms with licences to practise estate agency in 2007. This increase is on a par with the level in 2006 when the net increase was 39 firms. A total of 717 firms were carrying out

estate agency as per 31 December 2007. Meanwhile, many of these firms have substantial networks of branches. At the end of 2007, 334 such branches were registered, meaning that estate agency services were operated from 1,051 locations in Norway by the specialised estate agents. In addition to this, there are the estate agency services provided by 37 housing cooperatives that mediate associated shares in housing cooperatives, and the estate agency services provided by 1,324 lawyers who have pledged specific security for estate agency services. Meanwhile, the property market trended downwards at times during 2007. The sales figures for the first half of 2007 show an increase of only 1.4 per cent compared with the first half of 2006. The corresponding increase from 2005 to 2006 was 9.5 per cent. This means that a number of estate agents face possible financial difficulties because many estate agents have already been experiencing weak earnings for a prolonged period and have a weak capital base from which to operate.

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## Supervision and monitoring

### Supervision in general

One important goal is to carry out a responsible number of on-site inspections in relation to the high level of activity in the property market and the strong expansion in the estate agency sector. Kredittilsynet has the impression that some estate agents are not too conscious of a number of basic laws and regulations, or appear to have a low threshold when it comes to setting key provisions to one side, including winning an estate agency commission in a situation where the competition for clients is tough and the pace of work is high. Reference is particularly made to important consumer protection considerations found in the Housing Construction Act and the Alienation Act in the form of guarantee pledges and equal weight considerations in contractual relationships.

### Types of firms and areas inspected

The firms selected for supervision with on-site inspections are selected on the basis of several criteria including reports received from clients about the firms in the form of enquiries expressing concern and complaints. In addition to this, comes media coverage and indications of unsatisfactory situations that are uncovered through off-site inspections of estate agents. Even though inspections are a very important tool in the direct supervision of the sector, they are supplemented by the firms' half yearly reports to Kredittilsynet. Such a report shall contain information showing, among other things, that the basic conditions are still being met for operating estate agency services. The report shall be accompanied by specific confirmation from an auditor concerning the firm's management of clients' funds. This report shall also present the firm's financial situation.

In 2007, 50 on-site inspections of estate agency firms were conducted. The inspections particularly focused on the estate agents' management of project commissions and new cases of own trading, cf. the Estate Agency Act's prohibition against estate agents and lawyers who themselves carry on estate agency, and related parties, buying and selling property through an estate agency firm the estate agent himself or herself is associated with. The activities of so-called settlement firms that have specialised in property settlements were reviewed in particular. Of the 13 firms that were the subject of these inspections, quite serious failures in routines were demonstrated in five firms. Kredittilsynet will pay particular attention to these firms in the future.

### Serious breaches of the regulations uncovered in one estate agency firm

The inspection at one estate agency firm uncovered serious breaches of the regulations in the form of negligence vis-à-vis the obligation to keep records, a lack of internal control, weaknesses in the management of clients' funds, and breaches of the estate agent's obligations in connection with the execution of estate agency commissions in a housing project commission. Besides these, the firm had on occasion breached its obligation to submit reporting forms to Kredittilsynet. Kredittilsynet regarded the situation uncovered in the firm as extremely inadequate and a case of improper business practice, as well as a case of poor professional estate agency and withdrew the firm's licence to carry on estate agency. The firm appealed the decision to the Ministry, but the appeal did not succeed.

### **Breaches of the prohibition against own trading uncovered in two firms**

Even though not as many cases of own trading were discovered as in 2006, quite extensive breaches of the prohibition against own trading in the Estate Agency Act were uncovered in two firms. This is regarded as astonishing given the considerable attention paid to this type of breach recently and the regulations for this area in the sector. Breaches of the regulations concerning guarantee pledges pursuant to the Housing Construction Act were demonstrated in 11 of the inspected firms.

### **Estate agents' mediation of planned housing projects**

There has been a great deal of start-up activity in the housing market in recent years, and the supervision of estate agency in 2007 particularly focused on the estate agents' mediation of planned housing projects.

The media have uncovered some cases of unreliable actors in the construction industry and of buyers who could not move into homes that they had bought as planned. As a rule, when such projects go wrong they have major consequences for a lot of people. The facilitation and mediation of such housing projects often raises complicated

issues of both a technical and legal nature, and the estate agent needs to have specific expertise and experience in this area. The execution of this type of project is checked during inspections of estate agency firms. Among the things the inspections check are that the contractual terms in purchase contracts comply with legislation and that the contracts are executed as agreed. This entails the estate agent having to ensure that the developer pledges the statutory guarantees and that the settlement takes place in a secure and satisfactory manner.

Kredittilsynet has the impression that some estate agents have not paid enough attention to the situation concerning public permits for building projects. Such factors are of crucial importance to the trade and Kredittilsynet believes estate agent should be subject to stricter requirements with respect to this point. This means, among other things, that an estate agents should have an obligation to check that the necessary general and start-up permits have been granted for projects they mediate, and that certificates of completion or provisional permission to use parts of a building exist when the houses are taken over by buyers.

Kredittilsynet informed estate agents of their obligations in connection with the mediation of houses under construction in Circular 9/2007.

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## Regulatory development

### **New Estate Agency Act and regulations**

A new Estate Agency Act was adopted on 29 June 2007 and came into force on 1 January 2008. The act stipulates new and stricter general conditions for the sector in several areas. The purpose of this is to strengthen consumer rights. The changes in the new act include:

#### **Stricter requirements concerning competence**

Each commission must be assigned an estate agent in charge. This person shall himself or herself carry out the most important elements

of the commission. Only people who hold certified estate agent qualifications or a lawyer with relevant practical experience, etc, and who has been granted special permission pursuant to the Estate Agency Act, can act as an estate agent in charge.

#### **Stricter independence rules**

Stricter requirements concerning the independence of providers of estate agency services are stipulated. Lawyers are put on the same footing as estate agents, and all employees in the firm will be covered

by a prohibition against operating other business that is likely to have a negative effect on the estate agents' integrity and independence.

#### **Stricter technical quality responsibilities for boards and general managers**

Requirements vis-à-vis the suitability of board members and general managers of estate agents have been introduced. The board of directors is responsible for ensuring that estate agency routines are produced and that these are updated as needed.

#### **New rules for estate agents' fees**

A prohibition against progressive fees in consumer situations has been introduced. Estate agents are ordered to produce a written offer based on an hourly rate, regardless of whether remuneration in the form of commission has been agreed. Regardless of the agreed form of remuneration, the estate agent must produce an invoice for each commission that specifies, among other things, how many hours have been spent on the execution of the commission. Sales prospectuses shall state the sort of remuneration agreement that has been entered into between the vendor and the estate agent, and the hourly rate/percentage.

#### **Stricter requirements concerning information in sales prospectuses**

The share of the joint mortgage and the expected increase in joint costs following any interest-free period must be stated in the prospectus. The sales prospectus must also include information about the possibility of renting out the property for residential purposes.

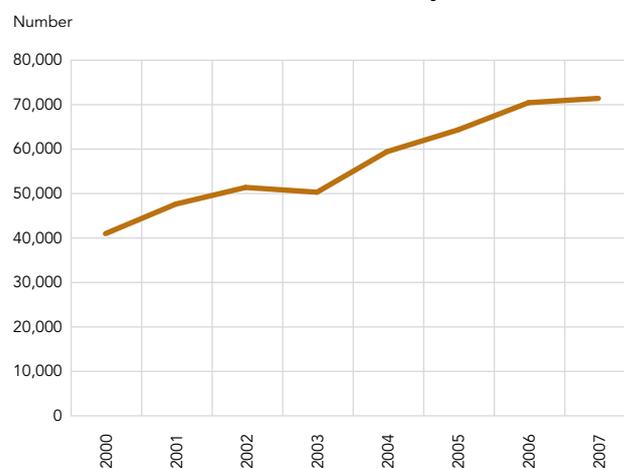
#### **Mandatory participation in complaints board**

The new act makes it mandatory for estate agents and lawyers who carry out estate agency to join a complaints board that is certified by the authorities and which will handle complaints from vendors, buyers or other interested parties concerning the objects mediated via the firm of lawyer.

#### **Transitional rules**

On 23 November 2007, the Ministry of Finance laid down new regulations relating to estate agency and transitional rules for the new Estate Agency Act. One of the main points of the transitional arrangements is that the act's provisions concerning the qualifications requirement vis-à-vis estate agents in charge do not come into force before 1 January 2011. During the period up to 1 January 2013, people without formal qualifications can apply to Kredittilsynet for authorisation as an estate agent in an estate agency firm. Such permission is conditional on the person concerned having at least three years' practical experience of estate agency, of which at least two years must have accumulated in the last five years prior to 1 January 2008. These applicants must also have passed an exam approved by Kredittilsynet, and have the requisite good record of conduct and solvency. According to the Ministry they have chosen this transitional solution in order to balance considerations concerning bringing about a genuine increase in competence in the sector for the benefit of consumers and the danger of increased prices caused by a lack of qualified staff in the sector.

**Chart 5: Number of sales, first half of the year**

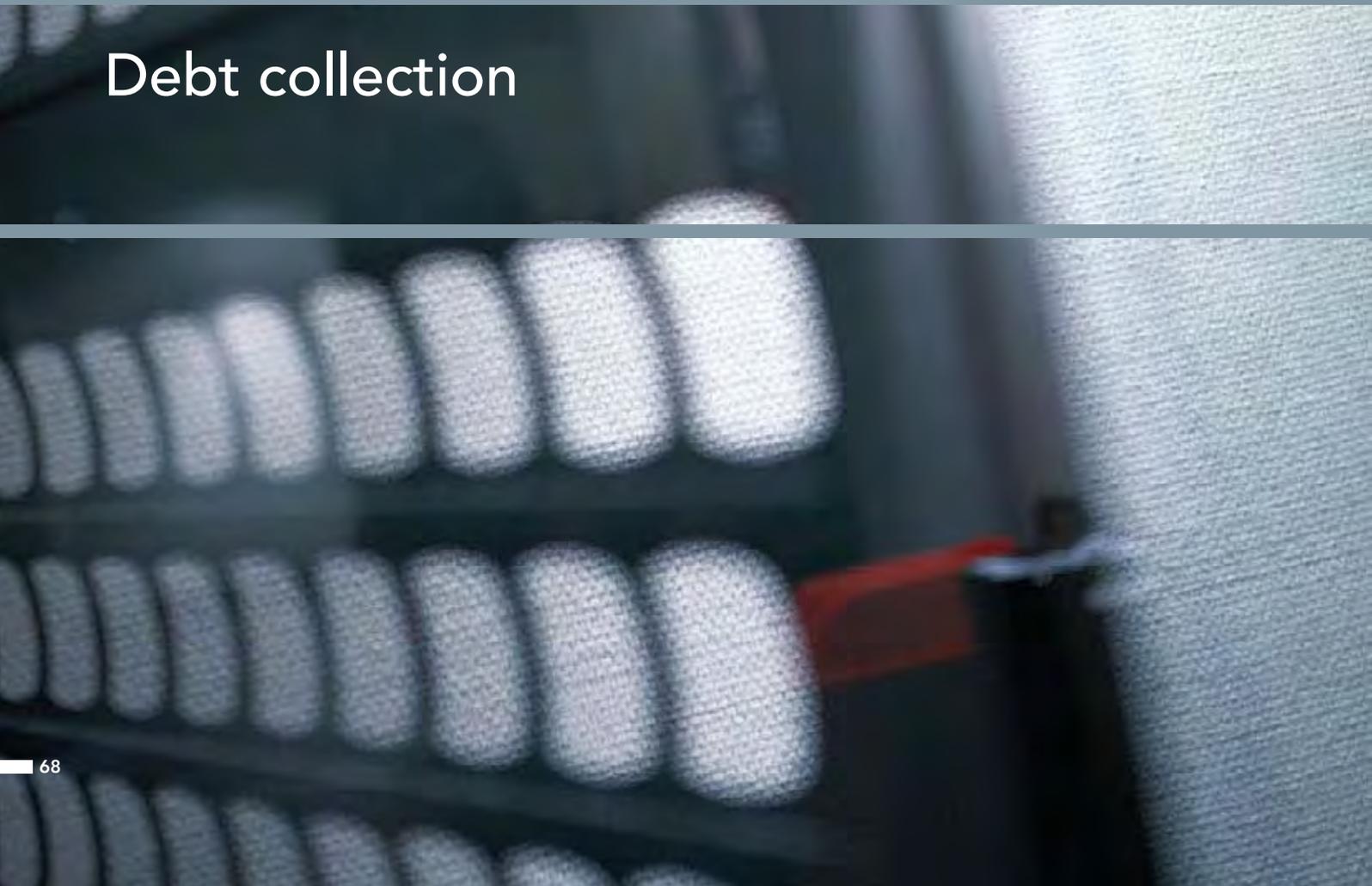


Source: Kredittilsynet



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

## Debt collection



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## Trends and challenges

The number of debt collection agencies has been stable for a prolonged period of time. The number of debt collection cases has trended upwards since the middle of 2006. The sector has a few large agencies that cover around two thirds of the total value of claims for recovery. Today, recovery is primarily based on automated IT processes. In 2007, serious cases were uncovered of incorrectly calculated collection fees in some firms, which caused concern about whether the firms have satisfactory debt collection systems and control routines.

### Small changes in the market for debt collection services

112 ordinary debt collection agencies were registered at the end of 2007. This is five fewer than at the start of the year. At the end of the first half of 2007, there were around 2.8 million ongoing debt collection cases with a value of claims for recovery totalling NOK 43,300 million. This amount includes the agencies' collection fees, accrued interest and public fees. The trend of a quite strong fall in

new debt collection cases referred for recovery from 2005 up to and including the first half of 2006 changed into a solid increase from the second half of 2006. This increase continued during the first half of 2007 when around 2.1 million new cases were referred for recovery. The three largest debt collection agencies, Lindorff AS, Aktiv Kapital Norge AS and KrediNor together account for around 42 per cent of the total number of cases referred for recovery. The same agencies account for no less than 61 per cent of the total value of claims for recovery. These calculations were made on the basis of figures reported to Kredittilsynet as per 30 June 2007.

At the end of 2007, there were only eight agencies that purchase overdue debt and collect it themselves based on a special licence to recover purchased debt. This has remained almost unchanged throughout the year. These agencies held claims in process involving a total of around 18,000 cases that represent unfulfilled obligations worth NOK 1,300 million.

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## Supervision and monitoring

Kredittilsynet finds it surprising, and believes that it is a cause for some concern, that many serious breaches occur in supposedly competent debt collection agencies, both with respect to individual cases and ones involving more systemic problems, and that these involve breaches of fundamental debt collection rules. The reasons for this are a mixture of inherent weaknesses in the debt collection systems as such and procedural errors due to human error. In some cases, the relevant management have failed to fulfil their active control obligations and appear to rely on the electronic administration systems functioning absolutely correctly.

Five inspections were conducted of agencies that collect overdue debt on behalf of other businesses and organisations. Several limited surveys were conducted in the form of correspondence with the relevant agencies aimed at investigating claims from debtors concerning errors in debt collection procedures.

### Intrum Justitia AS' debt collection licence withdrawn

Intrum Justitia AS' debt collection licence was withdrawn on 28 November 2007. A complaint from a debtor uncovered serious failings in Intrum Justitia AS' administration system, which had resulted in the agency claiming excessive collection fees from debtors in around 3,600 cases in 2006 and 2007. The total amount of excessive collection fees that had partly been paid by debtors was around NOK 1.5 million. The amounts varied from NOK 100 for an individual debtor to around NOK 5,000. The agency repaid the amounts that the relevant debtors had wrongly paid to the debt collector and waived the portion that had not been paid. The cause of the error appears to have been inadequate testing during the introduction of a new debt collection and administration system, and weaknesses in connection with the internal monitoring of the recovery process.

One factor that weighed heavily in the decision to withdraw Intrum Justitia AS' debt collection licence, which had been one of the largest debt collection agencies in Norway, was that the serious errors that were uncovered in 2007 had originated in the beginning of 2006. This was just a short time after Kredittilsynet had also uncovered major weaknesses in the debt collection routines, among other things, in Intrum Justitia AS in 2004/2005. At that time the agency was allowed to keep its licence because it had implemented radical measures to rectify the weaknesses. However, when the latest errors came to light, Kredittilsynet could no longer trust that the agency was able to operate debt collection services in an appropriate and satisfactory manner. Intrum Justitia AS appealed the supervisory authority's decision to withdraw their licence and enforcement of the decision has been put on hold while the appeal is being considered.

### Transcom Credit Management Services AS' debt collection licence withdrawn

Transcom Credit Management Services AS's agency licence was withdrawn after an inspection of the agency uncovered very serious breaches in the form of debtors being presented with illegitimate collection fees demands. The agency is owned by Transcom Credit Management Services AB, which in turn is owned by Transcom Worldwide, a listed company with debt collection activities in many European countries. Transcom Credit Management Services AS was one of the ten largest debt collection agencies in Norway measured by the number of cases in process. Over a period of about three years the agency had committed errors that resulted restitution to the debtors in the form of refunds and downward adjustments of collection fees totalling NOK 3.7 million and encompassing just under 5,000 cases. The cause of the breach of regulations was an inadequate debt collection and administration system. Even though this was discovered at

an early stage, adequate measures were not implemented to prevent mistakes still being made in many cases. Given this, Kredittilsynet based its decision on the fact that the technical managers in Transcom Credit Management Services AS had failed to fulfil their control function, which is a serious breach of their obligations pursuant to the Debt Collection Act. On the basis of this Kredittilsynet also withdrew some personal debt collection licences.

### **Debt collection licence withdrawn following inadequate reporting**

A third debt collection agency's licence was withdrawn after it had neglected to disclose in its reports to Kredittilsynet that the agency had substantial debts in the form of owing legal fees to the Norwegian National Collection Agency for administrative fees which the agency had retained on behalf of creditors. In addition to the fact that the situation entailed a serious failure to fulfil the obligation regarding correct reporting to Kredittilsynet, the agency had also concealed the fact that they did not fulfil the Debt Collection Act's requirement concerning sufficiency, which is a condition for carrying out debt collection services as a company. The situation also resulted in Kredittilsynet withdrawing the personal debt collection licence of the agency's general and actual manager for breaches of his obligations pursuant to the Debt Collection Act.

### **Breaches of debt collection legislation undiscovered**

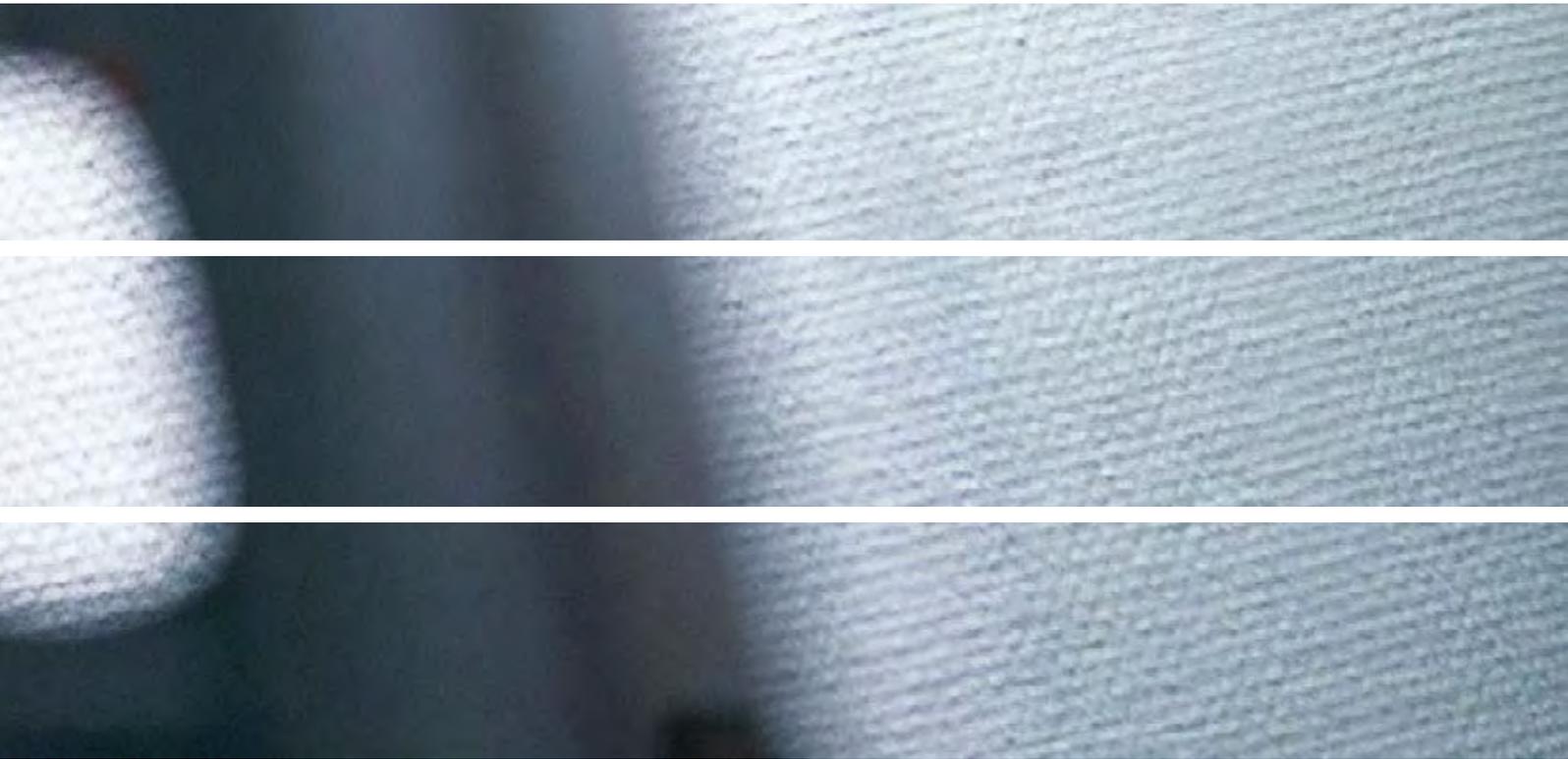
Kredittilsynet uncovered two cases involving one large and one medium-sized debt collection agency where the agencies had in many cases sent recovery warnings earlier than 14 days after the claim fell due, combined with the fact that the debtors were presented with a fee related claim for compensation equal to one tenth of the collection fee rate. Such a practice does not comply with debt collection legislation since one of the conditions for being able to present debtors with a claim for fees related compensation for the dispatch of a warning of collection is that the warning cannot be sent out earlier than on the 14th day after the claim falls due. The consequence of an illegitimate warning of collection is that the debt collector's subsequent recovery will also be illegitimate since it is a condition that debtors receive warnings of collection in accordance with the regulations before receiving payment demands and other claims notices. Both of the agencies refunded and/or adjusted the collection fees downwards in those cases where breaches of the regulations were uncovered. Kredittilsynet believes the agencies ought to have discovered the incorrect administrative routine themselves, since in both cases they had been sending out illegitimate warnings of collection for more than a year.

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## Strong competition – poor financial results

At the end of the first half of 2007, 22 agencies had a negative operating result. This was seven fewer than at the end of the first half of 2006. Nonetheless, it still means that almost one fifth of the agencies are losing money from their ordinary operations. Kredittilsynet assumes

that the most significant reasons for the poor earnings could be both that some agencies have not implemented adequate organisational changes after the debt collection fees were heavily reduced in 2002, and the fact that competition in the sector has increased strongly in



recent years. A number of actors have entered the market with the intention of capturing market share by signing agreements with the largest users of debt collection services in Norway. One of the results of this competition is that the major clients are giving greater weight

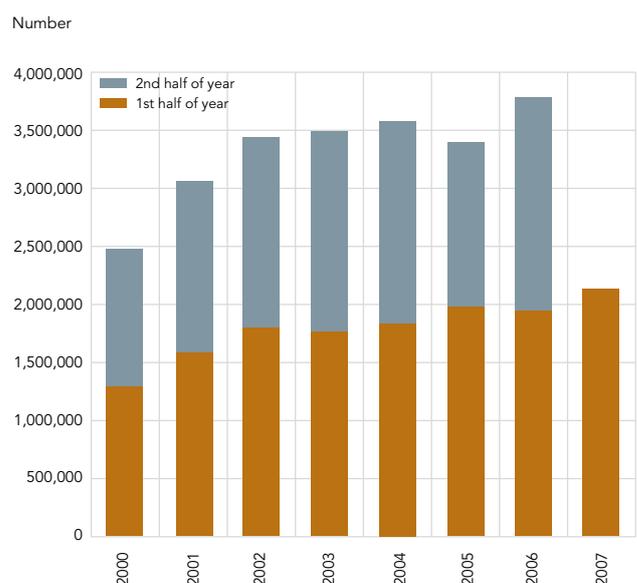
to the financial results of debt collection agreements. They are also demanding resolution guarantees and often expect additional services to be included with the traditional debt collection services.

## Follow-up of cases from the Debt Collection Complaints Board

Decisions made by the Debt Collection Complaints Board are routinely forwarded to Kredittilsynet. These are followed up through supervision of the relevant agencies in those cases where the Board has indicated that the recovery process breaches good debt collection practice. During 2007, Kredittilsynet found grounds to specifically follow up agencies based on the cases presented in eight decisions. These included breaches of the regulations in which the debt collectors should have taken account of the fact that the debtor had objected to a prematurely presented claim and/or objections giving the appealing debtor reasonable grounds to have objections considered before further recovery measures were taken, that a disputed claim had been submitted for recording as an overdue payment to a credit information agency, that a warning of collection or payment demand did not comply with the format required by the Debt Collection Act, and that it had not been documented that the claim had fallen due for payment prior to the commencement of debt collection activities.

The Debt Collection Complaints Board's activities are of great value in Kredittilsynet's control activities since they provide the supervisory authority with useful information for its external control of agencies.

**Chart 6: Number of debt collection cases received**



Source: Kredittilsynet



## Supervision of ICT infrastructure and other issues

## IT supervision

Kredittilsynet conducted 20 IT inspections in 2007 at banks, insurers, finance companies, securities institutions, debt collection agencies, estate agents and external accountants. IT inspections also cover IT service providers and data processing centres under the ICT Regulations' section 12 on the outsourcing of ICT operations. A further 35 so-called simplified IT inspections were carried out in conjunction with personnel responsible for ordinary inspections.

Below is a summary of the findings from the conducted IT inspections:

- Inadequate or incomplete Risk and Vulnerability Analyses (RAV analyses). A lack of competence vis-à-vis conducting RAV analyses is a common problem.
- Inadequate management and control in the execution of major IT projects.
- Continued problems with change management and inadequate bases for decision-making concerning starting up new solutions.
- More attention is being paid to infrastructure and common solutions. It is important that security in the individual company is coordinated with common solutions.
- Problems with retaining adequate key competence in the event of outsourcing and in areas lacking industry standards.
- Inadequate routine descriptions and documentation in companies with a large proportion of self-developed solutions.
- Inadequate control and testing of catastrophe solutions.

### Supervision of compliance with the ICT Regulations

Supervision of the compliance with the ICT Regulations remains a high priority. There are clear signs of better systems in companies for ensuring compliance with the regulations in important areas. This results in increased quality and reduces risk. The regulations' requirements concerning annual RAV analyses have been improved, but ensuring the work is of adequate quality such that all vulnerable points and risk areas can be identified remains a problem. Kredittilsynet therefore started a project in 2007 that involves producing guidelines for compliance with the ICT Regulations' Section 3 Risk. The plan is for the guidelines to be completed in the first quarter of 2008. Specific guidelines for compliance with the ICT Regulations in smaller savings banks have been produced in cooperation with the Norwegian Savings Banks Association. The guidelines were published on Kredittilsynet's website in January 2008.

### Continued development of IT supervision methods

As far as the continued development of IT supervision methods is concerned, work is now being done to update this from a risk-based point of view. The supervision system, which is based on a standard method (CobIT) and control questions from Kredittilsynet to which companies respond, targets a defined supervision area. The system is modular and divided into a general system that covers all ICT

activities (level 1), a level 2 with modules that are selected on the basis of risk, and a level 3 which is intended to ensure verification of predicated results for the relevant ICT solution. The general module is now available on Kredittilsynet's website, and according to the plan, the other modules will be published in 2008. The idea behind this is to enable companies to use Kredittilsynet's supervision system in their own improvement work. New thematic modules containing control questions were developed in 2007. The module for terminal point security (antivirus) has been completed, the module for perimeter protection (firewall, etc) is nearing completion, and with the help of external consultants thematic modules associated with IT operating processes have been developed based on ITIL methodology.

### Notification duty pursuant to the Payment Systems Act, etc

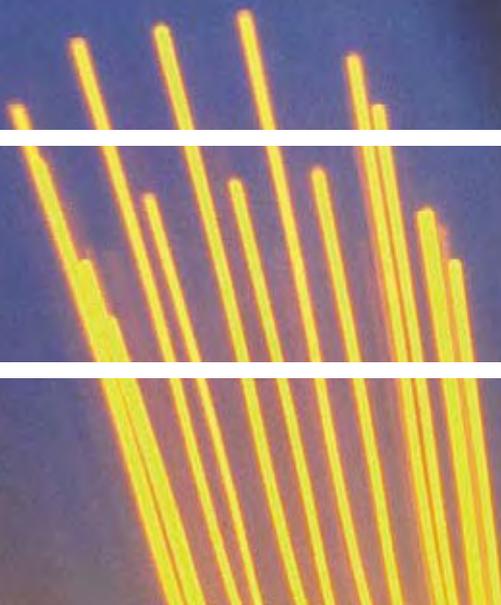
In 2007, Kredittilsynet received ten notifications based on self-evaluation and replies to 19 control questions. The notification duty is triggered when a new system for payment services is established or when significant modifications are made to existing services. It was in the risk and vulnerability analyses in particular that shortcomings were apparent. Furthermore, several banks had not fulfilled their notification obligations. Kredittilsynet is working closely with Norges Bank on this area in order to ensure the best possible coordination and use of resources.

### Results of the risk and vulnerability analyses

Risk and Vulnerability Analyses were conducted in 2007 in connection with the use of information technology in the financial sector. Based on Kredittilsynet's analyses and the data sources the supervisory authority had access to, the following risk and vulnerability areas have been identified as especially important with respect to initiating risk-reducing measures:

- Inadequate RAV analyses. RAV analyses have been conducted but contain quality-related shortcomings. Events that RAV analyses have not predicated occurred, but in many cases these should already have been taken into account (e.g. successful virus attacks).
- Concentration risk and contingency plans.
- Integrated systems and networks mean that companies are heavily reliant on the internet and are vulnerable to failures at common nodes (such as when Telenor decided to leave NIX – the Norwegian Internet eXchange).
- The intense pressure on IT competence may result in lags and delays vis-à-vis necessary modifications to IT systems.
- Inadequate security in end users' PCs is increasingly being exploited (online banking).

As announced in the RAV analysis for 2006, work continued in 2007 on systems for reporting events, and in November 2007 a new



system for reporting events was introduced in Circular 31/2007. This has initially been introduced on a trial system basis for 12 months and covers the following business areas: savings and commercial banks, Oslo Børs, VPS and BBS. The system will be evaluated after the trial period before a decision is made about how to proceed, and to which companies it should actually apply. A procedure has also been developed for how received reports should be handled and updated in a risk and vulnerability system such that the information can, among other things, be used in connection with Kredittilsynet's annual RAV analysis.

Based on the RAV analysis for 2006 and the results of conducted IT inspections, work has started on analysing the ICT infrastructure in the financial sector. The work will encompass both the logical and the physical infrastructure. The idea is to secure sufficient competence in this area and to use the analyses in an analysis of potentially vulnerable technical areas ("single point of failure"). Similarly, who bears responsibility for the different parts of the infrastructure, and how these responsibilities should be addressed, will also be analysed. The work is expected to be completed and documented in a specific report by the end of 2008.

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## Security and contingency planning

Maintaining preparedness to deal with problems that may arise in the financial sector is defined as one of Kredittilsynet's main objectives. The aim is to respond to possible crises in enterprises, infrastructure and markets with measures that limit the harmful impacts and consequences for users, enterprises and owners to the greatest possible extent. This includes monitoring compliance with relevant statutory requirements. Kredittilsynet's focus is on safeguards and preparedness, in keeping with the needs of society. Priority is given to contingency planning focused on activities and areas of significance for financial stability.

Contingency plans have been drawn up in all such areas. In September 2007, a joint Nordic crisis exercise was arranged in the banking sector. See the discussion in the "Banking and finance" chapter, pages 29–30.

In connection with the fact that five PCs were stolen from Kredittilsynet's premises in the summer of 2007, Kredittilsynet reviewed its routines for security and contingency planning, which include physical security and ICT security. The security in Kredittilsynet's premises was reviewed and improved.

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## Finansportalen.no launched

On 14 January 2008, the Norwegian Consumer Council launched the online Finansportalen.no service, which is a web-based public information service for financial products and services. The service is intended to improve the information provided to ordinary consum-

ers in the financial markets, and make it easier to compare prices and products. The scope of information contained in the portal will be increased with more discussions and advice about various products. The Norwegian Consumer Council is currently responsible for the

portal's operation, and Kredittilsynet contributes information and articles about various financial products and regulations. The portal is the result of a collaboration between the Norwegian Consumer

Council, the Norwegian Consumer Ombudsman and Kredittilsynet on better information for end users of the financial markets. Kredittilsynet was behind this initiative, which commenced in 2003.

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## Internal control

In December 2007, Kredittilsynet circulated a proposal concerning a revision of the current internal control regulations for financial institutions. The analysis work carried out by Kredittilsynet particularly concentrated on the scope of the regulations with respect to supervised entities that are also subject to the capital requirements regulations in order to ensure that the two sets of rules did not result in duplicate work for companies. Kredittilsynet also considered whether the regulations ought to cover more types of company, including external accountants and debt collection agencies. Estate agency firms have been covered by the applicable regulations since 1 January 2008 in connection with the new regulations for estate agency coming into

force. Kredittilsynet proposes that greater weight be given to comprehensive risk management in new regulations and that the regulations should be more easily accessible for those with no previous experience of internal control. The overall scope of amendments may be quite extensive and a decision may therefore be taken to adopt new regulations concerning risk management and internal control, which would replace the current internal control regulations. The consultation deadline is 15 March 2008 and the plan is for the regulations to be adopted in the summer of 2008 and come into force in the autumn of 2008 for companies that are subject to the current regulations, with a deadline of 1 January 2009 for the new types of company covered.

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## Appeal processing – Register of Company Accounts in Brønnøysund

Kredittilsynet is the appeal body for decisions made by the Register of Company Accounts on applications for remission of penalties imposed for the late filing of annual accounts, annual reports and audit reports to the Register of Company Accounts. 262 appeals were processed in 2007 compared with 258 in 2006. The processing of appeals against penalties imposed in 2007 continues in 2008. Kredittilsynet completely or partly waived the late filing penalty in 47 cases, i.e. in around 18 per cent of cases compared with 17 per cent in 2006.

The obligation to file with the Register of Company Accounts was extended to include all enterprises with an accounting obligation. The Register of Company Accounts announced in 2007 that late filing penalties would also be imposed on entities other than private limited companies, public limited companies, mutual insurance companies and savings banks. Stricter enforcement of the filing deadline is not expected to result in an increase in appeals before 2008.

# International activities

The work on the banking sector in the EU involved the introduction and follow-up of the new capital adequacy regulations from Basel and the EU. The EU also expended a lot of resources in 2007 on developing completely new solvency regulations for the insurance sector. The international activities associated with auditor supervision increased in scope because of the preparation and implementation of the auditing directive and the development of supervision methods for auditors in the EU/EEA. In the securities sector the implementation of the MiFID directive and implementing measures with the resulting authorisation process made heavy demands on resources.



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## International crisis management cooperation

The international turbulence in the financial markets in 2007, especially due to the subprime crisis in the USA, has proven that financial crises seldom limit themselves to one country, and made the need for international supervisory cooperation even more apparent. Resolving a financial crisis requires coordination and an open, good dialogue between authorities across national borders.

There was regular contact between the supervisory authorities in the EEA in connection with the subprime instability. A planned Nordic

financial crisis exercise, unconnected with the financial turmoil, was carried out in September 2007. See the discussion in the “Banking and finance” chapter, pages 29–30.

The political bodies in the EU have stipulated new guidelines for the management of potential financial crises. Work is done on a new memorandum of understanding (MoU) between the ministries of finance, supervisory authorities and central banks, which in due course will also apply to the EEA/EFTA countries.

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## Coordination of supervision practices and supervision methods

The coordination of supervision practices and supervision methods (supervisory convergence) has been a central theme in the EU and all EU bodies stress that this is an important prerequisite for the effective functioning of the internal financial market. There are great expectations of and a lot of pressure on the supervisory committees in the

EU as far as coordination and increasing the efficiency of supervision across national borders is concerned. This convergence must also be coordinated across sectors in order to prevent regulatory arbitrage and promote a level playing field for the sector in Europe.

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## Greater focus on consumer issues

The attention being paid to consumer issues and consumer information in the financial sector is increasing. The European Commissioner Charlie McGreevy has strongly committed himself to making financial authorities take responsibility for consumer training and information. In 2007, Kredittilsynet participated for the first

time in an international forum for consumer protection and consumer training in the financial sector (International Forum for Financial Consumer Protection and Education) in Budapest, at which the plans for the Norwegian online financial portal were presented.

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## Integrated supervision

The integrated supervision model – entailing joint supervision of banks, insurance companies and as a rule the securities sector – is gaining ever more ground in the international arena. In 2007, both Switzerland and Finland decided they would merge their supervisory authorities for the financial sector – Switzerland in 2008 and Finland in 2009. Since 1999, senior representatives of several supervisory authorities with an integrated approach to supervision have met informally (the Integrated Financial Supervisors Conference) each year to discuss administrative and technical matters of common

interest. In 2007 the conference was hosted by Japan Financial Services Authority (JFSA) in Tokyo. The supervisory authorities of 16 countries were represented and the topics discussed included organisational structures, competence development, the secondment of staff, and experiences with the Financial Action Task Force (FATF) evaluations. The authorities’ experience of implementing the new capital adequacy regulations and the work on the new solvency regulations for insurance were also discussed.

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## Regulatory development and supervisory cooperation in the EU/EEA

Since Norway is not included in the decision-making processes in the Council of Ministers and the European Parliament, it is particularly important for Kredittilsynet to participate in meetings organised by the European Commission and in the supervisory committees in the EU. Kredittilsynet therefore prioritises participation in these committees and expert groups. Besides, Kredittilsynet believes that it is here that it has the best chance of influencing regulatory developments in the EU.

The regulatory development vis-à-vis the financial sector (banking, insurance and securities supervision) in the EU follows the so-called Lamfalussy procedures. This means that the Council of Ministers and the European Parliament are tasked with adopting directives and regulations that are more principle in nature (level 1), while the European Commission is authorised by this level 1 legislation to adopt supplementary provisions in so-called implementation legislation. The

European Commission drafts Commission legislation (level 2 regulations) based on technical advice from supervisory committees and after discussions and agreement in comitology committees in which the countries are represented by their ministries of finance (level 2 committees). The Norwegian Ministry of Finance participates as an observer in the following level 2 bodies: European Securities Committee (ESC), European Banking Committee (EBC) and European Insurance and Occupational Pensions Committee (EIOPC). Kredittilsynet can participate as an adviser to the Ministry of Finance.

At level 3 we find the supervisory committees that both fulfil functions in connection with the regulatory development (such as technical advisers to the European Commission) and serve as the cooperation and coordination bodies for supervision in the EU. The supervisory committees produce their own guidelines and standards, and are charged with ensuring coordination and harmonisation of supervisory methods and practices. Kredittilsynet participates in the supervisory committees at level 3 and in most of their subcommittees and working groups. In 2006, an informal cross-

sectoral committee (the Interim Working Committee on Financial Conglomerates – IWCFC) was established with members from the three supervisory committees to coordinate areas of common interest, especially matters associated with financial conglomerates. Several joint working groups have also been established within different fields of interest to all three committees and a joint annual meeting is arranged for members of the three committees.

All three committees attach importance to transparency in their working methods, and publish reports and consultation papers on their respective websites. Consultative panels have also been established for each committee.

The committee structure in the area of auditing is approximately similar, with a comitology committee with representation at ministerial level and a supervisory committee. Unlike the supervisory committees in the area of finance, which the supervisory authorities head themselves, the European Commission currently heads the supervisory committee for auditors. See the discussion on pages 79–80.

**Chart 7: The supervisory committees in the EU (level 3)**



## Securities market

Kredittilsynet is a member of the International Organization of Securities Commissions (IOSCO), which held its 2007 annual meeting in Mumbai in India. Under IOSCO Kredittilsynet is a member of the European Regional Committee. IOSCO has drawn up a multilateral memorandum of understanding (MMoU) on cross-border cooperation and information sharing. Kredittilsynet became a signatory to the memorandum in 2006. Kredittilsynet participates in the Enlarged Contact Group on the Supervision of Collective Investment Funds (ECG). ECG is a global forum for supervisors of securities funds. The group's primary purpose is to share experience and information.

At a EU/EEA level Kredittilsynet is a member of the Committee of European Securities Regulators (CESR). CESR acts as a technical advisory committee to the ESC and the European Commission, and works for consistent monitoring and enforcement of community law in member countries. Kredittilsynet plays an active part in several CESR working groups. In 2007, particular attention was paid to the implementation of the Markets in Financial Instruments Directive (MiFID) and the work on the new transaction reporting system (TRS). CESR members strive to agree on a common understanding and common practices vis-à-vis legislation adopted at levels 1 and 2.

## Banks and financial institutions

The Basel Committee on Banking Supervision under the Bank for International Settlements (BIS) adopts international standards and coordinates global cooperation in this field. Even though Norway is not a member of the Basel Committee, Kredittilsynet receives relevant documents from the Committee and is invited to comment on them. The agency can also participate in some of the Committee's activities. Every second year the Basel Committee organises a major international conference for banking supervisors (the International Conference of Banking Supervisors – ICBS).

Kredittilsynet attends meetings of the Committee of European Banking Supervisors (CEBS) and of most of the working groups of

CEBS, including Groupe de Contact, which is the most important of the subcommittees in CEBS. The work involves implementation of the capital adequacy requirements, a new common reporting system for banks, and the coordination of procedures and routines that will be followed up by the supervisory authorities when information about capital adequacy is disclosed, among other things. The banking supervisory authorities regularly exchange information about problems in the banking sector in Groupe de Contact, and analyse and seek to harmonise supervision methods in EEA countries. A specific group has also been established to coordinate the practical supervision of banking groups that operate in multiple countries.

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## Insurance and pensions

Kredittilsynet is a member of the International Association of Insurance Supervisors (IAIS) and participates in the development of international principles for the supervision of insurance activities. Kredittilsynet attended the annual meeting of IAIS and is represented on the technical committee, which bears overall responsibility for setting standards. The 14th IAIS annual conference was held in Florida in October 2007. IAIS has also developed a common multilateral memorandum of understanding (MMoU) along the lines of IOSCO's MMoU and has started the ratification process.

Kredittilsynet is also a member of the International Organization of Pensions Supervisors (IOPS) and participated in IOPS' annual conference in Beijing in 2007. IOPS seeks to develop standards for regulations and supervision vis-à-vis private pensions.

At the EU/EEA level Kredittilsynet attends the meetings of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), and also participates in most of CEIOPS' working groups and committees. The bulk of CEIOPS' work consists of preparing advice for the European Commission on the reform of EU solvency rules. A draft new insurance directive (the Solvency II project), which is mostly based on advice from CEIOPS, was presented to the European Commission in July 2007. CEIOPS is also working on a proposal for technical implementing measures for the European Commission in a range of areas. In addition to the new regulations, CEIOPS is also undertaking several so-called quantitative impact studies to analyse the impact and effects of various proposals for insurance companies (see the discussion in the "Insurance and pensions" chapter, pages 39–40).

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## Accounting and auditing

Kredittilsynet and the Ministry of Finance participate in meetings of the EU's Accounting Regulatory Committee (ARC), which assesses the new International Financial Reporting Standards (IFRS) and how these should be implemented in the EU. Kredittilsynet participates in the EU work on developing accounting rules and standards for auditors in the EEA. Kredittilsynet also greatly benefits from having the necessary accounting competence within the organisation in the development of regulations and supervision in the financial sector. Kredittilsynet actively participates in European Enforcers Coordination Sessions (EECS) under CESR, which work to harmonise and co-

ordinate the supervision work associated with the implementation of IFRS in the EEA. All of the concluded cases were stored in a shared database to ensure that the information is available to all accounting and securities supervisory authorities and to promote harmonisation. The group holds regular meetings with IASB, which sets the standards, and IFRIC, which interprets the standards, to ensure that the IFRS standards are enforced identically in the EEA.

Given the increasing attention being paid to the role of auditors in a more globalised financial market, and the new and stricter rules

in the USA and EU, the need for cooperation and information between supervisory authorities for auditors across national borders has increased. An international body for auditor supervision was established in 2006, the International Forum of Independent Audit Regulators (IFIAR). IFIAR's aims include acting as the contact forum between supervisory authorities in various countries and helping to promote sharing experience in the sector, practical regulation and supervision work, etc. Kredittilsynet is a member of IFIAR and participated in the forum's first meeting in Tokyo in March 2007. Kredittilsynet will host an annual meeting of IFIAR in Oslo in the spring of 2008.

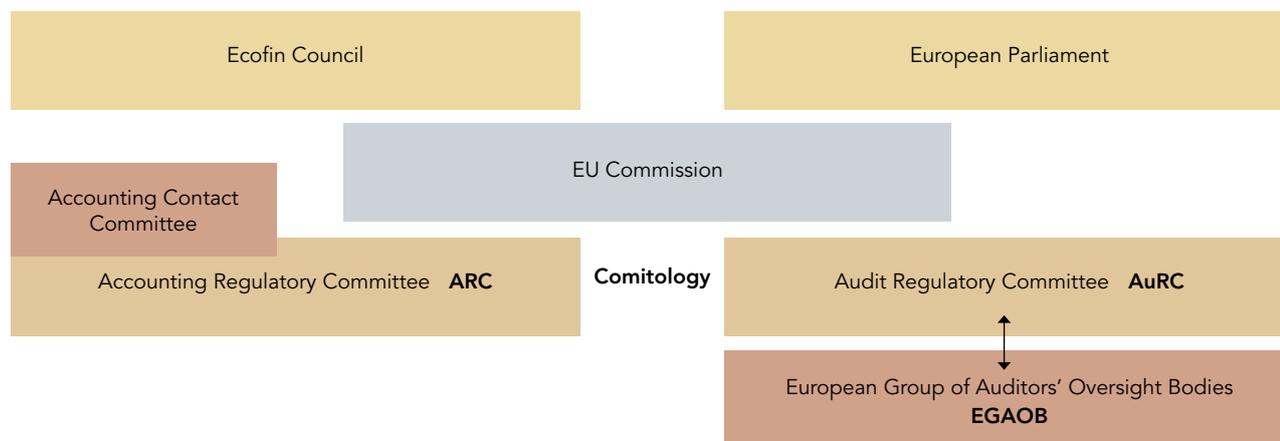
Norwegian audit firms that audit issuing companies in the USA must be registered with the Public Company Accounting Oversight Board

(PCAOB). Kredittilsynet believes it is very important to establish good supervisory cooperation with PCAOB.

The European Commission has established two new committees due to the new auditing directive, namely the Audit Regulatory Committee (AuRC) and the European Group of Auditors' Oversight Bodies (EGAOB). Kredittilsynet participates as an observer in both these committees and in several relevant working groups. A good dialogue and cooperation with PCAOB has also been highly prioritised by the EU under the auspices of the European Commission.

Kredittilsynet also participates in regular meetings with the supervisory authorities for auditors in Sweden, Denmark and Finland, cf. discussion on page 81.

**Chart 8: The committee structure in the EU – accounting and auditing**



## Combating money laundering and terrorist financing

Kredittilsynet plays its part in developing national and international measures against money laundering and terrorist financing. It attends meetings of the Financial Action Task Force (FATF), which is developing international recommendations for measures to combat money laundering and terrorist financing. Kredittilsynet also participates in the FATF Terrorist Financing Working Group and collaborates with the United Nations in this field. Kredittilsynet also plays an active role in other international meetings and seminars on measures against money laundering and terrorist financing.

At a EU/EEA level Kredittilsynet participates in the Committee on the Prevention of Money Laundering and Terror Financing (CPMLTF),

which the EU established in accordance with the Third Money Laundering Directive. A joint working group has been set up under the auspices of the supervisory committees in the EU (CEBS, CESR and CEIOPS) to coordinate these committees' work on anti-money laundering and anti-terrorist financing measures.

### Participation in OECD meetings

Kredittilsynet is a permanent participant in the OECD Insurance Committee and the OECD Capital Market Committee, and similarly participated in a number of other meetings under the auspices of the OECD.

## EFTA cooperation

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

law areas (including accounting and auditing). The working groups are also useful forums for obtaining updates on regulatory developments in the EU. European Commission representatives or representatives of other EU institutions are invited to each meeting to give presentations on a variety of measures and the status of measures under consideration in the European Council and the European Parliament.

## Nordic cooperation

Nordic cooperation remains a high priority, as reflected inter alia by the joint Nordic crisis exercise (see the discussion in the “Banking and finance” chapter, pages 29–30). Kredittilsynet prioritises good cooperation, both formal and informal, with the supervisory authorities in the other Nordic countries and has signed a joint memorandum of understanding with its Nordic counterparts at an overarching level, along with individual memoranda of understanding on the supervision of specific financial groups. In addition to annual meetings of Nordic financial supervisors at a director general level – held in Oslo in 2007 – annual meetings are held at department level within

various sectors and in the area of administration. Kredittilsynet also participated in several meetings with their Nordic colleagues focusing on the supervision of Nordic financial groups, and several joint inspections of the Nordic groups were carried out.

Regular meetings have been held between the supervisory authorities for auditors in Sweden, Denmark, Finland and Norway since 2005. The meetings demonstrate that closer contact and cooperation is also useful in the area of auditing, not least to discuss matters associated with the implementation of the EU's auditing directive.

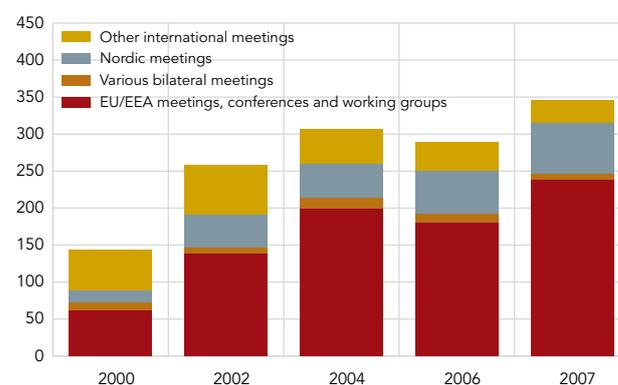
## Bilateral cooperation

Although much international activity takes place under the auspices of international organisations, and above all EU committees and working groups, Kredittilsynet continues to attach importance to good bilateral collaboration with relevant supervisory authorities. In addition to multilateral memoranda of understanding, Kredittilsynet has signed several bilateral memoranda of understanding with foreign supervisory authorities.

Kredittilsynet has held regular meetings with representatives of the US Federal Reserve for many years, and has recently also started cooperating with the Public Company Accounting Oversight Board, PCAOB.

The European Commission currently has a project aimed at promoting cooperation and information sharing between the EU and the USA (“EU–US regulatory dialogue”) in the area of finance, and in particular with respect to the mutual recognition of supervision and regulations. The European Commission has initiated a similar dialogue with China. Representatives of Chinese supervisory authorities visited Kredittilsynet in 2006 and 2007.

Chart 9: International meetings attended by Kredittilsynet



Source: Kredittilsynet

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

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#### **Cross-sectoral meetings**

- Integrated Financial Supervisors Conference (annual conference for integrated supervision)
- EFCC – European Financial Conglomerates Committee (level 2)
- IWCF – Interim Working Committee on Financial Conglomerates (level 3 coordination of conglomerate questions or cross-sectoral questions)
- Nordic supervision meetings

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#### **Banking/finance**

- International Conference of Banking Supervisors (arranged every second year by the Basel Committee on Banking Supervision)
- OECD Financial Markets Committee
- EBC (European Banking Committee – The EU's level 2 banking committee)
- CEBS (Committee of European Banking Supervisors) and Groupe de Contact (main working group under CEBS) and other underlying committees and working groups – [www.c-ebs.org](http://www.c-ebs.org)
- Nordic supervision meetings

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#### **Insurance**

- IAIS (International Association of Insurance Supervisors) – [www.iaisweb.org](http://www.iaisweb.org)
- IOPS (International Organisation of Pension Supervisors) – [www.iopsweb.org](http://www.iopsweb.org)
- OECD's Insurance Committee
- EIOPC (European Insurance and Occupational Pensions Committee – The EU's level 2 insurance and pensions committee)
- CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors) and underlying committees and working groups – [www.ceiops.eu](http://www.ceiops.eu)
- Conference of European Insurance Supervisory Services (arranged every second year)
- Nordic supervision meetings

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#### **Securities**

- IOSCO (International Organization of Securities Commissions) – [www.iosco.org](http://www.iosco.org)
- ECG (Enlarged Contact Group on Supervision of Collective Investment Funds)
- ESC (European Securities Committee – The EU's level 2 securities committee)
- CESR (Committee of European Securities Regulators) and underlying committees and working groups – [www.cesr.eu](http://www.cesr.eu)
- Nordic meetings

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#### **Accounting and auditing**

- IFIAR (International Forum of Independent Audit Regulators) – [www.ifiar.org](http://www.ifiar.org)
- ARC (Accounting Regulatory Committee – The EU's accounting committee)
- Accounting Contact Committee (The EU's contact committee for accounting questions)
- AuRC (Audit Regulatory Committee – the new European audit committee)
- EGAOB (European Group of Auditors' Oversight Bodies – new audit supervision committee)
- Nordic meetings

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#### **Money laundering and terrorist financing**

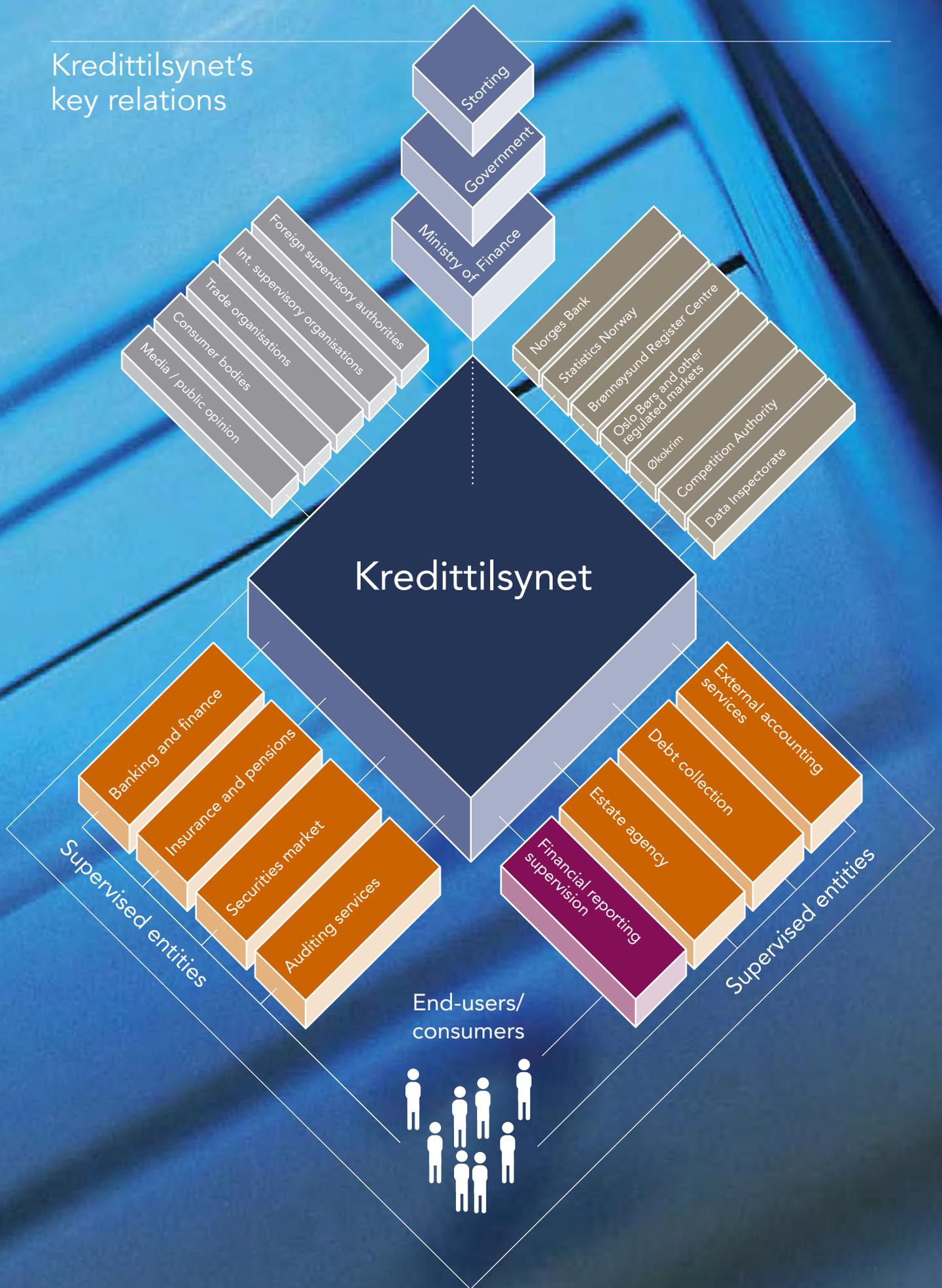
- FATF (Financial Action Task Force – international forum for combating money laundering and terrorist financing with a secretariat in the OECD) – [www.fatf-gafi.org](http://www.fatf-gafi.org)
- CPMLTF (Committee on the Prevention of Money Laundering and Terror Financing – The EU committee – replaces the former Contact Committee on Money Laundering)
- Nordic meetings

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#### **EFTA**

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

# Kredittilsynet's key relations



## The Financial Market in Norway 2007: Risk Outlook

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

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

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