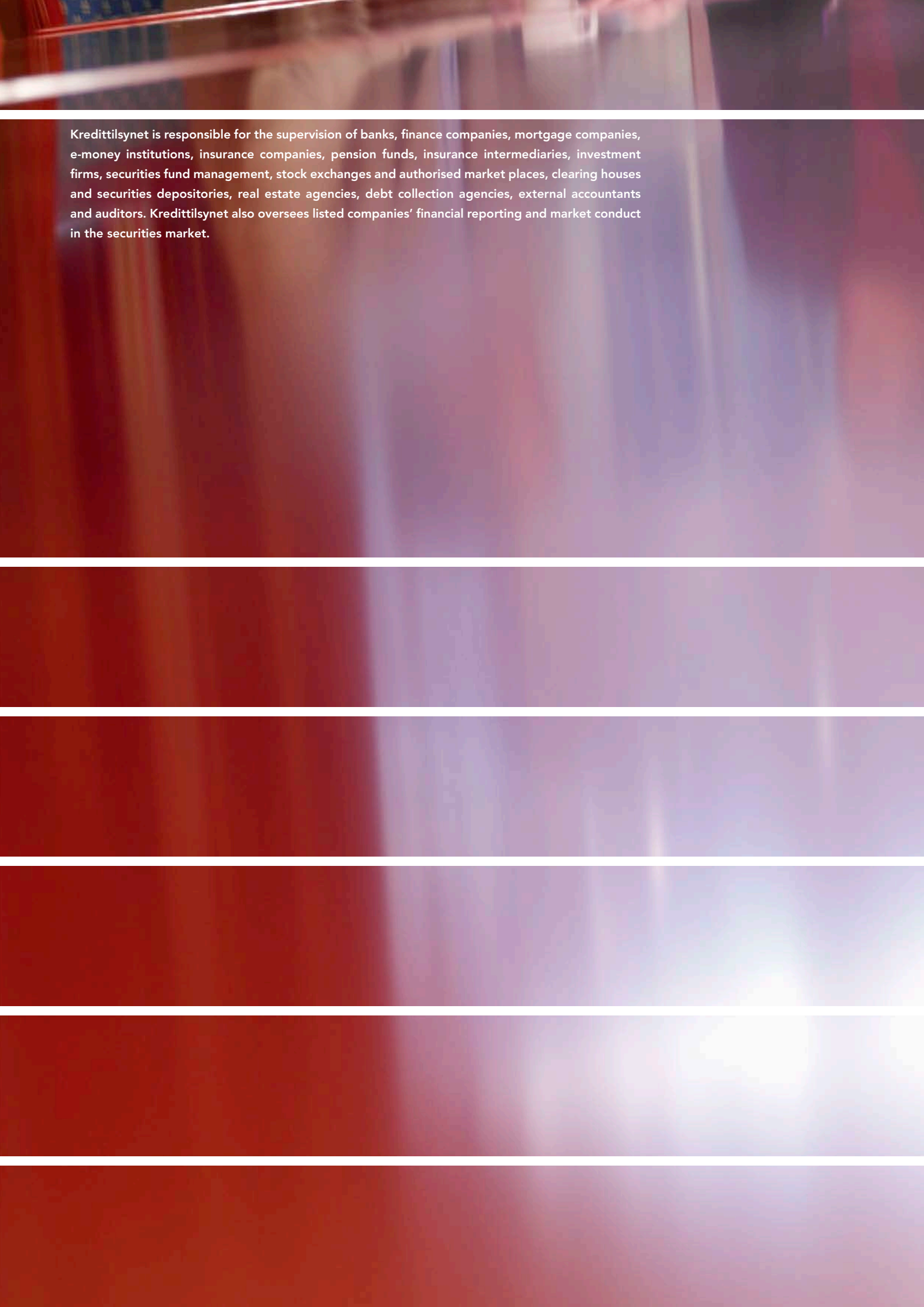




**KREDITILSYNET**  
The Financial Supervisory Authority of Norway

# Annual Report

2006



Kredittilsynet is responsible for the supervision of banks, finance companies, mortgage companies, e-money institutions, insurance companies, pension funds, insurance intermediaries, investment firms, securities fund management, stock exchanges and authorised market places, 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.

"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)

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# Preface

Stable financial conditions since the early 1990s have brought a long period of economic growth in Norway. In recent years a substantial supply of capital to investors through the securities market and from financial institutions has fuelled particularly strong growth.

In 2006 Kredittilsynet adopted a new strategy for the years ahead: through its supervision of institutions and markets the agency will work for financial stability and well functioning markets with the aim of promoting a continued favourable development of the economy and of protecting consumers and investors.

At the start of 2007 Norwegian financial institutions can point to good operating profits and adequate capital levels. This bodes well for financial stability in the near future. However, quickening growth in lending to firms could lead to increased risk accumulating in banks' loan portfolios. Some investments, and the strong lending growth, take it as read that the current high demand in the economy and the positive trend in oil and gas activities will continue in the years ahead.

Lending to households continues to increase. With one in three loans for house purchase exceeding or equalling property value, many borrowers will be vulnerable if house prices level off or possibly decline. The tendency for interest-only arrangements, and little recourse to fixed-interest mortgages, heightens vulnerability. Good prospects for continued high employment none the less reduce the danger of substantial bank losses on such exposures. However, the banks have their share of responsibility for ensuring that borrowers do not come up against undue problems. A setback in the housing market and borrowers no longer able to service mortgage repayments on homes that are mortgaged to the hilt could impair banks' reputation. Should a setback broaden in scope, which is not the most likely scenario at present, indirect impacts could spread to firms, resulting in heavier losses for banks.

Under new loan loss rules, based on international financial reporting standards, banks can only write down loans, i.e. make loss provisions,

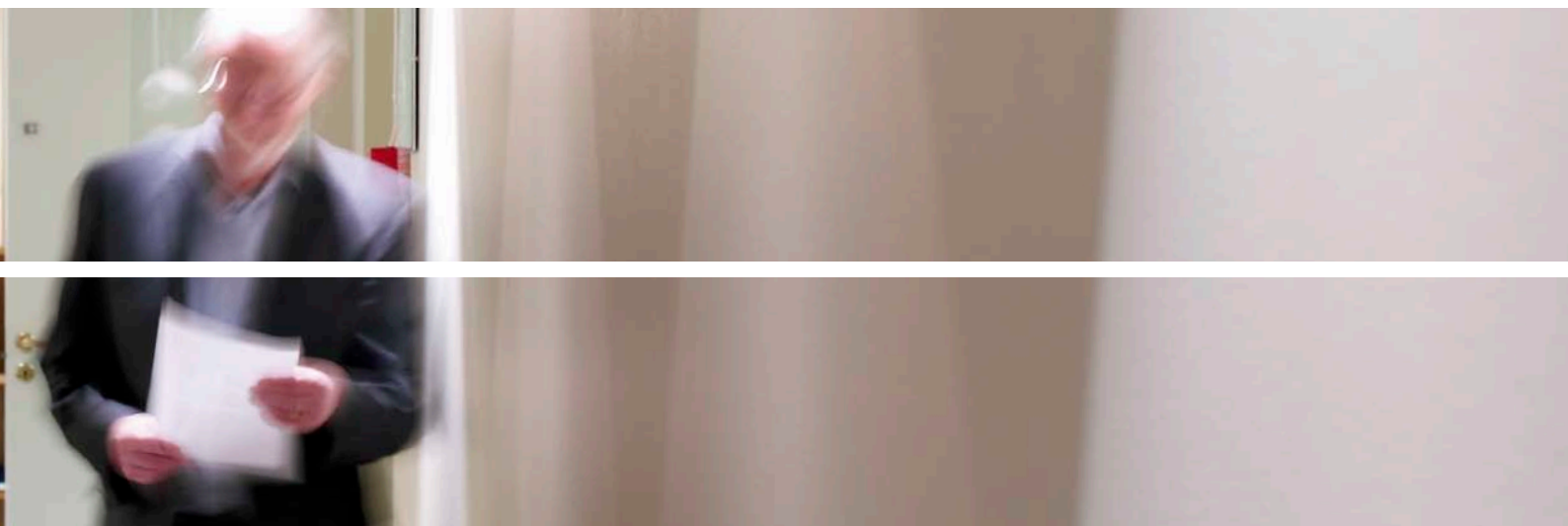
when they are aware of concrete circumstances which may result in loss of value of a loan. Latent problems in loan portfolios and related concerns can only be mitigated by means of sufficient capital.

New capital adequacy rules require better management and control of banks' risk, especially where banks wish to use internal models. While use of such models could significantly reduce minimum capital requirements in time, capital is none the less expected to exceed the minimum requirements at all times. Kredittilsynet will independently assess capital needs in light of its risk-based supervision under pillar 2 of the new framework. Banks and Kredittilsynet alike will face major demands on their competence and discipline in ensuring that the capital is sufficient to meet overall risk. This particularly applies should a favourable economic trend be replaced by unexpected problems in the international and Norwegian economy.

Increasing claims payments and competition in the market have reduced profits in non-life insurance to more moderate levels. For Norwegian life insurers 2006 was a good year. Given the challenges still posed by guaranteed benefits in a low-interest-rate economy, life insurers should make use of their opportunities to strengthen buffer capital.

An increased emphasis on operational risk is an important aspect of Kredittilsynet's supervisory strategy. While widespread use of internet banking is an advantage to the consumer and boosts the efficiency of the overall financial and payments system in Norway, several events in 2006 showed that the systems are vulnerable to human error and criminality. Measures to assure high internet bank security, in cooperation with the banks themselves, will be an important task in the year ahead.

Kredittilsynet has been assigned wider responsibility for factors of significance for well functioning markets, including responsibility for checking that listed Norwegian companies comply with international



accounting standards. In 2006 financial statements for 2005 were subjected to comprehensive scrutiny. Fundamental principles were clarified, among them the valuation of live farmed salmon.

Ensuring respect for rules of conduct is important for well functioning markets. Collaboration between ØKOKRIM (The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime) and Kredittilsynet has been further developed, for example by running joint operations in major cases. The Supreme Court and other courts affirmed in 2006 that breaching insider rules is a serious offence punishable by imprisonment, and significant sentences were delivered for unlawful provision of services in the securities field.

Well functioning markets require well informed consumers and investors. In 2006 Kredittilsynet gave emphasis to developing and enforcing clearer rules and guidelines on selling and giving advice on structured savings products at financial institutions and investment firms. Together with the consumer authorities, Kredittilsynet recommended establishing a financial portal on the Internet giving information on financial products. It is positive to note that this recommendation was acted on in the government budget for 2007, and the portal is now under preparation. The responsible ministries are the Ministry of Finance and the Ministry of Children and Equality.

Kredittilsynet exposed several cases of own trading and other breaches of the rules governing real estate agency in 2005 and 2006. A desire for better estate agency standards and improved consumer protection lies behind the proposal for a new estate agency act that was tabled just before the end of last year. The legislation puts increased demands on estate agents in several areas. The new rules may, indirectly, also place increased demands on supervision of the profession.

The conversion of Vesta Forsikring and Fokus Bank respectively into branches of the Danish enterprises Tryg-Vesta and Danske Bank

increases that section of the Norwegian financial market which in key respects will now be subject to the rules and supervision of another country. Where conduct in the Norwegian market is concerned, responsibility will rest with the Norwegian supervisor. Given the increasing branch presence, good procedures and methods will need to be developed for such supervision, at the same time as cooperation with the home country supervisor is taken forward.

In two instances in 2006 Kredittilsynet advised against takeover or conversion of savings banks into commercial banks. Approving applications for conversion could bring substantial changes to the savings bank structure. It is important that political authorities thoroughly review conversion applications. Kredittilsynet is pleased that the Ministry of Finance has set the stage for such review before decisions are reached in concrete cases.

Kredittilsynet's expanded tasks and developments in supervised sectors both call for further strengthening of Kredittilsynet's resources in the years ahead. Making active use of information and communication technology, and developing rules in such a way as to promote efficient resource use on the part of both the agency itself and the entities it supervises, are important aspects of Kredittilsynet's strategy.

Oslo, 26 January 2007

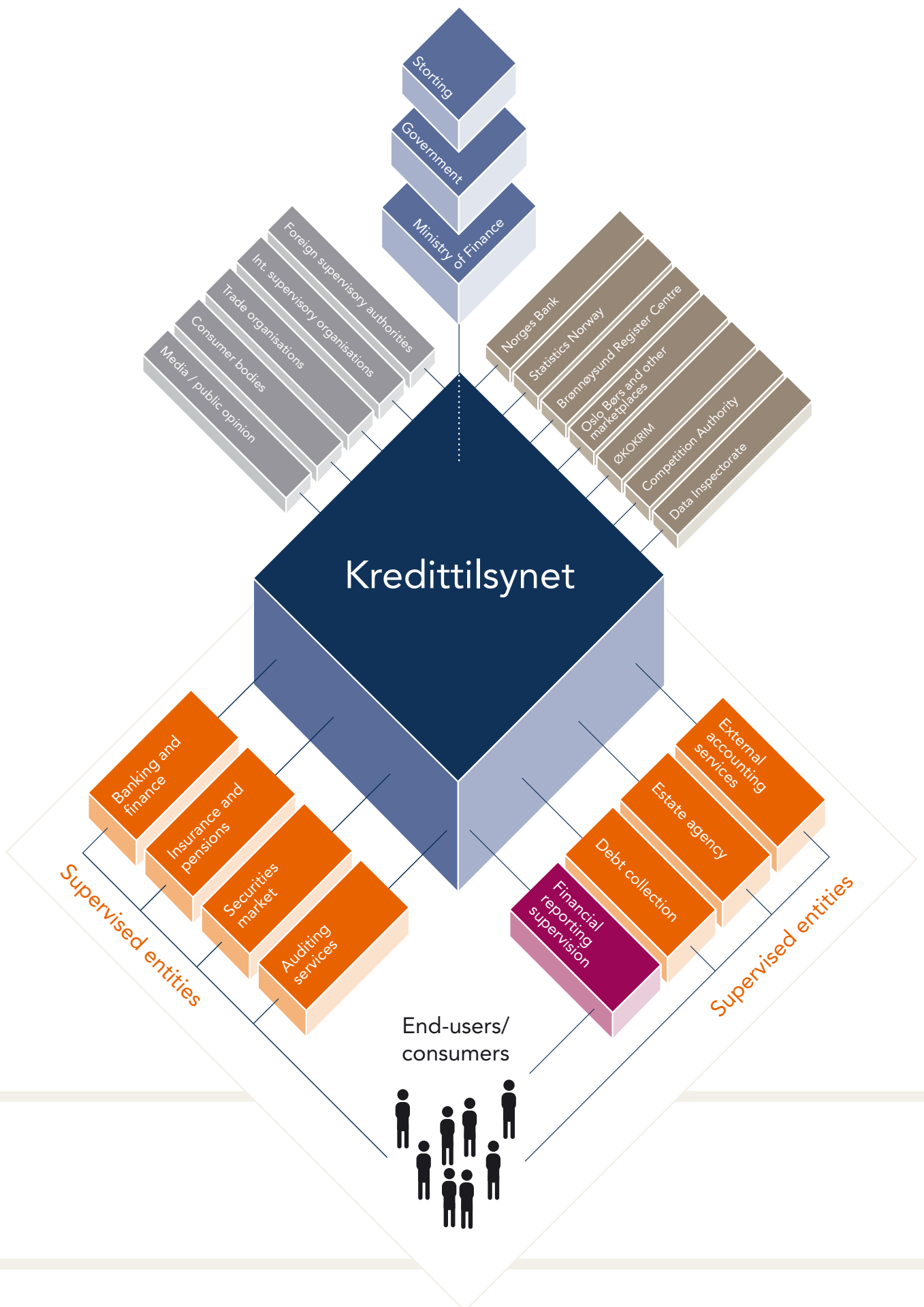
**Finn Hvistendahl**  
Chairman

**Bjørn Skogstad Aamo**  
Director General



## Kredittilsynet's key relations





Kredittilsynet aims to promote financial stability and well functioning markets through its supervision of firms and markets. Kredittilsynet's activities are based on legislation and decisions emanating from the Storting (Norwegian Parliament), the Government and the Ministry of Finance.

## Kredittilsynet's goals and instruments

The Board of Kredittilsynet adopted on 23 October 2006 a new strategy for the organisation for the next few years. In the Annual Report for 2006, however, the reporting is based on goals and measures from the 2002 strategy. This chapter presents goals and instruments for the organisation as they appear in the *new* strategy.



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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.

The supervisory regime must be organised in such a way that the social perspective and consideration for the users of the services weigh heaviest in Kredittilsynet's policy choices and priorities. Another important goal for Kredittilsynet is to foster the development of a competitive Norwegian financial sector, and competent and orderly actors in the fields of securities trading, auditing, external accountancy services, debt collection and brokerage activities. A competitive Norwegian financial sector with proximity to its users will spur further development of the business sector and employment in Norway.

Kredittilsynet's approach builds on the notion that responsibility for a business rests with the firm's board and management. Kredittilsynet normally refrains from giving advice on how business activity should be organised. An effort should be made to avoid overly detailed rules, within the framework set by the EEA agreement.

Kredittilsynet will continue its active collaboration with consumer bodies with a view to raising the quality of the information given on financial markets and products. Kredittilsynet's own focus must primarily be on developing a sound body of rules and proactive oversight of enterprises' compliance with the rules. Financial products, both financing solutions and savings products, must be given a design, and carry information, that provides their users with a genuine opportunity to make reasoned choices.

Kredittilsynet has an important task in preventing firms being exploited for the purpose of laundering criminal proceeds. Both in regard to this task and that of dealing with rule breaches in supervised sectors, a regime of close cooperation with ØKOKRIM (the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime) in which responsibilities are clearly assigned will be key.

Kredittilsynet's role in the pursuit of the overarching goal of financial stability consists in its supervision of firms and markets. There is a clear-cut distribution of responsibility for financial stability. The Storting (Norwegian Parliament) and the Government are responsible

for ensuring that legislation contributes to financial stability and well functioning markets. The political authorities are responsible for fiscal policy and for the guidelines for monetary policy, while Norges Bank (Norway's central bank) has the executive responsibility for monetary policy. Norges Bank is also tasked with promoting robust and efficient payment systems and financial markets, and is the lender of last resort. Fiscal and monetary policy provides the chief prerequisites for financial stability. The authorities' regulatory framework is also important in relation to the goal of well functioning markets.

Supervision of infrastructure, individual firms and market actors will be Kredittilsynet's chief instrument for attaining its key goals. Ensuring that legislation is complied with and that Kredittilsynet rapidly and effectively deals with any breaches that occur will also be important. Kredittilsynet's contact with and knowledge of firms in the markets, along with analyses of important trends, will also represent very valuable input to the authorities responsible for the conduct of fiscal and monetary policy.

Effective competition is an important aspect of Kredittilsynet's objective of well functioning markets. Nevertheless situations may arise requiring Kredittilsynet to give greater emphasis to other considerations. In the central administration the Competition Authority has the main responsibility for competition policy assessments. Kredittilsynet has established systematic cooperation with the Competition Authority to coordinate information-gathering in cases involving both agencies and to ease administrative procedures for market actors.

**Kredittilsynet's main goal is to promote financial stability and well functioning markets through its supervision of institutions and markets.**

There is usually a positive correlation between the two main goals of financial stability and well functioning markets, the former being a prerequisite for the latter. Poorly functioning markets could threaten financial stability. However situations could arise where the two goals are at odds. For example, while the desire for strong competition between actors in the financial and securities markets may contribute to well functioning markets, it could also result in lower requirements for financial strength and fitness of market actors. Actors with a weak capital base or lacking internal control may for their part jeopardise both financial stability and the goal of well functioning markets. In its handling of the rules and individual supervisory cases Kredittilsynet must seek to present interests and consequences fully and openly so that the agency itself, affected trade bodies and political authorities are all able to consider courses of action and make decisions in a sound manner.

## 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

To withstand changes in markets, financial institutions need to be sound and to maintain a level of capital which provides a genuine buffer in the event of falling asset values and will enable them to continue to fill their role in the economy during a downturn. The institutions' risks must be continually monitored to enable it to be countered with adequate internal control measures and the necessary capital. Given their important role in financial stability, large banks and insurance companies should be given priority in

the supervisory effort, although attention must also be devoted to smaller institutions.

Fit and proper management and good internal control promote corporate compliance with market conduct rules. Risk management in terms of how firms manage their client assets is also important for confidence in well functioning markets.

### 2. A robust infrastructure ensuring satisfactory settlements and payments

The modern payments system and financial institutions' ongoing operations are crucially dependent on information and communication technology supported by a robust infrastructure. Although Norway is well to the fore in this field, expanded electronic offerings, the complexity of integrated solutions and the risk of criminal acts will nonetheless require a substantial effort to ensure satisfactory operations, in the first instance on the part of the affected institutions themselves, but also on the part of Kredittilsynet.

A securities settlement system which ensures secure and efficient settlement at low risk to its participants will make Norway attractive to investors and promote a well functioning securities market. Investor certainty that market prices will be updated on the basis of timely and relevant information is also important.

### 3. Good monitoring of risk in the household and corporate sector and in real estate and securities markets

Through its supervision of financial institutions Kredittilsynet can to some extent influence the rate of debt accumulation by households and firms. Risk factors are concurrently heavily influenced by macroeconomic conditions and by fiscal and monetary policy, where Kredittilsynet's influence is limited.

Kredittilsynet should communicate information from its ongoing supervision to relevant authorities and carry out systematic analyses able to identify tendencies for increasing risk in households, firms and markets. Kredittilsynet must in particular monitor the risk of sudden and substantial asset value falls in the real estate and securities markets.

## 4. Adequate information to investors and users in the financial market, and good quality financial reporting by listed companies

Kredittilsynet considers it important that investors and not least small savers should be able to accumulate financial savings safely and securely. Kredittilsynet will strive to ensure that providers' product information is adequate and understandable. This applies especially to listed companies' current information to the market and providers' and intermediaries' information on savings products. As more and more people save in financial instruments, there will be a growing need for correct and understandable information. Good information is essential for genuine competition in the market.

The risk attending investment in the securities market will be influenced by listed companies' ability and will to communicate relevant information to the market. Confidence in listed companies' financial reporting is highly important for investors' decisions and the market's supply of capital. Equally important is the auditor's role as quality assurer of financial information.

## 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

Respect for and compliance with rules of market conduct are highly important for ensuring that securities issuers, providers and intermediaries of financial products and customers have confidence in the market. Kredittilsynet's main concern in the securities market will be to prevent insider trading and price manipulation.

## 6. To ensure that critical situations are handled with minimal harmful effects

An important factor for confidence in the financial system is the presence of adequate preparedness, both at firms and at Kredittilsynet, to handle critical situations without sparking negative secondary effects and lasting problems.

This requires ongoing risk analyses, well organised cooperation between affected authorities and private actors as well as regular crisis drills. Alongside analyses of the trend in credit and other

factors which may threaten financial stability, a focus is also needed on operational risk inherent in infrastructure and financial institutions.

Investors' and issuers' confidence in market actors' ability to handle critical situations in the settlement systems is important for well functioning markets.

# Kredittilsynet's instruments

Kredittilsynet's instruments are:

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

## Supervision and monitoring

Supervision and monitoring are Kredittilsynet's most important instrument for attaining the key goals. Kredittilsynet's strategy for its supervisory activity is to:

- Continue the emphasis on a risk-based approach to enable Kredittilsynet to prioritise between supervised areas, firms and topics in its activity planning.
- Continue macroeconomic surveillance, conduct analyses and follow up indicators, based i.a. on cyclical assessments made by Statistics Norway, Norges Bank and the OECD. Much of the assessments of individual institutions' profitability and financial strength will be carried out in light of the general state of the financial system. Developing indicators to support the main goal of well functioning markets will receive priority.
- Further develop contacts with relevant research environments in support of Kredittilsynet's own analyses.
- Devote more attention to operational risk in light of international supervisory developments and Norwegian business sector trends, and develop relevant instruments. Indicators of operational risk will be constructed and published.
- Actively follow up international requirements in regard to supervisory standards and supervisory methodology. The introduction of new capital adequacy rules (Basel II) and solvency requirements (Solvency II) will entail a substantial reorganisation of supervisory methods in the financial and insurance areas.

- Attach continued importance to cooperation with foreign supervisory authorities.
- Base off-site supervision to a greater degree on electronic questionnaires and report forms to be completed by the enterprises themselves.
- Formulate requirements for and expectations on the internal audit at firms under supervision; this will make it easier for Kredittilsynet to base more of its oversight on the efforts of the internal audit unit.
- Further develop supervisory corporation with the Norwegian Institute of Public Accountants and the Norwegian Association of Authorised Accountants.
- Attach continued importance to the role of the statutory auditor, including the latter's responsibility for judging whether financial statements are prepared and presented in accordance with the law and regulations and whether the firm's asset management is satisfactory.

## Licensing

The majority of Kredittilsynet's licensing tasks relate to the carrying on of business in the financial market. Much emphasis will continue to be given to assuring the quality both of decisions made by Kredittilsynet itself and of its preparation of cases for the Ministry of Finance. Kredittilsynet will review the scope of the various authorisation procedures and will facilitate electronic applications.

The continual launching of new products in the financial and securities market suggests that “product approval” should be avoided and that Kredittilsynet should rather focus on the adequacy of product information to the market. In areas such as securities funds and mandatory occupational pensions, where “product approval” is to some extent built into the rules, the emphasis will be on finding appropriate approval procedures. Kredittilsynet will raise the issue of further delegation of decision-making authority from the Ministry of Finance with a view to reducing overall processing time and resource use.

### Regulatory development

Where regulatory development is concerned, Kredittilsynet will work for economic and market conditions that promote profitable and competitive business at entities under supervision. Rule-making in Norway is to a large extent guided by the EU through the EEA agreement, and an important premise for further regulatory development within the EU is that new rules should only be tabled after prior cost-benefit and impact analyses. However, a number of highly detailed and complex EU rules adopted as part of the Financial Services Action Plan have yet to be implemented, and Kredittilsynet will do more to exploit the scope for national discretions allowed by EU rules. Kredittilsynet will also have an eye to the need for rule simplification and user-friendliness and will in that connection:

- Inform the market and supervised entities / market actors about EU developments by referring to adopted EU standards in instances where new regulations are not absolutely necessary.
- Encourage the elimination of business rules that are specific to Norway in areas where minimum harmonisation applies.

- Simplify product rules, and harmonise rules governing different savings and pension products where it is natural to do so.
- Simplify reporting rules, and assess what need there is for all the information being compiled today and whether reporting frequency should be varied or reduced.
- Actively employ trade standards, market discipline and self-regulation as a supplement to laws and rules.

### Information and communication

Kredittilsynet will do more to utilise information and communication as a supervisory instrument giving particular emphasis to:

- Good dialogue with the ministry, entities under supervision, trade organisations, collaborating authorities and the media.
- Promoting insight into and predictability of its activity and purposely applying information to preventive ends, for example by actively providing information on laws and rules and warning against unlawful activity.
- The use of electronic channels for information and communication. Kredittilsynet’s main information conduit is its website – which is both a meeting place and a place for communicating information and documentation to prioritised target groups. The website will be a portal for future services including electronic applications and various types of reporting.
- Regular user surveys, consultations and meetings with a view to ensuring good communication with interested parties.





## Important events in 2006

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## Structural changes and licences

### **Fokus Bank ASA becomes a branch of Danske Bank ASA**

As recommended by Kredittilsynet, Fokus Bank ASA received in December 2006 permission from the Ministry of Finance to transfer its business to a branch of Danske Bank A/S. The bank concurrently applied to have the branch admitted to the Banks' Guarantee Fund, Norway's deposit insurance scheme. Kredittilsynet intends to approve Danske Bank's admission as a branch member to the Banks' Guarantee Fund.

### **Nordnet Bank AB, the first foreign member of the Banks' Guarantee Fund**

The Swedish bank Nordnet Bank AB's branch in Norway (previously Nordnet Securities Bank AB) became in 2006 the first foreign member of the Banks' Guarantee Fund. The fund covers the difference between SEK 250,000 guaranteed under the Swedish scheme and the NOK 2 million guaranteed under the Norwegian scheme.

### **Savings banks keen to merge**

Several structural changes took place in the savings bank sector in 2006:

- Ofoten Sparebank and Tjeldsund Sparebank merged, as did Verran Sparebank and Grong Sparebank. Authorisation was given by the Ministry of Finance in line with Kredittilsynet's recommendation. Narvik Sparebank and Ankenes Sparebank applied to merge under the name "Sparebanken Narvik". Kredittilsynet advised the Ministry of Finance to approve the application.
- Sparebanken Møre applied in December 2005 to take over Tingvoll Sparebank and to establish a foundation, "Tingvoll Sparebankstiftelse". Sparebanken Sogn og Fjordane applied in June 2006 to convert to limited liability status, and Gjensidige Forsikring concurrently applied for permission to acquire 34 per cent of the shares of the converted bank. Kredittilsynet recommended the Ministry of Finance to refuse the applications with reference to current legislation. The applications are being processed by the Ministry of Finance.

### **Vesta Forsikring AS becomes a branch of Tryg Forsikring A/S**

Acting on Kredittilsynet's recommendation, the Ministry of Finance in December 2006 authorised Vesta Forsikring AS to become a branch of the institution's Danish parent, Tryg Forsikring A/S. Vesta's activity in Norway will thus be subject to Danish rules and supervision.

### **Gjensidige Forsikring establishes Gjensidige Bank AS**

In line with Kredittilsynet's recommendation, the Ministry of Finance in October 2006 authorised Gjensidige Forsikring to establish a commercial bank. Through its internet bank solution the bank will offer ordinary banking products targeting the retail market. The bank started operations in Førde on 2 January 2007.

### **Continued strong increase in new entrants to the estate agency market**

The unprecedented growth witnessed in the real estate agency market in 2005 continued in 2006. There was a net increase of 40 estate agency firms in 2006, and 97 new licences were issued. Sixty per cent of the new entrants were set up by chains.

### **Kredittilsynet recommends authorisation for FishEx to operate an authorised market place**

Kredittilsynet recommended the Ministry of Finance in November 2006 to authorise FishEx to operate an authorised market place for commodity derivatives with fish and/or seafood as the underlying commodity. The market place will reduce industrial actors' financial risk by offering price hedging contracts linked to underlying physical purchase or sale of fish and/or seafood.

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## Regulatory framework

### **New capital adequacy framework (Basel II) takes effect**

A new capital adequacy framework for financial institutions and investment firms (Basel II) came into force on 1 January 2007. Kredittilsynet drafted amendments to key legislation, which were adopted in June 2006. The regulations, based on Kredittilsynet's proposal, were ratified on 14 December 2006, although some aspects of them will only enter into force in January 2008. Kredittilsynet held an information seminar on the new capital adequacy framework in December 2006. An EEA-wide common reporting framework (COREP) will also be introduced for credit institutions, investment firms and management companies.

### **Kredittilsynet drafts regulations to pensions act**

Kredittilsynet has drafted a clarification of the provision of the Mandatory Occupational Pensions Act exempting firms from establishing an occupational pension scheme if they have only one employee holding at least 75 per cent of a full-time position who has owner interests in the firm.

According to the clarification, holders of owner interests below 10 per cent are "without owner interests" for the purpose of the Act. Final regulations will be established by the Ministry of Finance.

### **New solvency framework planned in insurance (Solvency II)**

Kredittilsynet participates in the EU/EEA countries' work on the forthcoming solvency framework for insurance companies through working groups established to this end by the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). The impacts of technical provisions and risk-based capital requirements were assessed in 2006. The final Solvency II framework is expected to apply as from 2010.

### **New rules for external accountants**

A new framework for external accounts came into force on 1 July 2006. The rule changes bring tighter education requirements for authorised external accountants and a post-education requirement for authorisation renewal. The general manager of an external accounting firm must be an authorised external accountant, and "good accounting practices" are introduced as a legal standard under the law.

### **Kredittilsynet tightens requirements on the sale of structured products**

Regulations laid down by Kredittilsynet on 25 September 2006 on

disclosure requirements in connection with offers for purchase of structured products came into force on 1 January 2007. The regulations were followed up with circular no. 15/2006 from Kredittilsynet giving information and guidelines on the sale of such products. The tightening was prompted by poor observance of recommendations previously issued by Kredittilsynet. The regulations have their legal basis in the Financial Institutions Act which regulates financial institutions' obligation to provide information in connection with offers for purchase of the above products. The measures are designed to promote better information for consumers on return, real risk and costs associated with structured products.

### **Changes proposed to the Estate Agency Act**

The Ministry of Finance tabled on 15 December 2006 amendments to the Estate Agency Act. The amendments raise the quality of estate agency services by requiring a) assignments to be carried out essentially by persons with a professional estate agency background, b) fitness and propriety testing of agencies' management and directors, c) prohibition of agreements on progressive commissions and d) tighter rules to ensure estate agents' independence.

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## **Supervision and regulatory compliance**

### **Kredittilsynet criticises investment firms for uncovered short sales of Opticom shares**

Kredittilsynet wrote in June 2006 to six investment firms to censure them for short sales of Opticom shares in December 2005. This was in breach of section 8–7 of the Securities Trading Act which prohibits investment firms from mediating such sales. As a result of the investment firms' questionable actions several investors failed to receive shares they had bought ahead of the company's general meeting, and were therefore unable to utilise their voting rights. Criticism of the firms varied, in some cases the criticism was very serious.

### **Important judgments delivered after illegal activity in the securities market**

In 2006, for the first time, a judgment was delivered in the Supreme Court for violation of the ban on insider trading. A conviction was also handed down in a district court for a similar violation, as was a conviction for violation of the ban on unreasonable business methods.

### **Investigation of nominees in the Central Securities Depository**

Kredittilsynet completed in 2006 a survey of firms licensed by Kredittilsynet to appear as nominees in the Central Securities Depository. The survey revealed that a number of nominees were unable to provide details of the underlying owners. After preliminary warnings of licence revocation, the firms complied with the rules, and no licences were revoked in 2006.

### **Deficiencies revealed by checks on listed companies' annual accounts for 2005**

Listed companies' switch to reporting under IFRS demonstrated reporting deficiencies. Many firms had failed to provide sufficient data and to present reconciliations in line with requirements. Descriptions of income recognition principles were often inadequate. Many firms should provide more information on accounting principles for financial instruments.

### **Kredittilsynet calls for better security for internet banking**

In September 2006 the Ministry of Finance asked Kredittilsynet for a briefing on security in banks' internet banking systems, follow-up action and possible measures for strengthening security. The request was prompted by media coverage of customers who had lost money after keying in a wrong account number. A working group set up by the Financial Services Association, the Savings Banks Association and the Banks' Standardisation Office proposed measures to improve security which the banks will implement in the first quarter of 2007. Kredittilsynet will thereafter submit a report to the Ministry of Finance.

### **Supervision of insurance intermediaries added to Kredittilsynet's remit**

Kredittilsynet was assigned supervision of insurance intermediaries and insurance agents by a law amendment that came into force on 1 January 2006. Kredittilsynet held a seminar in January 2006 on the new rules for insurance intermediaries and the insurance industry.

### **Kredittilsynet deprives Skagerak Forsikringsmegling AS of its licence to carry on insurance mediation**

Kredittilsynet decided in March 2006 to deprive Skagerak Forsikringsmegling AS of its licence to carry on insurance mediation due to the firm's failure to comply with its obligations under the Insurance Broking Regulations and the Act on Insurance Mediation.

### **Cases against Notar Eiendom Bergen AS and Notar Nybygg Bergen AS followed up**

Kredittilsynet's inspections at Notar Eiendom Bergen AS and Notar Nybygg Bergen AS in 2005 exposed a series of malpractices, including estate agents' own trading in projects and seriously flawed record keeping. This led to withdrawal of the two firms' licences in January 2006. Kredittilsynet conducted an extensive follow-up in 2006, leading to tighter rules on estate agents' own trading.

### **Inspection at DnB NOR Eiendom AS**

Kredittilsynet ordered DnB NOR Eiendom AS in July 2006 to wind up its estate agency business at the firm's branch office in Bodø. This was prompted by the discovery during an on-site inspection of extensive and serious breaches of the Estate Agency Act's ban on own trading, as well as serious deficiencies in record keeping. The branch had mediated 13 sales/purchases in which the buyer/seller was closely related to the branch's estate agents and where in one case an agent had himself purchased property on which the branch had an agency assignment. Cases of own trading were also discovered during inspections at four other branch offices of DnB NOR Eiendom AS, and Kredittilsynet delivered critical comments in three of these cases.

### **Statutory auditors more involved**

Kredittilsynet's survey of auditors and audit firms in 2005 showed that while statutory auditors (partners) are spending more time on their audit assignments, the time spent by their colleagues on the same assignments fell slightly relatively speaking. Incomes in the audit industry are rising, and audit firms' incomes on the non-audit front are still increasing substantially. While the bulk of the increase is presumed to relate to non-audit services provided to clients who are not audit clients, the increase none the less calls for Kredittilsynet to take a closer look.

### **Three firms ordered to change their accounting treatment of live farmed salmon**

Kredittilsynet ordered three firms in February 2006 to change their accounting treatment of live farmed salmon. The three firms were Pan Fish ASA, Fjord Seafood ASA and Lerøy Seafood Group ASA. The firms had measured live farmed salmon weighing more than 4 kg at fair value, whereas fish weighing less than 4 kg were valued at the lower of fair value and historical cost. In Kredittilsynet's assessment the firms' measurement of farmed salmon did not conform to IAS 41 "Agriculture". The decisions were appealed and thereafter forwarded to the Ministry of Finance whose final decision supported Kredittilsynet's position.

### **Supervision of the auditing of activity subject to legislation administered by Kredittilsynet**

Thematic inspections of the auditing of activity subject to special legislation administered by Kredittilsynet were conducted in 2006. The aim was to examine whether such activity was properly audited. There was a clear emphasis on banks, although audits of certain other supervised entities were also checked. While Kredittilsynet did not find cause for special measures in regard to these audit assignments, its comments made clear auditors' responsibility for assessing institutions' compliance with key terms and conditions of their licences.

### **Audit of Nedre Romerike Vannverk AS to be assessed**

Kredittilsynet had contact with Nedre Romerike Intermunicipal Audit in 2006 and is awaiting the outcome of the latter's investigation into Nedre Romerike Vannverk AS (a water utility) and other companies. Kredittilsynet has started its evaluation of the audit process in relation to circumstances that were brought to light and aims to complete its review of the case early in 2007.

### **Green light for Finansportalen.no**

In June 2006 the Consumer Council, the Consumer Ombudsman and Kredittilsynet forwarded a report entitled "*Finansportalen.no – better information for consumers. A basis for deciding further development*" to the Ministry of Children and Equality and the Ministry of Finance. The consumer bodies and Kredittilsynet also recommend the establishment of an internet-based information portal designed to provide more integrated information to retail customers in the financial market. The ministries made funds available via the Government Budget for 2007 for the development of a portal solution, and the Ministry of Children and Equality conducted a consultation process in autumn 2006.

### **Increase in international activity**

Kredittilsynet's activity is influenced by international regulatory developments in all areas of supervision. In 2006 centre stage was occupied above all by the implementation of the new capital adequacy framework (Basel II) and by the development of common standards for reporting and for the associated risk-based supervision. In the audit field Kredittilsynet involved itself in the new EU committees for regulation and oversight of auditing and auditors. Kredittilsynet signed IOSCO's (International Organization of Securities Commissions) multilateral memorandum of understanding (MMoU) in 2006.





# Organisational set-up and resource use

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



## Board of Directors

The Ministry of Finance appointed on 17 February 2006 a new board at Kredittilsynet for a four-year period starting on 1 March 2006. Hilde C. Bjørnland was appointed as a new board member, replacing Erling Steigum. The other members, alternates and observer from Norges Bank were reappointed for a new period. Arild J. Lund was appointed as a new alternate to the observer.

As from 1 March 2006 Kredittilsynet's board comprises:

**Finn Hvistendahl**, chartered engineer, chair

**Endre Skjørestad**, advocate, deputy chair

**Marianne Berg**, district court judge, board member

**Hilde C. Bjørnland**, associate professor, board member

**Eli Aas**, advocate, board member

**Mette Bjørndal**, associate professor, first alternate

**Lasse Ekeberg**, director, second alternate

A letter from the Ministry of Finance dated 10 January 2007 granted **Lasse Ekeberg's** application to be released from his duties as board member.

Director **Jostein Skaar** was appointed as new second alternate.

**Birger Vikøren**, director at Norges Bank, attends as observer.

**Arild J. Lund**, director, is his alternate.

Two members elected by and from among the employees supplement the board when administrative matters are dealt with. Since February 2005 the employee representatives have been:

**Lisbeth Strand**, senior adviser

**Angela Nygaard**, senior adviser

Alternates: **Nina Moss**, international coordinator (acting as board member in the period February to October), and **Tone Aarland**, special adviser.

Eleven ordinary board meetings were held in 2006. The board dealt with a total of 42 administrative matters and 55 supervisory matters requiring decisions. The board was also informed about 50 administrative matters and 134 supervisory matters.



**The Board of Directors of Kredittilsynet**

Back row from left to right: Marianne Berg, Birger Vikøren, Finn Hvistendahl, Angela Nygaard, Eli Aas.

Front row from left to right: Mette Bjørndal, Lisbeth Strand, Hilde C. Bjørnland, Nina Moss

(Endre Skjørestad was not present when the photograph was taken).

Photo: Fotograf Sturlason



Kredittilsynet's management team

Back row from left to right: Kjetil Kalsrud, Sven-Henning Kjelsrud, Cecilie Ask, Eirik Bunæs

Front row from left to right: Gun Margareth Moy, Bjørn Skogstad Aamo, Anne Merethe Bellamy

Photo: Fotograf Sturlason

## Priorities in 2006

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, and Kredittilsynet's strategy. Based on the priorities set out in Proposition no. 1 to the Storting (2005–2006), 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 2006:

1. Prepare for the task of adapting the capital adequacy framework to the requirements of Basel II / EU and set the stage for risk-based supervision
2. Ensure that listed companies' financial reporting is subject to proper oversight and adjust the annual accounts regulations to new accounting legislation
3. Continue the effort to improve efficiency and simplify rules
4. Follow up credit risk and households' debt exposure
5. Follow up EU directives in the securities field
6. Carry out on-site inspections on a sufficient scale
7. Follow up operational risk and prioritise ICT supervision
8. Prepare for the implementation of the new audit directive and carry on supervision of the largest audit firms
9. Draw up a new strategy
10. Prepare or implement relocation to new premises

## Goal achievement in 2006

Overarching and working goals were satisfactorily achieved in 2006.

No serious stability problems were in evidence in 2006. No banks or other financial institutions had to suspend operations. The build-up of risk and continuing strong growth in credit to households and quickening growth in credit to firms are discussed in detail in *The Financial Market in Norway 2006: Risk Outlook*, available on Kredittilsynet's website.

One insurance broking firm was forced to suspend business as a step in Kredittilsynet's effort to ensure a well functioning market. Several breaches of the market conduct rules were exposed, prompting investigation in cooperation with ØKOKRIM. Instances of unlawful service provision were also exposed and brought to an end.

Prioritised tasks were largely implemented as planned:

1. After preparation by Kredittilsynet, new capital requirement rules based on Basel II were adopted. A basis for risk-based supervision was developed through various risk modules. Over-all risk assessments were carried out for eight large banks.
2. A system for checking the accounts of listed companies was developed. Accounts for 2005 were reviewed, and new regulations on banks' annual accounts were drafted.
3. The efficiency drive was taken forward, with 99 per cent of reports from external accountants received electronically via the Altinn portal.
4. The growth in household debt was looked into in a survey of home mortgage borrowing and by other means.
5. Kredittilsynet was involved in framing new legislation to implement MiFID, and initiated work on regulations.
6. The number of on-site inspections in the banking and finance area was in line with plans. Forty inspections were carried out at estate agents compared with about 20 in previous years. Tight resources meant that fewer debt collection firms, auditors, external accountants and investment firms were inspected than planned.
7. Risk and vulnerability associated with use of ICT at financial enterprises was analysed, and many banks' ICT systems were inspected. Internet bank security and other individual cases were followed up.
8. Work started on implementing the EU's new audit directive, and supervision of the largest audit firms was taken forward.
9. A new strategy was drawn up and adopted.
10. A contract was concluded to relocate to new premises in autumn 2008, and plans were drawn up for use of the premises.

Kredittilsynet has essentially achieved its targets on case processing time (see Table 1).

## Kredittilsynet – 20 years as an integrated supervisory authority

On 14 September 2006 Kredittilsynet commemorated its 20th anniversary as the first integrated supervisory authority for the financial market in the western world. The commemoration comprised a conference at *Gamle Logen* in Oslo and the launch of an anniversary publication. Minister of Finance Kristin Halvorsen gave the opening presentation. The main programme included a review of Kredittilsynet's activities over the past 20 years and a panel debate on where Kredittilsynet's priorities should lie in the years ahead. In the afternoon two parallel sessions on financial stability and well functioning markets were held featuring speakers from research institutions and financial and securities enterprises. Among those invited to the conference were representatives of government, managements of supervised entities, trade organisations, collaborating authorities and bodies and the media. The conference was broadcast live on internet TV via Kredittilsynet's website.

A further key aspect of the commemoration was Kredittilsynet's desire to illuminate issues and tasks related to the agency's new strategy. The anniversary publication, *Experiences and challenges – 20 years as integrated supervisory authority*, gave important input to the strategy process. The publication is a wide-ranging compilation of articles showing, among other things, the development and breadth of Kredittilsynet's tasks. The articles present Kredittilsynet's development as a financial supervisory authority, legislative developments in the financial and securities sphere, the agency's priorities and tasks seen from the vantage point of the financial industry, and analyses of trends in Norwegian and international markets. The authors are key figures in the EU system, representatives of financial supervisors and regulators in other countries, research institutions, organisations and government authorities with whom Kredittilsynet collaborates, and staff at Kredittilsynet with supervisory responsibilities in various areas. The publication can be obtained by contacting Kredittilsynet, and is available at [www.kredittilsynet.no](http://www.kredittilsynet.no).



## Feedback from users on Kredittilsynet's performance of its activities

How is Kredittilsynet viewed by its users? To find out, Kredittilsynet conducted a user survey of entities under supervision. In contrast to a similar survey carried out in 2004, external accountants were included on this occasion. Listed companies, which had little experience of Kredittilsynet's supervision of financial reporting when the survey was conducted early in 2006, were however excluded.

The survey was quantitative in design. The questionnaire was sent to 1,376 firms distributed on 13 target groups. An average of 34 per cent responded. The response rate varied widely between the target groups – for example, 59 per cent of savings and commercial bank recipients answered the questionnaire.

### The survey polled views on the following aspects of Kredittilsynet's work:

- Development and simplification of rules
- On-site inspections
- Analyses of markets and industries
- Reporting to Kredittilsynet
- Information from Kredittilsynet
- Kredittilsynet's competence

The results were presented as a quality index running from 0 to 100 with scores above 70 judged as excellent. A good result will however depend on the type of activity involved. It should be kept in mind that Kredittilsynet is a public supervisory body. Pure service enterprises often score higher than bodies with supervisory responsibilities. Results should however in all cases exceed an index value of 60.

### Main findings

*Kredittilsynet's inspection activity* receives the best feedback from supervised entities. Of 14 aspects assessed, 11 achieve an index rating of 66 or higher, two a rating of 72. Kredittilsynet's information activity is also regarded as good, achieving a score between 73 and 68 points on the technical *quality of the information, access to information and communication/language*. The area *analyses of markets and sectors* is also regarded as good. This is followed by the area *information products* with index ratings between 70 and 66 points for the five aspects assessed. *Kredittilsynet's website* is regarded as excellent on three of four aspects (except in the case of ease of finding information).

*Communication with Kredittilsynet* is generally considered to be fairly good. A positive view is taken of *direct contact with staff members by phone*, which scores 73 points, whereas Kredittilsynet's

response time is viewed somewhat less positively. *Reporting to Kredittilsynet* is also in the intermediate category, scoring between 68 and 62 points. Also at mid-level is *Kredittilsynet's competence in the respondent's own area of competence* with a rating between 69 and 61, and *overall assessment / "overall satisfaction" with Kredittilsynet* with a rating between 66 and 63 points.

The weakest area is *development and simplification of rules*. Of seven aspects, five achieve a score below 60 points. Also weak is *dialoguing ability in connection with development and/or simplification of rules*. The replies indicate a poor understanding by Kredittilsynet of the *firm's practical application of rules* (index 56) and *ability to listen* also receives a low score (index 58). Next weakest is the area *administrative procedures and enforcement of rules*. The highest score here is 68, and three aspects score below 60 on the index. Third weakest is *ad hoc reporting to Kredittilsynet*, scoring between 67 and 60 points on the seven aspects assessed.

While the statistical basis for the survey is somewhat weak due to the low response rate, the results can nevertheless be viewed as indicating actual tendencies. There were few changes at the overarching level from the previous to the present survey: the category "*overall satisfaction with Kredittilsynet*" achieved 64 points in 2006 compared with 65 in 2004. There were several changes on individual aspects. Aspects showing a negative change, wide variation between supervised areas or generally poorer scores, will be closely analysed, and possibly acted on, in the planning of Kredittilsynet's activities in 2007 with a view to improvement.

Kredittilsynet views fruitful dialogue with its users as important, and will conduct further surveys in the years ahead.

TNS Gallup conducted the 2006 survey on commission from Kredittilsynet.

## New ICT strategy

In autumn 2005 Kredittilsynet began a review of Kredittilsynet's use of information and communication technology in preparation for a new ICT strategy. The process continued in 2006, and the new ICT strategy was adopted by Kredittilsynet's management in early January 2007. The strategy is anchored in Kredittilsynet's overall strategy, and is closely tied to its supervisory activity. Among the most important focal areas are measures directed at:

- reporting and analysis
- internal coordination and efficiency improvement
- information and communication (internet solutions)
- leadership, management and control of the ICT activities
- technology

Each focal area has a description of concrete measures which in combination represent a substantial ICT commitment in the years immediately ahead. Key initiatives in regard to leadership, management and control involve establishing a cross-disciplinary coordinating body to prepare and prioritise tasks, introducing Statskonsult's role structure (manager, order placer and supplier), reinforcing project management and appointing ICT contacts for each supervisory department.

## 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 2006 totalled NOK 1,017,000, and the Chairman of the Board's fee was NOK 170,000.

Thirty-eight vacancies were advertised in 2006 compared with 36 in 2005. Seven of these were in-house as against eight in 2005. Applicants totalled 551 compared with 782 in 2005.

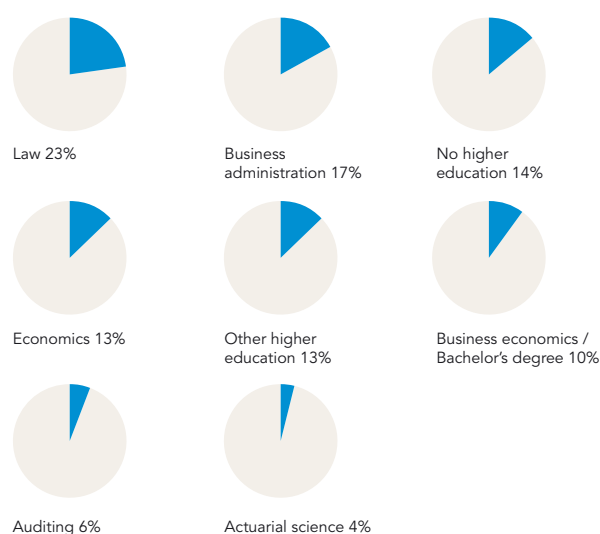
At the end of 2006 Kredittilsynet had 205 permanent staff compared with 196 at the end of 2005. Fifty-one per cent of the full time staff are women. Eighty-six per cent of the staff hold university degrees or the equivalent.

Women made up 43 per cent of Kredittilsynet's management team in 2006 and 36 per cent of all staff with managerial responsibility. While an effort is made to recruit women to senior positions, the success of this effort depends on existing positions becoming vacant or on new managerial positions being established. Women staff's pay measured 90.0 per cent of men's pay in 2006, compared with 89.8 per cent in 2005, which reflects the priority given to pay equality in Kredittilsynet's in-house 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.

Kredittilsynet attaches much importance to building up and maintaining the expertise needed to perform effective supervision, and this is reflected in its pay and personnel policy. Whereas in 1995, 24 members of staff had substantial experience (generally more than five years) from industries under supervision, by the end of 2005 this figure had passed 50. Kredittilsynet is now more successful than just a few years ago at retaining staff who have gained long supervisory experience and staff who have developed a high level of expertise during their career with Kredittilsynet. Taking this success a stage further could necessitate a flexible pay policy. Kredittilsynet's staff turnover in 2006 was 9 per cent compared with 7.5 per cent in 2005.

Chart 1: Staff educational background as of 31.12.2006





## Work environment survey at Kredittilsynet

Kredittilsynet conducted a survey of the staff work environment in April 2006. The survey was a follow-up to a similar survey conducted in 2004, on both occasions in cooperation with TNS Gallup. The survey elicited staff views on the development of a new strategy, as well as feedback on the work environment qualities needed for job satisfaction and employee performance, with a view enabling Kredittilsynet to further enhance the supervisory effort.

The main conclusion drawn from the survey is that a large proportion of staff view their job as meaningful, and that they are highly loyal to the agency. Professional commitment is strong, and many see absorbing challenges in their work. That said, they desire better specialist guidance and a greater emphasis on personal development. Along with a desire for improved internal coordination, this is an area to which Kredittilsynet will give further attention with a view to improving the staff work environment.

## Code of ethics

Kredittilsynet's Board of Directors adopted a new code of ethics and guidelines for the agency on 23 October 2006. Previous guidelines imposing limits on employees' trading in financial instruments are now replaced by regulations included as in annex to the code. The Board has also established ethical guidelines specifically for board members' trading in quoted shares etc.

## Inclusive employment

With its espousal of the Government sponsored "IA Agreement" designed to promote inclusive employment, Kredittilsynet attaches importance to preventing sickness absence. Even so the rate of sickness absence was 4.4 per cent in 2006 compared with just 2.7 per cent in 2005. The increase, in long-term sickness absence, is unrelated to working conditions.

Feedback from the survey conducted by the corporate health service in connection with the annual health check was positive. While some employees view their workload as excessive, most are satisfied with working conditions. The work environment and gender equality committee regularly monitors sickness absence, which showed a falling tendency in the second half of 2006.

The IA Agreement is also designed to prevent discrimination of job applicants with functional impairments and to raise the de facto retirement age. Collaboration with the social security administration and corporate health service is given high priority under the IA Agreement. Kredittilsynet stresses its aspiration for diversity in terms of ethnic background, functional capacity and age in job vacancy advertisements, and at least one applicant from an underrepresented group is invariably called in for interview provided the qualification requirements are met.

## Efficiency improvements

Kredittilsynet has altered its administrative practice to make it easier for management companies to revise securities funds' articles of association. Whereas Kredittilsynet previously required unit holders

to explicitly consent to changes of significance for investment mandates or remuneration, consent is now by default.

The effort to enhance efficiency involves making greater use of electronic solutions both in Kredittilsynet's communication with supervised entities and in the conduct of its activities. A new reception system for reports filed via the Altinn portal was put into operation in 2006. Three new electronic report forms were introduced: a self-report form for external accountants, a self-report form for external accounting firms and a form for reporting by companies listed on Oslo Børs. Auditors and auditing firms already file reports via the Altinn portal. Another solution which substantially simplifies supervision is the new, internet-based access to the central securities depository. A new sectoral database was also launched in 2006, greatly facilitating case processing and information retrieval from public databases. Fully electronic archives were introduced at Kredittilsynet in January 2006.

## Reorganisation of the Department of Finance and Insurance Supervision

The Department of Finance and Insurance Supervision was reorganised in 2006, taking effect on 1 January 2007, and now comprises five sections instead of the previous four. The change was prompted by a desire to find a solution giving the best possible support to development, implementation and operation of the supervisory effort in the future. Introduction of a new capital adequacy framework (Basel II) has brought major changes in the supervision of the banking and finance sector. Supervision now consists in identifying the main risks facing institutions, and in overseeing their management and controls. The agency then considers whether capital is sufficient to cover the risks. The supervisory regime has become more systematic and targeted, but also more resource-demanding, both for Kredittilsynet itself and for the institutions under supervision. The introduction of Solvency II in a few years' time will similarly bring a significant upgrading and modernisation of supervision in the insurance sphere. Development and introduction of new rules and building a risk-based supervisory regime for the insurance sector, is at centre stage. The Department therefore needs an organisational set-up appropriate to the new tasks associated with Basel II and Solvency II. See also the organisation chart on page 87.

## New premises for Kredittilsynet

Lack of space has compelled Kredittilsynet to rent offices in a neighbouring building in recent years. This is an unsatisfactory situation. Given the agency's staff increases and additional tasks, it needs to move to larger premises. Kredittilsynet invited tenders and held talks with landlords able to offer office space for the entire staff as well as opportunities for expansion. Six prospective landlords delivered tenders, the best one in financial terms from Norges Bank. A lease contract was concluded and approved by the Ministry of Finance on 6 April 2006. The agency will relocate to No. 3 Revierstredet in autumn 2008 once Norges Bank has cleared and converted the premises.

## Kredittilsynet's registry

In the second half of 2006 Kredittilsynet launched a website registry

of enterprises and individuals under the agency's oversight. The registry, available in English alongside Norwegian, lists enterprises and individuals licensed to engage in business, but not enterprises that have notified cross-border services or Norwegian enterprises' branches in other countries. The registry also lists employees in managerial and board positions at enterprises. Contact details for enterprises and individuals are provided, respectively, by the Central Coordinating Register for Legal Entities in Brønnøysund and the National Population Register.

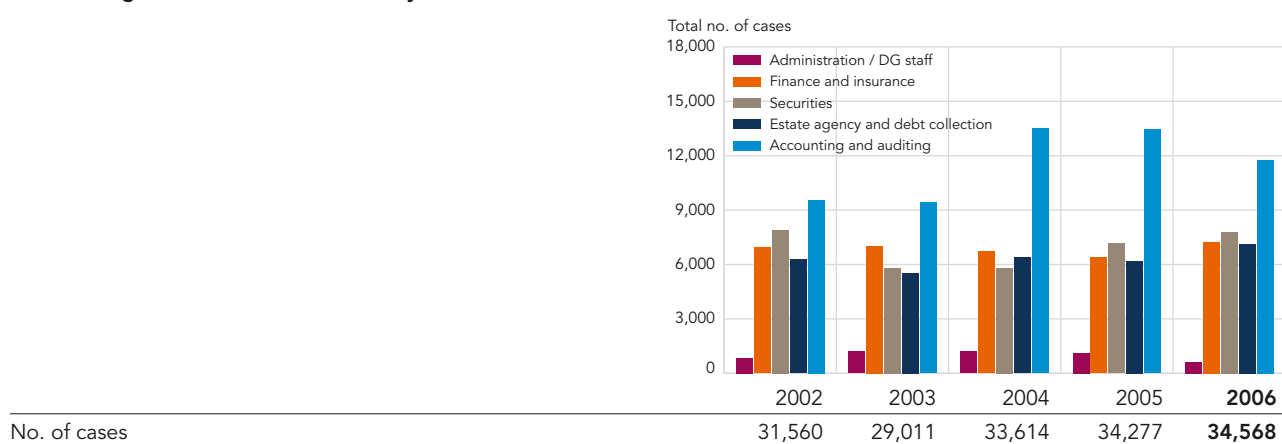
## Case processing time

Since 2003, 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. For some types of complex cases, a longer period is allowed. 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 at [www.kredittilsynet.no](http://www.kredittilsynet.no).

Table 1: Case processing time at Kredittilsynet in 2006

	No. of cases	Target achievement
Total no. of cases with processing-time target	1,672	87%
- Cases with 30-day deadline	1,390	89%
- Cases with longer deadline than 30 days	282	79%
Supervisory reports	148	80%
Supervisory observations	152	73%

Chart 2: Registered case documents – by sector\*



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

## Finances

### Expenditure

Kredittilsynet's budget forms part of the government budget and is established by the Storting. The budget for 2006 totalled NOK 165.2 million. A further NOK 3.5 million was appropriated in consequence of the public sector wage settlement. Including funds of NOK 1.4 million carried forward from 2005, the budget came to NOK 170.1 million. Kredittilsynet received an additional NOK 3.1 million in refunds of maternity and sickness benefits. The aggregate disposable budget accordingly came to NOK 173.2 million, while aggregate expenditure came to NOK 171.7 million, an increase of 6.8 per cent on 2005. Total salary expenditure rose by 10.2 per cent, while expenditure on goods and services decreased by 1.6 per cent. Aggregate expenditure was just over NOK 1.5 million less than disposable revenues. Unutilised revenues are carried forward to 2007.

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 29 June 2006 from the Office of the Auditor General on the accounts for 2005 had no adverse comments on the accounts or on Kredittilsynet's implementation of the budget.

Table 2: Kredittilsynet's accounts

	2004	2005	2006
<b>Salaries bill</b>	<b>100,058</b>	<b>114,439</b>	<b>126,058</b>
Of which:			
Salaries and social costs (all positions)	95,725	111,090	123,314
Stand-ins/substitutes	3,715	2,391	1,646
Other emoluments (directors, consultants / other fees)	618	958	1,098
<b>Goods and services</b>	<b>45,805</b>	<b>46,344</b>	<b>45,599</b>
Of which:			
Operating expenses	16,640	17,381	17,395
Information	3,246	3,679	4,897
Service travel and meetings, subscriptions	6,307	6,446	4,271
Inspections and other supervision	5,509	3,123	3,219
Organisation development, management and competence development	4,949	6,102	4,405
IT expenditure	9,154	9,613	11,412
<b>Total expenditure</b>	<b>145,863</b>	<b>160,783</b>	<b>171,657</b>

Figures in NOK 1000s (Preliminary accounts for 2006)

## Comments

Kredittilsynet's expenses have risen in recent years, mainly due to wider responsibilities brought by new tasks and by legislative changes that impose new demands on Kredittilsynet. This is particularly true of EU legislation, which Norway is obligated to implement. A pertinent example is the new capital adequacy framework and the development of risk-based supervision and new rules in the securities sphere. In 2005 Kredittilsynet was allotted responsibility for oversight of listed companies' financial reporting. A new section was created to perform this function. Normal expansion of the securities market, of the financial industry and of the number of auditor and external accounting entities also requires an increased effort on Kredittilsynet's part if supervisory standards are to be maintained. Active use of tendering processes has helped to keep down operating expenses. Expenditure on inspection visits and other supervisory work showed little change from 2005 to 2006. Increased expenditure on information activities was chiefly related to purchase of consultancy services to develop a new intranet, commemoration of Kredittilsynet's twentieth anniversary and an increase in the number of announcements. The fall in expenditure on service travel is due partly to some reduction in international meetings, but mainly to new routines and increased availability of cheap air tickets. Expenditure on organisational development etc., fell because less outside expertise was hired in. The increase in IT expenditure reflects a focus on systems development, among other things to enable electronic reporting by supervised entities.

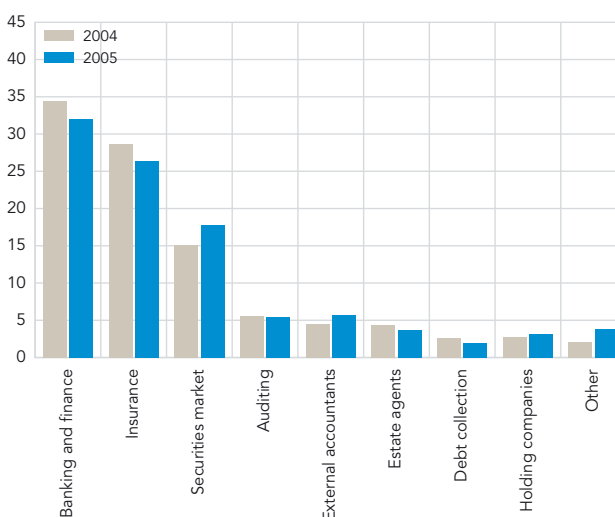
## Revenues

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. With effect from the assessment for 2004 contributions are also claimed from branches of companies from other EEA states.

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

Percentage of total levy



The total amount levied for 2005 was NOK 152.1 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 Fund through refunds of maternity and sick pay outlays. The levy proposed by Kredittilsynet for 2005 was approved by the Ministry of Finance on 12 May 2006 after prior consultation with the trade organisations concerned. Supervised entities liable

to pay the amount levied for 2005 number 10,893, of which 63 are foreign branches. The figure in 2004 was 10,372. The apportionment of the levy among the various categories of supervised entities is shown in chart 3. Foreign branches pay 2.6 per cent of the levy.

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

Supervised groups	Calculation base	Percentage of calculation base		
		2003	2004	2005
Credit institutions	Total assets	0.0023	0.0025	<b>0.0022</b>
Insurance	Premium income	0.0357	0.0345	<b>0.0291</b>
Investment firms	Income from investment and ancillary services	0.2335	0.1997	<b>0.1500</b>
Management companies	Assets under management	0.0037	0.0031	<b>0.0025</b>
Estate agency	Commission income	0.1315	0.1516	<b>0.1216</b>
Debt collection	Debt collection proceeds	0.1767	0.2122	<b>0.1628</b>
Auditors	Turnover	0.2410	0.2345	<b>0.2356</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 1,190 at the assessment for 2005). The levy burden has shown a falling tendency in recent years despite a substantial increase in Kredittilsynet's expenditure: 10.2 per cent from 2004 to 2005 and 19.3 per cent from 2003 to 2005. The decline in the levy burden is related to a strong financial trend in industries under supervision.

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

Table 4 shows an increase in resource input from 2005 to 2006 equivalent to one full-time position. This was nine 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 was much the same as in 2005, with the exception of banks and financial reporting supervision which saw a slight increase.

Table 4: Resource input by area of supervision

	2004		2005		2006	
	FTEs	%	FTEs	%	FTEs	%
Banks	37.0	20.8	38.5	20.8	<b>40.5</b>	<b>21.8</b>
Finance companies	2.9	1.6	2.6	1.4	<b>2.4</b>	<b>1.3</b>
Mortgage companies	1.9	1.0	1.8	1.0	<b>1.8</b>	<b>1.0</b>
Insurance companies	28.9	16.2	25.7	13.9	<b>25.6</b>	<b>13.8</b>
Holding companies	3.3	1.9	3.8	2.0	<b>3.5</b>	<b>1.9</b>
Pension funds and trusts	5.9	3.3	5.0	2.7	<b>4.0</b>	<b>2.1</b>
Securities market	28.8	16.2	32.0	17.3	<b>31.1</b>	<b>16.7</b>
Estate agents	6.6	3.7	6.1	3.3	<b>6.3</b>	<b>3.4</b>
Debt collection	3.6	2.1	2.5	1.3	<b>2.5</b>	<b>1.4</b>
Auditors	7.5	4.2	7.5	4.1	<b>7.8</b>	<b>4.2</b>
Accounts in general	2.0	1.1	0.3	0.2	<b>0.1</b>	<b>0.0</b>
External accountants			4.8	2.6	<b>6.0</b>	<b>3.2</b>
Financial reporting	6.0	3.3	8.2	4.4	<b>8.3</b>	<b>4.5</b>
Miscellaneous	0.8	0.5	1.5	0.8	<b>2.3</b>	<b>1.2</b>
Undistributed	42.8	24.0	44.5	24.1	<b>43.8</b>	<b>23.5</b>
<b>Total</b>	<b>178</b>	<b>100</b>	<b>185</b>	<b>100</b>	<b>186</b>	<b>100</b>

## Information and communication

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

### Information

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

### Seminars and presentations

Kredittilsynet participates widely in seminars for trade organisations and institutions under supervision, and numerous presentations are given on the agency's activities and tasks, as well as on rules and guidelines affecting supervised entities. Kredittilsynet organised a seminar on new rules for insurance intermediaries in January 2006 and two seminars on securities in June and December, plus a whole-

day conference in September to mark Kredittilsynet's 20th anniversary as an integrated supervisory authority (see account on page 21).

Twenty-three circulars were issued in 2006 compared with 21 in 2005, and 41 press releases compared with 50 in 2005. One press conference was held at the end of February, to present the report *The Financial Market in Norway 2005: Risk Outlook* and the annual report, and a press briefing in December 2006 on the introduction of the new capital adequacy framework which came into force on 1 January 2007.

### Good increase in traffic to Kredittilsynet's website

Kredittilsynet's website is a key channel for information from the agency. In October 2006 a searchable register in Norwegian and English of firms and individuals licensed by Kredittilsynet was made available via Kredittilsynet's website (see account on page 24–25). The website received 121,000 unique visitors in 2006, accounting for a total of 429,000 visits. This is an increase of 25 per cent in unique visitors compared with 2005 and an increase of 34 per cent in total visits compared with 2005.

Table 5: Visits to Kredittilsynet's website

	2004	2005	2006
Unique visitors	92,000	97,000	121,000
Total visits	270,000	320,000	429,000

### New intranet on the way

After completing the groundwork for a new intranet, the agency selected a provider in August in 2006. The new system will among other things improve internal communication and enhance workflow efficiency and clarity. The new intranet is scheduled to come on stream in the first half of 2007.

### Documentary access

Kredittilsynet received a total of 798 requests for documentary access involving orders for 2,501 documents in 2006. Of these, 69 were distributed as public versions, while 237 were not released since their entire content was barred from publication. The great majority of requests are emailed.

Table 6: Requests for documentary access

	2004	2005	2006
Orders placed	603	1,374	2,501
Not released	106	159	237



## Key figures and data on supervisory activities

Table 7: Figures for supervised entities as of 31.12.2006

	2002	2003	2004	2005	2006
<b>Banks and financial institutions</b>					
Savings banks	129	129	127	126	124
Commercial banks	16	15	13	14	15
Foreign branches of commercial banks	10	9	10	10	12
Norwegian branches of foreign banks	8	8	8	9	8
Finance companies	33	29	28	30	30
Foreign branches of Norwegian finance companies	2	2	2	3	4
Norwegian branches of foreign finance companies	21	21	22	17	20
Mortgage companies	10	10	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
<b>Insurance</b>					
Life insurance companies	7	7	6	6	9
Unit Linked companies	6	6	5	5	2
Non-life insurance companies	52	46	46	46	44
Local marine insurance associations	14	13	13	13	13
Local fire insurance associations	20	20	20	20	20
EEA branches and foreign companies' general agents	29	30	33	39	41
Insurance mediators*	50	50	49	56	107*
Private pension funds	120	107	95	93	91
Pension schemes	65	50	33	22	19
Municipal pension funds	29	30	30	29	28
<b>Holding companies</b>					
Holding companies	13	8	8	8	9
<b>Securities markets</b>					
Investment firms	92	87	78	75	85
Management companies for securities funds	24	23	21	21	23
Clearing houses	2	2	2	2	3
The Norwegian Central Securities Depository	1	1	1	1	1
Stock exchanges	2	2	2	2	2
Authorised market places	2	1	1	1	1
<b>Auditors</b>					
Auditors	5,006	5,154	5,358	5,495	5,567
Auditing firms	507	514	518	569	730
<b>External accountants</b>					
External accountants	6,201	6,598	6,724	7,179	7,472
External accounting firms	2,415	2,566	2,542	2,632	2,652
<b>Estate agency</b>					
Estate agencies	528	542	572	642	682
Lawyers' practices incl. estate agencies	1,018	1,094	1,178	1,213	1,355
Cooperative building associations	55	47	41	39	38
<b>Debt collection</b>					
Debt collection agencies	113	123	114	121	117
Debt purchase business	8	10	10	8	6

\* The number of entities under supervision was broadened with the entry into force of the Act on Insurance Mediation on 1 January 2006 (see page 42 and 45). Due to transitional rules, not all supervised entities were registered as of 31 December. Insurance agents who distribute insurances for Norwegian insurers are not included in this overview.

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

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

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

	2002	2003	2004	2005	2006
Banks/finance	55	53	57	50	48
E-money institutions	–	–	–	–	1
Holding companies	2	–	4	2	–
Insurance	16	19	11	9	5
Insurance mediators	4	6	3	1	5
Pension funds	8	5	4	1	1
Investment firms	20	23	14	22	18
Other institutions in the securities market (incl. management companies for securities firms)	9	13	7	14	7
Auditors	32	19	65	52	52
External accountants	41	35	15	56	46
Estate agencies	71	12	18	22	40
Debt collection agencies	6	12	25	7	5
Data processing centres	2	2	2	5	3

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

	2002	2003	2004	2005	2006
Banks/finance	4	6	4	9	7
E-money institutions	–	–	–	–	1
Holding companies	2	–	2	1	–
Insurance	2	1	2	1	2
Insurance mediators	–	–	–	–	–
Pension funds	8	–	–	–	–
Investment firms	1	4	4	5	2
Other institutions in the securities market (incl. management companies for securities firms)	5	4	4	6	3
Auditors	–	–	–	–	–
External accountants	–	4	1	1	1
Estate agencies	–	–	1	1	–
Debt collection agencies	–	–	1	2	1
Data processing centres	2	2	2	5	3
Other	–	–	1	–	1

IT inspections are often conducted in conjunction with ordinary on-site inspections. Kredittilsynet also conducted 25 simplified IT inspections and handled 24 notifications received under the Payments Systems Act.

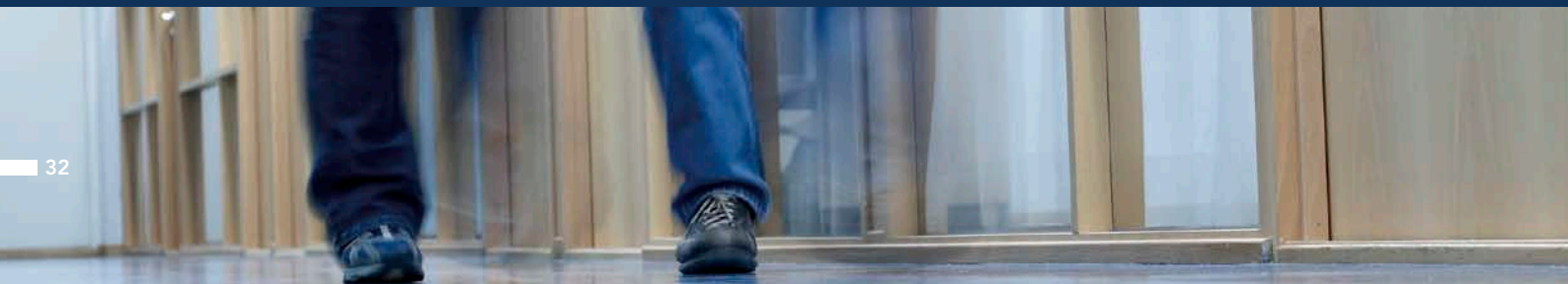
Table 10: Cases handled after delegation from the Ministry of Finance

	2002	2003	2004	2005	<b>2006</b>
Cases pursuant to Savings Banks Act (No. 1 of 24 May 1961)	50	46	69	71	<b>71</b>
Cases pursuant to Commercial Banks Act (No. 2 of 24 May 1961)	12	21	32	21	<b>27</b>
Cases pursuant to Financial Institutions Act (No. 40 of 10 June 1988)	59	53	130	131	<b>149</b>
Cases pursuant to Insurance Activity Act (No. 39 of 10 June 1988)	36	74	45	50	<b>71</b>
Cases pursuant to the Guarantee Schemes Act (No. 75 of 6 December 1996)	–	–	–	–	<b>–</b>

Additionally, one case was handled under the Act on E-Money Institutions.



## Banking and finance



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Supervision of banking and finance aims to ensure satisfactory financial strength, risk awareness, management and control of institutions and to promote financial stability and well functioning markets. It comprises on-site supervision, off-site supervision, macroeconomic surveillance, licensing and analysis as well as responsibility for drafting regulations.

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## Analyses

In 2006, as in 2005, macroeconomic surveillance and analyses of financial institutions devoted much attention to the rapid growth in lending to households. High activity levels in the Norwegian economy, low and falling unemployment combined with continued low interest rates further boosted house prices. The upturn in the housing market caused the steep rise in household indebtedness to continue, primarily among the lowest-income and youngest households. Home mortgage borrowing showed the strongest growth, much of it with a high loan-to-value ratio. Very little of the overall borrowing carries a fixed interest rate, heightening households' vulnerability to interest rate hikes.

The economic boom also fuelled a substantial increase in lending to the corporate sector in 2006. A number of projects now being financed reflect the cyclical upturn, possibly leading to overcapacity in parts of business and industry two to three years ahead. The favourable economic climate reduced banks' credit risk vis-à-vis both households and firms in the short term, however. In its analyses and presentations in 2006, Kredittilsynet emphasised that continued strong growth in debt and house prices ahead could heighten credit risk in the medium term, and that the steep rise in household indebtedness and in housing markets represents a substantial uncertain factor both for financial markets and the economy in general.

Regular analyses of financial institutions' profitability, financial soundness and risk exposure are carried out as well as ad hoc analyses of issues of current interest. Banks' profit performances in 2006 were still good, thanks mainly to net recovery of loan losses and reduced costs. While the strong growth in lending reduced banks' tier 1 capital adequacy, banks' overall financial position was satisfactory. However, low interest rates brought net interest margins under added pressure, and net interest revenues fell further in 2006.

Results posted by finance companies and mortgage companies have been relatively stable for a long period. Kredittilsynet regularly surveys finance companies whose main business is consumer finance. While these companies incur higher losses and defaults than other finance companies and banks, their risk pricing ensures sound profits. They reported lower lending growth than other finance companies and banks.

Kredittilsynet's monitoring of banks' risk exposure to the household sector includes surveys of banks' credit practice. The results are published in an annual home mortgage loan survey in which banks' practice as regards loans secured on housing property are reviewed, including their procedures for assessing borrowers' debt-servicing ability, collateral furnished and households' loan-to-value ratios broken down by borrower age. The 2006 survey showed that loan-to-value ratios on home mortgage loans are rising. Another survey

conducted by Kredittilsynet in 2006 polled borrowers on the extent to which they received, and understood, information from banks on the consequences of borrowing on their personal finances.

In order to throw light on households' sensitivity to interest rate increases, Kredittilsynet commissioned Statistics Norway, in 2006 as previously, to make a model projection of debt and interest burdens in the period to end-2007. The model, based on wealth and income surveys, showed how households' interest burden would be affected by an interest rate hike. A growing number of households are vulnerable to significant rate hikes.

Growth in lending to firms has quickened, and banks' risk exposure to selected industries, such as property management, construction, fish farming and shipping was surveyed in 2006. Banks' lending for the purchase of securities (secured on the same instruments) was also looked into. Although the overall volume of such lending remains small, a small number of banks have a significant presence of such loans on their books. The above surveys included bank loans to finance the purchase of interests/shares in real estate projects.

Analyses of economic, market and institutional developments form the background for Kredittilsynet's assessments of the general situation in the financial industry, and for the on-site inspections performed at institutions. The report entitled *The Financial Market in Norway 2006: Risk Outlook* provides further information on surveys, analyses and assessments.

Surveillance and analysis of the financial market is partly based on reporting by financial institutions. In conjunction with Statistics Norway and Norges Bank, Kredittilsynet devotes substantial resources to maintaining and refining systems for reporting data from credit institutions and insurance companies.



## Supervision of institutions in the banking and financial sector

Supervision of banks, finance companies and mortgage companies promotes sound financial institutions with fit and proper management, proper internal control and good risk management. The supervisory regime comprises monitoring based on collected data and on-site inspections. Off-site supervision builds on regular reports from institutions and includes monitoring of capital adequacy, liquidity and concentration of large exposures. Institutions are selected for on-site inspection using risk-based supervisory methodology based on international supervisory standards.

Forty-six inspections were carried out at commercial banks and savings banks in 2006. Of these, four were IT inspections and one inspection was carried out at the branch of a foreign bank. Two finance companies were inspected and one IT inspection was carried out at an e-money institution.

In the first half year, in preparation for the new capital adequacy rules (Basel II) which took effect on 1 January 2007 (see page 38–39), Kredittilsynet looked into how far the 11 largest banks had come in terms of systematising their internal capital adequacy assessment process – ICAAP. The survey was based on principles drawn up by the Committee of European Banking Supervisors (CEBS) that require banks to establish a process and to carry out and document quantitative calculations of the capital needed in respect of various types of risk. The survey showed that while seven of the 11 banks had completed an ICAAP process, they were at different stages in terms of identifying, measuring, monitoring and managing risk levels and of computing associated capital needs.

In 2006, as previously, Kredittilsynet prepared risk assessments for each of the eight largest Norwegian banking groups in which it gives its perception of risk profiles and the quality of risk management. The documents, which are viewed as key to the dialogue with the groups, are sent to the institutions' managements boards for comment. For on-site inspection and risk assessment purposes use is made of the models constructed by Kredittilsynet to assess credit risk, market risk, liquidity risk and operational risk along with a new module for overall management and control. The modules are published on Kredittilsynet's website.

### Credit risk

Kredittilsynet uses Norges Bank's bankruptcy prediction model to assess portfolio quality at the largest banks, and also examines a selection of their large exposures. The focus is on concentration on individual customers, sectors and geographical areas.

In the overall risk assessments of the largest banks, credit risk was broadly viewed as moderate in 2006, albeit with some variations between banks. In the case of three banks, credit risk was viewed as "moderate to substantial" due to generally poor portfolio quality, concentration of risk on limited geographical areas, sizeable individual exposures and high exposure to volatile industries.

Several of the largest banks have applied for permission to use the Internal Ratings-Based Approach (IRB) to calculate credit risk.

Thematic inspections were carried out at the ten largest banks in 2006 to check their compliance with lending regulations that entered into force on 1 January 2005. The new rules turn out to have led to major changes for the banks, particularly in terms of ICT systems adjustment, staff training and formulation of internal rules. Viewed overall, the switch to the new body of rules brought a 27 per cent reduction in impairment write-downs across the inspected banks. However, the survey uncovered wide variations between banks, especially in regard to the impairment of groups of loans. A joint inspections report is available on Kredittilsynet's website.

### Market risk

Stress testing of loss potentials related to share price, interest rate and currency risk are key elements in assessing market risk. The calculations are done with a basis in exposure limits set by the banks' management boards. Risk diversification and market liquidity are also taken into account.

Based on the overall risk assessments for 2006, market risk at the majority of banks concerned was moderate, although some banks single themselves out in terms of high market risk. Kredittilsynet also checks whether management boards have established limits and guidelines in the market risk area and ensured independent control of risk exposure, and whether statutory requirements are systematically complied with.

### **Liquidity risk**

Kreditilsynet measures banks' liquidity risk using indicators of banks' long-term funding of illiquid assets. Importance is also attached to the stability of customer deposits, diversification of funding from other credit institutions, liquidity of securities portfolios and volume of committed drawing rights. Based on these criteria, the 2006 survey showed that one bank carried substantial liquidity risk. Kreditilsynet believes that the improved quality of liquidity management and control at the largest banks can be traced to liquidity inspections carried out at most of these banks in 2002 and 2005.

### **Operational risk**

Based on the EU's capital adequacy directive and guidelines from CEBS, a new version of the operational risk module was completed in 2006. Kreditilsynet has also developed a module for internal governance. Individual banks' attention was drawn to unclear lines of responsibility and reporting, risk management units' lack of independence, failure to test preparedness and catastrophe systems and vulnerability in terms of specialist expertise. The last-mentioned point applies above all to the smallest banks. Inspection reports also highlight operational risk inherent in banks' expansion into new products and geographical areas alike.

### **Compliance with the Money Laundering Act**

Kreditilsynet continuously monitors institutions' compliance with the Money Laundering Act. In line with the recommendations of the Financial Action Task Force (FATF), Kreditilsynet prioritised inspection of the three agents of the foreign payments system Western Union. Money laundering was also the main theme of an on-site inspection at one savings bank, as a result of which order was brought to customer relationships established using assigned customer numbers. Other inspection activity in 2006 revealed that banks in the Terra Group were unable to monitor transactions electronically due to a change of data supplier.

### **Nordic financial conglomerates**

In 2006, as previously, the Nordea Group was subject to overall risk assessment on a joint Nordic basis. The Nordic supervisory authorities collaborated on assessing Nordea's application to use internal ratings-based models to compute capital charges for credit and market risk. The new cooperation agreement with the Icelandic Financial Supervisory Authority on supervision of BNbank and Kredittbanken/Glitrnir was also followed up.

### **European crisis exercise**

A joint crisis exercise for the European banking system was held in spring 2006 which drew participants from finance ministries, central banks and banking supervision authorities in the 25 member countries. A representative from Kreditilsynet was among the organisers. The exercise was designed to test cross-border cooperation between the various authorities. It was decided after the exercise to hold a similar Nordic exercise in 2007 in which the various Nordic countries' authorities will participate.

### **Administration of crisis banks**

Kreditilsynet participated in a working group under the auspices of the Banks' Guarantee Fund which in September 2006 delivered a report describing the roles of various authorities and private actors ahead of and during the public administration of a bank. The report also describes various consequences of placing a bank under administration. Kreditilsynet has urged the Guarantee Fund to continue its work on issues raised in the report, including the use of banks' computer systems to make payments to insured parties while a bank is under public administration.

### **Compulsory arbitration in the financial industry**

The Finance Sector Union of Norway pulled about 6,000 insurance sector members out on strike on 1 June 2006, and called out further members in an escalatory move on 12 June. The Norwegian Employers' Association for the Financial Sector responded by imposing a lockout on the remaining union members on the same date. The Norwegian Financial Services Association (FNH) and the Savings Banks Association thereafter announced recourse to the "shutdown doctrine" whereby bank systems are shut down in a controlled manner, bringing all access to cash and payments services to a halt. In a move to avoid the highly serious consequences for Norwegian society of total cessation of payments systems and bank services, the Government decided to impose compulsory arbitration. Kreditilsynet contacted a selection of banks to make sure they had in place sufficient preparedness to safeguard their financial and liquidity positions.

## Licensing and regulatory compliance

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

In 2006 the following authorisations were issued pursuant to the Financial Institutions Act's rules on supervision of ownership of financial institutions:

- Sparebanken Nord-Norge's acquisition of primary capital certificates of Helgeland Sparebank – up to 20 per cent
- The National Insurance Fund's acquisition of shares of Storebrand ASA – up to 15 per cent
- Sparebanken Hedmark's acquisition of shares of SpareBank 1 Gruppen AS – up to 12 per cent
- Tryggingamidstødin HF's acquisition of shares of NEMI Forsikring ASA – up to 100 per cent

Ownership testing was employed by Kredittilsynet when processing some licence applications. These included licence applications for:

- the mortgage company SpareBank 1 Boligkreditt AS (qualified holdings owned by Sparebanken Rogaland, Sparebanken Midt-Norge and Sparebanken Nord-Norge)
- the mortgage company Terra Kort AS (owned by the Terra Group)
- the finance company Sportmann Finans AS (owned by Sportmann AS)
- the life insurer Kommunal Landspensjonskasse Innskudds- og Foretakspensjon AS (owned by Kommunal Landspensjonskasse's mutual insurance company)
- the commercial bank Gjensidige Bank AS (owned by Gjensidige Bank Holding AS)

One application was refused, namely Art Holding's application to acquire up to 20 per cent of the shares of Forbrukerforsikring AS.

### **Nordnet Bank AB – the first foreign member of the Banks' Guarantee Fund**

The Swedish bank Nordnet Bank AB's branch in Norway (previously

Nordnet Securities Bank AB) applied in September 2005 to join the Banks' Guarantee Fund in order to top up the coverage of the Swedish scheme (SEK 250,000) to that of the Norwegian (NOK 2,000,000). Nordnet is the first branch of a foreign bank to apply for admission to the Banks' Guarantee Fund. To safeguard the requirements of the Guarantee Schemes Act and associated regulations, Kredittilsynet has concluded a cooperation agreement with Finansinspektionen, the Swedish Financial Supervisory Authority. The agreement was signed in February 2007.

### **Conversion of Fokus Bank to branch status**

In August 2006 Fokus Bank AS applied for permission to transfer its entire business to a branch of Danske Bank A/S. This was accompanied by an application for the Danish branch to top up the coverage of the Danish scheme (DKK 300,000) to that of the Norwegian (NOK 2,000,000). Kredittilsynet's conclusion was that Fokus Bank's position in the Norwegian market was not sufficiently important for the agency to oppose the conversion, and it duly recommended the Ministry of Finance to grant the application. To prepare the bank's customers for the forthcoming changes, the ministry's decision of December 2006 required prior approval of customer information material. Moreover, the branch may not use the name Fokus without making clear the entity's status as a branch of a foreign bank. In view of the branch's membership of the Banks' Guarantee Fund, Kredittilsynet has established a supervisory cooperation agreement with Finanstilsynet, the Danish Financial Supervisory Authority. The agreement was signed in February 2007.

### **Landkreditt and Landkreditt Bank AS**

Upon Kredittilsynet's recommendation, the Ministry of Finance decided to revise the terms of the loan association Landkreditt's authorisation to own Landkreditt Bank AS. The bank's total assets must accordingly not exceed 75 per cent of Landkreditt's total assets, and the bank's equity capital must not exceed 75 per cent of the loan association's tier 1 capital. In order for the change to take effect the Ministry of Finance required Landkreditt to carry out the

reorganisation in keeping with possible new legislation governing loan associations' status as group parent companies, based on the Bank Law Commission's report NOU 2006: 17. The report opens the way for loan associations to be established as the parent company of a financial group in the form of an owners' association whose statutes prevent it from engaging in business other than managing its ownership interests in entities making up the financial group. Kredittilsynet submitted a consultative statement on the report.

### **Structural changes in the savings bank sector**

Kredittilsynet received several inquiries in 2006 regarding acquisition and takeover of savings banks.

#### **Sparebanken Møre/Tingvoll Sparebank**

In December 2005 Sparebanken Møre applied for permission to transfer Tingvoll Sparebank. According to the application, Sparebanken Møre was to take over the assets and liabilities of Tingvoll Sparebank, which was to wind up its banking business. Moreover, the bank was to establish a foundation, "Tingvoll Sparebankstiftelse", which would receive compensation totalling NOK 120 million in the form of primary capital certificates in Sparebanken Møre. As this represents a new model for the transfer of savings banks, Kredittilsynet considered that the outcome of the application would have repercussions beyond the applicant banks. Since present legislation makes no provision for such acquisitions, Kredittilsynet recommended the Ministry of Finance to refuse the application. The ministry informed the applicant banks in May 2006 of the need to clarify fundamental issues in the rules on conversion, and has yet to reach a decision in the matter.

#### **Sparebanken Sogn og Fjordane**

Sparebanken Sogn og Fjordane, a savings bank, applied in April 2006 for permission to convert to a limited liability bank. In the same matter an application was filed by Gjensidige Forsikring for permission to acquire 34 per cent of the shares of the converted bank. The Financial Institutions Act requires a savings bank foundation to be independent and to maintain a long-term perspective, and this requirement will not in Kredittilsynet's view be met by a model in which the entire or

partial sale of a limited liability bank takes place in direct connection with the conversion of a savings bank. Kredittilsynet's position was that present legislation calls for a restrictive stance in this area and it recommended the Ministry of Finance to refuse the application. The ministry has yet to reach a decision.

#### **Gjensidige Bank**

Gjensidige Forsikring applied in May 2006 for permission to establish a nationwide commercial bank in conjunction with its application to take over Sparebanken Sogn og Fjordane. It was originally intended that the proposed savings bank foundation Sogn og Fjordane should hold a stake in the new bank. However, Gjensidige Forsikring revised its application to make Gjensidige Bank a wholly owned subsidiary of the company. Kredittilsynet recommended the Ministry of Finance to approve the application, and Gjensidige Bank received authorisation in October 2006.

#### **Merged savings banks**

In 2006 Tjeldsund Sparebank merged with Ofoten Sparebank under the name Ofoten Sparebank. Permission was granted by the Ministry of Finance in July 2006 in line with Kredittilsynet's recommendation. Verran Sparebank and Grong Sparebank merged under the name Grong Sparebank, permission being granted by the ministry in October 2006 in line with Kredittilsynet's recommendation. In November 2006 Narvik Sparebank and Ankenes Sparebank applied for permission to merge under the name Sparebank Narvik. Kredittilsynet recommended the ministry to approve the application.

#### **New ICT platform for banks in the Terra Group**

In 2005 the Terra banks completed a wide-ranging conversion project entailing a switch both to a newly developed ICT platform and to a new data supplier. Kredittilsynet drew attention to significant risk factors associated with this project. The conversion subsequently proved to have given rise to major problems, particularly for smaller banks within the group, prompting Kredittilsynet to pose critical questions in regard to the conversion and the quality of the system. Kredittilsynet also underlined the need for a clearer division of roles between the Terra Group and the management boards of the respective banks.

## Regulatory amendments and consultations

### Large exposures

As a result of Basel II Kredittilsynet proposed minor changes to the regulations concerning supervision and monitoring of large exposures. The amended regulations came into force on 1 January 2007, concurrently with new capital requirements regulations. A wide-ranging revision of directive provisions on large exposures has been announced by the EU Commission, a process that is expected to reach completion in mid-2008.

### Own funds

A working group was set up under the Committee of European Banking Supervisors (CEBS) in 2006 to review the rules governing own funds. Kredittilsynet is a member of the group. There are currently wide differences between countries in regard to the use of hybrid instruments and the extent to which they qualify for inclusion in tier 1 capital. Two impact studies based on end-2006 accounting data will be carried out to gain further information on volumes of hybrid instruments issued on varying terms and to look into the composition of institutions' own funds in various countries.

### Liquidity

New liquidity requirements for financial institutions were introduced on 1 July 2006. The previous quantitative requirement no longer applies. Institutions are now required to maintain at all times sufficient liquid funds to meet their commitments when due. Management boards are obliged to establish guidelines to ensure prudent liquidity management.

### Information and guidelines on the sale of structured products

On 25 September 2006 Kredittilsynet issued regulations on disclosure requirements in relation to offers for purchase of structured products. The regulations, which came into force on 1 January 2007, apply to banks, finance companies and mortgage companies.

The regulations were followed up with a circular from Kredittilsynet (no. 15/2006) providing information and guidelines on the sale of structured products to investment firms and independent intermediaries of this type of product. The circular was prompted by poor compliance with recommendations on information disclosure previously issued by Kredittilsynet. The regulations were adopted pursuant to the Financial Institutions Act which regulates financial institutions' disclose obligation when offering structured products for purchase. The new regulations and the circular are designed to improve the information provided to consumers on return, actual risk and costs associated with structured products. See also *Securities market* on page 50.

### New capital adequacy rules for banks

New guidelines for measuring banks' capital adequacy (Basel II) were adopted by the Basel Committee on Banking Supervision in 2004. New EU directives were adopted on 14 June 2006, becoming effective for credit institutions and investment firms on 1 January 2007. Parts of the framework will take effect on 1 January 2008.

The Ministry of Finance asked Kredittilsynet to draft law amendments implementing the new capital adequacy directives. After this was done the ministry circulated a Bill for comment in December 2005. The Bill – amending the Financial Institutions Act, the Securities Trading Act and certain other Acts (instituting a new capital adequacy framework) – passed into law on 30 June 2006.

Draft regulations based on the new capital adequacy framework were published by Kredittilsynet as early as in 2005 to elicit the views of the financial industry and other interested parties. Kredittilsynet opted to prioritise the rules governing institutions' use of the internal ratings-based (IRB) approach, provision of security and capital charges in respect of operational risk.



Kredittilsynet sent an assembled set of draft regulations to the Ministry of Finance in April 2006 which the ministry duly circulated for comment. The capital requirements regulations and amendments to the regulations on calculating own funds of financial institutions, investment firms and clearing houses were adopted in December 2006.

CEBS announced new guidelines for common reporting (COREP) early in 2006. The guidelines will apply to credit institutions, investment firms and management companies for securities funds that are licensed to engage in active management. In autumn 2006 Kredittilsynet circulated for comment a preliminary reporting solution, a specification of the contents of new capital adequacy reporting and a description of the project to implement the technical solution.

The minimum requirement on own funds (pillar 1) is expected to decrease in the case of Norwegian IRB banks, thanks mainly to their substantial holdings of home mortgage loans and loans to small and medium-sized enterprises. However, institutions will not necessarily be able to lower their own funds towards the minimum requirement i.e. because the minimum requirement does not cover all risk inherent in the institutions' portfolios. However, it can be assumed that banks over time will adjust to the new requirements by maintaining a somewhat lower proportion of own funds than they do today. Transitional rules have been laid down to prevent a precipitate reduction of the minimum capital requirement.

Since the minimum requirement does not cover all types of risk, the new rules contain provisions supplementing the minimum requirements under pillar 1 with provisions on active supervision of individual institutions' risk and capital needs (pillar 2). Here Kredittilsynet will review and assess banks' management and control of risk, including their processes for assessing capital needs in relation to risk profile. Kredittilsynet published guidelines for Norwegian financial institutions and investment firms in December 2006.

### **Applications to use the IRB approach**

DnB NOR, SpareBank 1 SR-bank, SpareBank 1 Midt-Norge, SpareBank 1 Nord-Norge and Sparebanken Vest applied to Kredittilsynet in December 2005 for permission to use the IRB approach to credit risk. Institutions will need to satisfy numerous new requirements to qualify for such approval.

The banks' very extensive applications required lengthy processing. Kredittilsynet requested additional information and gave a preliminary response in summer 2006. In autumn 2006 dedicated IRB visits were paid to the institutions, followed by new preliminary feedback from Kredittilsynet in November 2006. Kredittilsynet concludes that all institutions are likely, in the first half of 2007, to fully document compliance with the requirement imposed for use of IRB approaches.

Kredittilsynet assessed – together with Swedish, Danish and Finnish supervisory authorities – Nordea Bank's application to employ IRB approaches, a process co-ordinated by the Swedish Financial Supervisory Authority. Nordea received a response in September 2006 listing requirements which need to be met for permission to be granted.

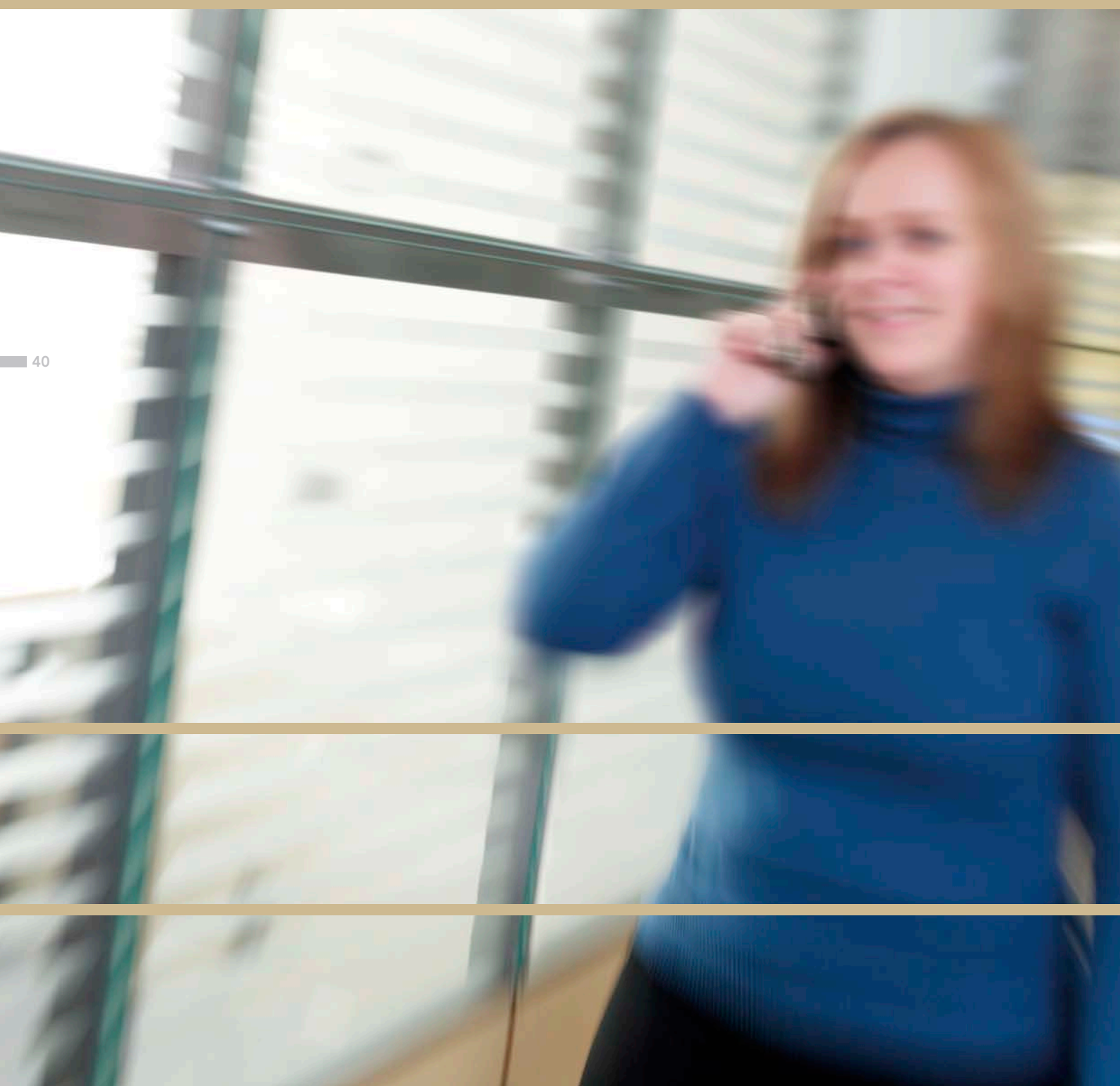
Kredittilsynet received an IRB application from Bank 1 Oslo and expects in light of the established notification procedure to receive new applications from Storebrand Bank and BNbank.

### **New accounting rules**

Banks, finance companies and mortgage companies that are part of a listed group, or a group with bonds quoted on a stock exchange, are required to apply international financial reporting standards (IFRS), in their company accounts as well as their consolidated accounts, as from 1 January 2007. Other banks, finance companies and mortgage companies were given the choice of applying either IFRS or the accounting regulations' ordinary rules in their company accounts until further notice. For further information on the Norwegian accounting rules for banking and insurance, see *Financial reporting supervision* on page 59.

Supervision of the insurance and pensions sector aims to ensure satisfactory financial strength, risk awareness, management and control of institutions and to promote financial stability and well functioning markets. It comprises on-site supervision, off-site supervision, macroeconomic surveillance, licensing and analysis and responsibility for drafting regulations.

## Insurance and pensions



## Analyses

Insurance companies' results essentially reflect the trend in Norwegian and international securities markets. Recent years have seen major changes in the composition of life insurers' investments: in 2000–2002 the proportion of total assets invested in shares fell substantially accompanied by an increase in holdings of fixed income securities. Some increase in the share component has been seen since 2003. As in 2005, macroeconomic surveillance of the insurance industry focused on analyses of insurance companies' profitability and financial strength. For their part, life insurers face major challenges in terms of persistent low interest rates. Relatively low share components mean that the companies and their customers have benefited little from the bull markets. By investing such a large portion of their total assets in bonds held to maturity at a relatively high interest rate, they are none the less securing a continuing return for some years ahead.

Low interest rates are making it difficult for insurers to accumulate sufficient capital buffers while at the same time honouring their yearly guarantee obligations to their customers. The lack of long bonds is considered one of the insurance industry's biggest challenges in terms of handling risk associated with the mismatch between the duration of insurers' assets and liabilities. Kredittilsynet discussed the need for a long-term bond market in Norway in a separate report. See also the report entitled *The Financial Market in Norway 2006: Risk Outlook*.

Analyses of insurance companies' profitability, financial strength and risk were prepared on a regular basis in 2006, along with ad hoc analyses of topical issues in the insurance and pension industry. Quarterly reports and press releases are published on life and non-life insurers, and pension funds' position is commented on at half-yearly intervals.

A stronger trend in several international markets and a somewhat weaker trend in Norwegian markets, led to broadly unchanged results for life insurers in 2006 compared with 2005. Much emphasis was given to the use of stress tests to gauge insurers' vulnerability to changes in interest rates, share values and property values.

Pension funds achieved higher return on capital than life insurers in 2006. Private pension funds, with higher equity exposure in their balance sheets than municipal pension funds, recorded the highest return.

Non-life insurers have increased their premium revenues for several years, in a period of stable claims and expenses. Premium growth in 2006 was small, and a substantial rise in claims payments impaired this segment's technical results. The low premium growth is ascribable to good results in previous years and increasing competition among insurers.

Kredittilsynet forwarded a report on the competitive situation in the non-life market to the Ministry of Finance in February 2006. The report concludes that results over time do not justify the assertion of insufficient competition in the non-life market, and that the improved performance in 2004–2005 should be viewed in light of very weak results in previous years. According to the report no significant structural factors indicate that competition has weakened in the past five years. Indeed recent years' good results are ascribable to cyclical variations, since change in the premium level lags unpredictable changes in the level of claims. The report also concludes that weaker results can be expected ahead since the current good performances probably reflect cyclical features in the non-life market, and are not attributable to weak competition.

The report *The Financial Market in Norway 2006: Risk Outlook* gives an overall presentation of the situation among insurance companies and pension funds against the background of developments in the economy, markets and results in 2006.

### Occupational injury insurance and the sectoral account

Kredittilsynet reviews the sectoral account for occupational injury insurance on an annual basis. Accounting data returns for 2005 show a continued negative result trend in non-life insurance. Even so there was still a substantial improvement over the two preceding years. The fact that results for both occupational accident insurance and occupational disease insurance are still negative can be traced back to sizable losses on claims provision. Prior to 2003 the claims level for occupational injury insurance exceeded the premium level. However, the premium adjustments undertaken by insurers in recent years brought the premium level in 2005 to a good 7 per cent above the claims level.

### Analyses of mortality and disability in the population

A project has been established which secures Kredittilsynet access to Statistics Norway's extensive population database ("FD-Trygd"), allowing Kredittilsynet to carry out its own analyses of mortality and disability in the population. Analyses will be carried out using a PC-based tool developed by the consultancy firms Event and Mercer. The rationale behind the project is Kredittilsynet's need for fundamental knowledge of underlying biometric risk in the population in relation to the insured population.

## Supervision of the insurance sector

Supervision of insurance companies and pension undertakings is designed to promote financial strength, fit and proper management, proper internal control and good risk management. Supervision shall also ensure that institutions are able to honour their insurance commitments as they fall due and that institutions comply with laws and regulations. Supervision of insurance intermediaries is designed to ensure that institutions abide by market conduct rules and to prevent behaviour that could impair confidence in the market.

Overall risk assessments were drawn up for the two largest institutions in 2006. The assessments in these documents are substantially based on the preliminary modules for insurance risk currently under development.

### Non-life insurance companies

The favourable market situation for non-life insurers has allowed priority to be given to regulatory development (Solvency II) and development of separate modules for insurance risk. Consequently only one inspection was carried out at non-life insurers in 2006.

### Life insurance companies

Inspections were conducted at four life insurers in 2006, of which two focused on IT. Ordinary inspections at life insurers check overarching management and control, asset management and insurance. Kredittilsynet is currently developing a module for insurance risk at life insurers. One inspection was carried out at pension funds in 2006, the same as in 2005.

### Insurance intermediaries

As previously, supervision of insurance broking firms was based on firms' annual reporting of accounting data and brokered premium volume etc. In 2006 this was supplemented by five on-site inspections at such firms.

A new Act on Insurance Mediation came into force in 2006. Supervision was expanded to include all intermediary activity related to the conclusion of insurance agreements. The new rules define and apply three mediation sub-groups: insurance broking, which includes giving insurance advice, reinsurance broking and insurance agent activities. In view of the new rules, and Kredittilsynet's exposure of some insurance brokers' misuse of client assets and

breach of good broking practice, Kredittilsynet developed a new reporting system in 2006.

Kredittilsynet holds half-yearly meetings with the Norwegian Insurance Brokers Association at which topical issues are taken up and information is exchanged.

### Skagerak Forsikringsmegling AS

Having reported European Insurance Agency AS (EIA) to the police in November 2005 for selling insurance devoid of cover, Kredittilsynet conducted on-site inspections at insurance brokers which had mediated insurances through EIA.

The inspections revealed that Skagerak Forsikringsmegling AS had mediated insurance coverages through EIA in a manner considered to be contrary to good broking practice. This was done without the insurance broker taking sufficient care to check whether EIA actually represented the named insurers. Moreover, insurances were placed with in companies lacking the licence needed to engage in insurance. As a result there were periods when several hundred policyholders were without genuine insurance cover.

In March 2006 Kredittilsynet decided to revoke Skagerak Forsikringsmegling AS's licence to carry on insurance broking. The company was given until 2 May 2006 to wind up its business and was declared bankrupt on 15 May 2006. Kredittilsynet's order has been appealed to the Ministry of Finance.

### Nordic insurance groups

The Nordic supervisory authorities prepared overall risk assessments for the If Group and the Sampo Group in 2006. Following Sampo's sale of Sampo Bank to Danske Bank in 2006, the Finnish Insurance Supervision Authority took over the coordinating role.

## Licensing and regulatory compliance

### **Conversion of Vesta Forsikring ASA to branch status**

Vesta Forsikring ASA applied in November 2005 for permission to sell its insurance portfolio to the Norwegian branch of the Danish parent company Tryg Forsikring A/S. Kredittilsynet considers foreign subsidiaries preferable to branches, particularly when it comes to companies of Vesta's prominence in the Norwegian market. However, in light of European rules Kredittilsynet recommended the Ministry of Finance to approve the application, and the ministry authorised the transfer of the portfolio in December 2006. To prepare the insurer's customers for the forthcoming changes, the ministry's decision of December 2006 was conditional on prior approval of customer information material. Moreover, the branch may not use the name Vesta without making clear the entity's status as a branch of a foreign insurance company.

### **Gjensidige Forsikring's purchase of foreign non-life insurance companies**

As recommended by Kredittilsynet, Gjensidige Forsikring was authorised in March 2006 to acquire the Irish company Fair Financial Ireland Limited which owns all the shares of the Danish company Fair Forsikring A/S. In June 2006 Gjensidige Forsikring was authorised to acquire the Latvian company JSC Parex Insurance Company which owns the Latvian company Baltic Polis. In January 2007 the Ministry of Finance, in line with Kredittilsynet's recommendation, authorised Gjensidige Forsikring's acquisition of the Danish company KommuneForsikring A/S and its subsidiary Kommunernes Arbejdsskadeforsikring A/S.

### **Establishment of Hammersborg Forsikring AS**

In December 2006 OBOS applied for permission to establish a non-life insurance company, Hammersborg Forsikring AS. The application also sought permission to establish Hammersborg Holding AS as the subgroup parent. The Ministry of Finance authorised the establishment of the insurance company on 22 December 2006 in line with Kredittilsynet's recommendation.

### **Self-insurance schemes and other types of self-sustained schemes**

Some non-life insurance companies offer their customers self-insurance as an alternative to traditional insurance. Self-insurance in this context signifies an agreement between an insurance company

(firm, municipality or the like) in which the insurer "administers" the customer's self-insurance subject to payment of a pre-agreed administration fee.

Kredittilsynet wished to clarify whether this type of activity is sufficiently regulated by insurance legislation. Based on a survey of self-insurance schemes in the Norwegian market, Kredittilsynet prepared a report addressing the numerous and complex issues involved. Kredittilsynet considers that imposing a ban on such schemes raises fundamental issues which need to be resolved by the Ministry of Finance through new regulations or interpretation of existing law. Kredittilsynet's report was accordingly forwarded to the ministry accompanied by a recommendation that the ministry ask the Bank Law Commission to study and clarify the matter. The ministry acted on this request.

### **Winding up of pension trusts**

According to the Defined Benefit Pensions Act, pension trusts offering this type of scheme must terminate no later than three years after the Act came into force. After the Act on Mandatory Occupational Pensions came into force in 2006, only a small number of pension trusts remain. Termination of pension trusts is authorised by Kredittilsynet.

### **Banks' and asset management companies' opportunity to offer defined contribution pensions**

At the request of the Savings Banks Association, Kredittilsynet reported in December 2005 to the Ministry of Finance on the question of whether ownership of securities fund units in a pension scheme should be registered to a bank, as the provider of a defined contribution pension scheme, or to the policyholder / the insureds. Kredittilsynet took it that the rules do not prevent securities fund units being registered to the policyholder. In April 2006 the ministry stated that the pension provider must be registered as owner of a pension scheme's assets. In October 2006 Kredittilsynet expressed the view that the ministry's solution necessarily required ownership of securities fund units in defined contribution pension schemes to be registered to a management company, which comes across as less reassuring for the customer. Kredittilsynet signalled to the ministry in December 2006 that this solution would or could lead to a narrower-than-intended range of providers of occupational



pension schemes. Kredittilsynet concurrently asked the ministry to consider possible measures or changes in the regulatory framework to improve competition in the occupational pensions market.

### **New solvency framework for insurance companies (Solvency II)**

As in 2005 Kredittilsynet participated in the work of designing a framework for new risk-based provisioning and capital requirements for insurance companies in the EU/EEA under the auspices of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and is represented in all working groups set up by CEIOPS to this end.

CEIOPS' work on Solvency II in 2006 included a quantitative impact study (QIS), confined to technical provisions. CEIOPS presented a report summarising the result of QIS1 in mid-March 2006. Eighteen Norwegian insurance companies, comprising three life insurers and 15 non-life insurers, participated in this QIS.

The second round of quantitative impact studies, covering both technical provisions and risk-based capital requirements (QIS2) took place in the period May–July 2006. Sixteen Norwegian insurance companies, comprising two life insurers and 14 non-life insurers, participated in this round. CEIOPS's report was presented at the beginning of December 2006.

The two rounds of quantitative impact studies revealed that much work remains to be done designing models for calculation of the new risk-based capital requirements. Based inter alia on experience from QIS1 and QIS2, CEIOPS accordingly drew up a new, comprehensive consultation document as a key basis for a third round of quantitative impact assessments of the revised draft for a new body of rules (QIS3) scheduled for the second quarter of 2007. CEIOPS also aims to present a final draft of models for calculating the new capital requirements in the first half of 2008.

In 2006 CEIOPS also followed up and amplified advice given by the EU Commission on issues within both pillar 2 (supervisory review) and pillar 3 (public disclosure and market discipline).

Where supervisory review is concerned, CEIOPS gave much weight in 2006 to developing a harmonised set of supervisory powers and tools, and in continuation of this, the premises for imposing capital add-ons.

### **Guarantee scheme for non-life insurance**

The rules on insurance companies' guarantee schemes set forth in the Banks' Guarantee Scheme Act chapter 2a which were adopted in June 2005 came into force on 22 December 2006. Concurrently the Ministry of Finance adopted regulations on a guarantee scheme for non-life insurance which clarifies and further limits the cover provided under the regulations to, broadly speaking, insurances contracted by consumers and small-scale business operators. The regulations came into force on 1 January 2007. Kredittilsynet adopted on 22 January 2007 regulations on disclosure of guarantees for non-life insurance commitments which apply to all companies offering direct non-life insurance in Norway.

### **Further development of stress testing rules for insurance companies**

In December 2005 Kredittilsynet forwarded a report to the Ministry of Finance outlining alternative formulations of supplementary capital requirements applicable to Norwegian insurance companies pending implementation of Solvency II. Kredittilsynet recommends further work on a supplementary capital requirement based on stress testing, with special reference to stress testing rules introduced in Denmark and Sweden ("traffic light systems"). The idea is that a supplementary capital requirement based on stress testing should replace the current capital adequacy requirements (Basel I requirements).

However, in June 2006 the ministry stated that the current capital adequacy rules for insurance companies would remain in effect after the new capital adequacy rules for credit institutions and investment firms came into force on 1 January 2007. On this basis, Kredittilsynet was asked to review the capital adequacy rules for insurance companies and to recommend necessary adjustments. A consultative document containing draft amendments was sent to the ministry in autumn 2006, and amending regulations were laid down by the ministry on 22 December 2006.

The Ministry of Finance also asked Kredittilsynet to further develop the stress test requirements on insurance companies. This was with the aim of ensuring that stress testing leads to improved risk management and risk control on the part of insurers. The idea is not, however, to draw up formal requirements for capital adequacy or capital investment based on stress testing, rather to use the tests as a supervisory tool. The ministry asked Kredittilsynet to have an eye to the development of the Solvency II framework when designing the stress tests. The outcome was three new modules for risk-based

supervision: one module for market risk and credit risk, and modules for insurance risk in life insurance and non-life insurance. A draft version of the modules was circulated for comment in January 2007.

### **Proposal for new asset management regulations**

Central aspects of the current asset management regulations were laid down more than ten years ago. Since then major changes have taken place in the asset management profession, in financial markets and on the supervisory front. When the rules were formulated cross-order activity in the Norwegian insurance market was minimal. Today Norwegian firms experience substantial competition from foreign actors. In addition a new pension fund directive has been adopted.

Based on the above, Kredittilsynet drew up a proposal for new regulations on insurance companies' and pension funds' asset management. The proposal was sent to the Ministry of Finance in June 2006, which circulated it for comment. The proposal emphasised that Norwegian firms must enjoy the same competitive conditions as their foreign competitors. This involves removing general investment limits not contained in the directives, and raising other limits up to the directives' level. The proposed new rules provide greater flexibility, at the same time as the overarching requirements on management and control make it clear that asset management is to be geared to the individual firm's competence and risk-bearing capacity. The regulations on derivatives and localisation are incorporated in the proposal to give firms fewer sets of rules. The regulations are expected to come into force at the same time as central parts of the new Insurance Act, on 1 January 2008.

### **Insurance Mediation Act with associated regulations etc.**

The Insurance Mediation Act came into force on 1 January 2006. The Act applies to insurance and reinsurance brokers, as well as insurance agency and ancillary insurance agency activities. The three last-mentioned are new additions to Kredittilsynet's supervisory remit.

Kredittilsynet delivered in autumn 2005 a consultative paper to the Ministry of Finance containing draft regulations to the Insurance Mediation Act. The regulations were adopted by the ministry and came into force simultaneously with the Act on 1 January 2006. Kredittilsynet also adopted regulations easing the Act's requirements in regard to ancillary insurance agents' competence and experience which came into force on 15 March 2006. The internal control regulations apply to insurance intermediaries as from 15 February 2006.

### **Kredittilsynet's consultative statement on NOU 2006: 12 Joint pension funds**

In a request dated 10 June 2005, the Storting (Norwegian parliament) asked the Government to submit a Bill on joint pension funds for two or more private firms. The Bank Law Commission received this assignment in August 2005 and delivered its report on joint pension funds to the Ministry of Finance in May 2006. Kredittilsynet submitted a consultative statement in August 2006 supporting the main principles of the Bank Law Commission's Bill, but adding some queries and observations.

### **Administration expenses – mandatory occupational pensions (OTP)**

Kredittilsynet gave its recommendation to the Ministry of Finance in February 2006 regarding interpretation of the expression "administration expenses" in section 4, third paragraph, of the OTP Act. Kredittilsynet held that the employer should not be obliged to pay the securities fund management fee since it could give employers an incentive to select funds that are least costly and which generally produce the poorest return. Kredittilsynet stated that employers should be charged with the cost of paying a fixed percentage of the pension capital in addition to the minimum contribution of 2 per cent of salary, but that only a certain percentage of the administration expenses should be charged to the employer. Section 7 of the Defined Contribution Pension Regulations provides that, in addition to pure administration expenses, the employer shall pay the costs of managing the pension capital.

### **Regulations on pension providers' notification obligation**

The Ministry of Finance laid down on 30 June 2006 regulations on defined contribution pension schemes which are required to meet the minimum requirements of the Mandatory Occupational Pensions Act. The regulations institute an obligation for pension providers to notify Kredittilsynet of price tariffs and product design in general. While this obligation represents a new procedure for banks and management companies, life insurers are already subject a corresponding obligation under the Insurance Activity Act.

### **Regulations to the Mandatory Occupational Pensions Act**

The Ministry of Finance asked Kredittilsynet in May 2006 to study and clarify issues in relation to mandatory occupational pensions, and to prepare draft regulations and a consultative document. In regard

to minimum requirements for defined benefit pension schemes under the OTP Act section 5, Kredittilsynet stated in October 2006 that these requirements should not be specified in regulations. It was recommended that pension funds should be permitted to apply either the Bank Law Commission's or the Norwegian Financial Services Association's (FNH's) calculation proposal and that Kredittilsynet should publish a circular explaining that the discretionary minimum requirements of the Act are met if either the Bank Law Commission's or the FNH's technical minimum requirements are applied and complied with correctly.

Kredittilsynet drafted a proposal for regulations to the OTP Act section 1, first paragraph, b). This provision provides that a firm is not obliged to establish an occupational pension scheme under the Act if it has only one employee with at least 75 per cent of full working hours and salary and the employee has owner interests in the institution. Kredittilsynet recommended including a clarification in the regulations to the effect that the OTP Act section 1, first paragraph b) should be understood to mean that employees with an owner interest in the firm below 10 per cent, should be regarded as being "without owner interests". It was also recommended that owner interests in the form of shares in housing cooperatives, co-ownership housing and limited-liability housing cooperatives should not be embraced by the OTP Act section 1 first paragraph b).

### New Insurance Act with regulations

A new Insurance Act (No. 44 of 10 June 2005) came into force on 1 July 2006. Under the regulations on transitional rules for the Insurance Act, chapter 7 on pension funds and chapter 9 on life insurers come into force on 1 January 2008.

The Ministry of Finance also established, on 30 June 2006, regulations on life insurance etc. pursuant to the Insurance Act chapters 6 to 9 and 11. The regulations came into force on 1 July 2006, with the exception of parts of the regulations directly related to chapter 7 and 9 of the Act.

The regulations paved the way for unit-linked life insurance and ordinary life insurance to be carried on within the same company. Moreover, life insurers can now offer defined contribution pension schemes without a guaranteed return provided they also arrange contribution-exemption insurance. The regulations introduced from the same date a time-limited right for non-life insurers to offer one-year life insurances linked to disability risk. New rules for

fluctuation reserves for individual contracts also came into force on 1 July 2006.

In its consultative statement Kredittilsynet underlined that a key supervisory task under the new legislation will be to assess whether the interest guarantee risk assumed by companies is in proportion to their capacity to assume risk. Kredittilsynet accordingly expressed the view that the notification rules should embrace principles underlying payment of the guaranteed return as related to ordinary insurance. The notification rules in the regulations do not, however, embrace this aspect of the price tariff.

The regulations contain separate rules for defined benefit pension schemes with a multi-year return guarantee. In commenting on the draft version's rules on termination charges for this type of insurance, the Ministry of Finance took a basis in Kredittilsynet's model for defined benefit contribution schemes with multi-year risk-sharing periods and long-term asset management. On that basis Kredittilsynet stated that the rules of the draft requiring the institution to meet losses in the risk period, also after the agreed buffer reserves have been exhausted, can be waived by agreement with the customer. Subject to this condition, Kredittilsynet was able to support the view that the rules of the draft version largely conformed to Kredittilsynet's model.

### Pension scheme membership for persons who are not members of the National Insurance Scheme

Pursuant to the pension legislation, Kredittilsynet laid down on 16 March 2006 regulations on pension scheme membership for persons who are not mandatory members of the National Insurance Scheme. The main difference between the regulations and previous rules is that the regulations allow for spells abroad lasting up to ten years, compared with five years under the rules established by the Insurance Council.

### Reporting under the new Insurance Act and IFRS

The new Insurance Act brings major changes to the rules governing life insurance. As from 1 January 2008 pension funds will also come under these rules. From the same date adjustments will be made to the accounting regulations for life insurance and pension to bring them into line with new international financial reporting standards (IFRS). Pension funds as a whole are substantial providers of group pensions and mandatory occupational pensions. The trend in pension markets and rules led in 2006 to a start being made to

reorganising reporting by pension funds and to coordinating this with reporting by life insurers. The process continues in 2007 in cooperation with Statistics Norway to prevent duplicate reporting.

### **Measures to improve competition in non-life insurance**

In a letter of June 2006 to Kredittilsynet, the Consumer Council took up the competitive situation in the non-life insurance market. With a view to improving the situation, the Consumer Council recommended introducing two new competitive parameters: information on claims ratios and information on premium changes.

In its reply in October, Kredittilsynet expressed the view that the claims ratio is influenced by so many factors as to render it a poor guide to an insurance product's quality. As regards a possible obligation for insurers to disclose changes in insurance premiums upon contract renewal, Kredittilsynet believes that this could contribute to raising the customer's awareness that a premium change is taking place and prompt the customer to find out whether cheaper and better insurance coverage is available. In January 2007 Kredittilsynet prepared, pursuant to the Insurance Contracts Act section 2–3, a proposal for regulations requiring insurers to disclose premium changes upon renewal of an insurance contract.

### **Setting the minimum guaranteed interest rate for 2007**

Section 2 of the regulations on premiums and insurance funds in life insurance requires Kredittilsynet to review each year the maximum guaranteed interest rate in life insurance. Kredittilsynet decided against further lowering the maximum rate as from 1 January 2007 for accrual on already established contracts. The maximum permitted guaranteed interest rate for new contracts, set at 2.75 per cent as from 1 January 2006, was accordingly retained from 1 January 2007 onwards.

### **Reinsurance Directive**

Kredittilsynet prepared in 2006 a consultative document proposing provisions to implement Directive 2005/68/EC on reinsurance. The document was forwarded to the Ministry of Finance early in 2007. The deadline for implementing the directive in Norwegian law is 10 December 2007. The directive aims to draw up common supervisory rules for reinsurance companies across the EU/EEA. Part of the rationale for the directive is that differing national legislations impede the development of the reinsurance market.

### **Changes in the accounting legislation**

The regulations governing financial institutions' annual accounts were amended on 20 December 2005 and 21 February 2006 as a result of amendments to the Accounting Act. Moreover, the lending regulations' scope was expanded to include branches of foreign institutions by amendments of 21 February 2006. Guidance on the amendments is given in Kredittilsynet's circulars no. 10/2006 and no. 11/2006. By virtue of the amendments, non-life insurers are permitted to recognise investment properties at fair value and owner-occupied properties by the value adjustment method. An adjustment to the rules for accounting for reinsurance was also recommended to bring them into line with IFRS. See also *Financial reporting supervision*, page 59.





The overarching aim of regulation and supervision is to ensure that the securities market functions properly as a source of capital for business and industry and for investors. In addition to licensed institutions, supervision covers compliance with general rules of market conduct.

Supervision encompasses investment firms, management companies for securities funds, stock exchanges and authorised market places.

## Securities market



## Investment firms

### Supervision

The upward trend in share prices and in turnover in the secondary market for shares and bonds quoted on Oslo Børs set the stage for increased earnings for investment firms in 2006.

Eighty-five investment firms held licences at the end of 2006. Kredittilsynet conducted 14 on-site inspections at investment firms and two inspections at branches. A further two inspections focused on IT systems. While satisfactory, the number of on-site inspections conducted was lower than intended due to reallocation of resources and unfilled positions. As part of its follow up of the prospectus control conducted by Oslo Børs, Kredittilsynet held a meeting with Oslo Børs on this theme in December 2006.

Investment firms vary widely in terms of size, organisational set-up and services provided. Risk-based criteria are used to select firms for on-site inspection. They include liquidity, capital adequacy, changes in revenues, earnings, customer complaints and suspected breaches of good conduct of business rules. Information gained in dealing with administrative tasks and firms' periodic reporting to Kredittilsynet provide a valuable basis for selecting firms for inspection. Priority is also given to large firms, firms that have recently received a licence, firms that have undergone substantial changes and firms that have not been inspected for some time.

On-site inspection is designed to promote firms' compliance with requirements for good business practice and an informed attitude to risk.

### Investigation of trades in the Opticom ASA share

Kredittilsynet conducted an extensive investigation of short trades

in the Opticom ASA share in the weeks leading to the company's extraordinary general meeting on 7 December 2005. Kredittilsynet found that uncovered short sales in the shares had taken place both intra-day and in cases where positions had remained uncovered for several days. To Kredittilsynet it appears that this was the reason why some investors did not receive shares prior to the general meeting, resulting in their being unable to vote as intended. Opticom ASA's market situation called for increased vigilance on the part of investment firms to ensure that customers who placed sales orders had access to the shares before the orders were executed. In Kredittilsynet's view, market actors knew from mid-November 2005 – or clearly should have known – that an extraordinary market situation had arisen in the Opticom share in which shares were purchased to obtain voting rights at the extraordinary general meeting.

As a result of the investigation, Kredittilsynet censured six investment firms for breaches of the Securities Trading Act section 8–7 which prohibits investment firms from mediating uncovered short sales. The censure varied from firm to firm, in some cases being very serious. The investigation also brought to light deficiencies in the internal control function, faulty or non-existent registration of trades in the Central Securities Depository, and, at some firms, defective routines for voice recording conversations with customers.

### Market warnings

In 2006 Kredittilsynet was apprised of several 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.

Table 11: Investment firms

	2004	2005	2006
Firms with licence	78	75	85
– Firms licensed only to market financial instruments	10	8	10
– Firms licensed only for active asset management	9	9	11
New firms with licence	5	5	15
Firms with licence handed in	14	7	5
Firms with licence revoked	0	1	0

### Legislation and administration

Licences were awarded to 15 investment firms in 2006, two of which for banking operations. Five firms handed in their licence. Several licence applications concerned firms solely engaged in mediating orders to investment firms and management companies under the excepting provision section 7-1 third paragraph of the Securities Trading Act. The rationale behind the applications was assumed to be that the applicant was either mediating orders related to equity indexed bonds (structured products) without a licence, or wished to comply with law changes (cf. reference to NOU 2006: 3 below) imposing a licensing requirement on anyone intending to provide investment advice.

### Consultation process on the Markets in Financial Instruments Directive (MiFID) and the Transparency Directive

In May 2006 Kredittilsynet issued a consultative statement to the Ministry of Finance on NOU 2006: 3 *Markets in financial instruments. Transposition of MiFID and the Transparency Directive*. In its statement Kredittilsynet recommended that, like investment firms, financial institutions should be headed by someone who meets the requirements of the Securities Trading Act. Kredittilsynet supported the committee's assessments and its conclusion that the Securities Trading Act's provision excepting order mediation from the licensing requirement should be dispensed with.

In regard to the requirements on the manager or other person who effectively directs the activities of an investment firm, Kredittilsynet pointed out that advisers' incomes are often based on commission on the products in which they get customers to invest and/or are derived from commission they obtain for the firm. This makes for conflicts of interest which may be demanding to handle. The need for an understanding of the intermediary's role, of the products offered and of the risk associated with them, as well as the ability to understand different customers' needs and interests, therefore support strict requirements on the management of all investment firms. As regards the right to use affiliated agents, Kredittilsynet pointed out that if Norway opts not to permit Norwegian investment firms to use such agents, this will not prevent foreign investment firms elsewhere in the EEA from having affiliated agents established in Norway – provided they can do so under home state law. Hence consideration of Norwegian investment firms' competitiveness in relation to foreign firms called for Norwegian investment firms to be entitled to use affiliated agents. Since an investment firm is fully responsible for its agents' activities, their activities will indirectly be part of

Kredittilsynet's remit. Kredittilsynet recommended the Ministry of Finance to consider including in the Act a provision requiring investment firms to see to it that the person effectively directing the activities of agent firms used by them meet the same qualification requirements as those set for investment firms' branch offices.

NOU 2006: 3 proposes establishing a legal basis for the provisions needed to implement level 2 regulation. The Ministry of Finance asked Kredittilsynet to organise this process in October 2006. Two working groups were set up to draft regulations and an associated consultation document. One group is working on rules to transpose the implementing measures to the Markets in Financial Instruments Directive (MiFID), the other group is drawing up rules to transpose the implementing measures to the Transparency Directive. The new provisions will be assembled in two sets of regulations, one issued under the new Securities Trading Act, the other under the new Stock Exchange Act. The Ministry of Finance, Kredittilsynet and Oslo Børs are represented in the working groups, as are central trade organisations.

### Information and guidelines for the sale of structured products

On 25 September 2006 Kredittilsynet issued regulations on disclosure requirements in relation to offers for purchase of structured products. The regulations, which came into effect on 1 January 2007, apply to banks, finance companies and mortgage companies. Structured products are savings products comprising a deposit or bond component and a derivative component. The return to the client is linked to indices or other defined market variables such as equities, bonds, commodities, currency or portfolios of individual equities, including index-linked bonds and index-linked bank deposits. Kredittilsynet also prepared guidelines on the sale of structured products (circular no. 15/2006) which apply to investment firms and independent intermediaries of this type of product. The new regulations and the circular are designed to improve the information given to consumers on return, actual risk and costs associated with structured products. In September 2006 Kredittilsynet wrote identically worded letters to investment firms, finance companies, mortgage companies, savings banks and commercial banks making it clear that intermediaries of index linked bonds require authorisation in order to provide investment services under the Securities Trading Act since these products contain a derivative component. Kredittilsynet's clarification was prompted by instances of unlicensed intermediation by some banks and independent advisers. See also *Banking and finance* on page 38.

### Measures to improve transparency in the Norwegian market

The investigation into short sales of Opticom ASA shares prompted the question of measures to increase the transparency of such sales in the Norwegian market. On commission from the Ministry of Finance, Kredittilsynet assessed whether a register of short positions could achieve this aim. It also considered whether such a register could be replaced by a register of stock lending. Clarification is expected in the first half of 2007.

### Investment Firms' Guarantee Fund

The Investment Firms' Guarantee Fund came into effect on 1 July 2006. The Fund represents a new collective arrangement in terms of security provision for investment firms and management companies licensed to engage in active management. It was established by Act no. 11 of 4 March 2005 through an amendment to the Securities Trading Act

section 8–13. The organisation of the Fund's activities is further regulated in regulations on the investment firms' guarantee fund. It is headed by a board comprising representatives of the participating firms plus one member appointed by Kredittilsynet. The purpose of the Fund is to cover claims due to inability of participating firms to repay money or return financial instruments retained, administered or managed by the members in connection with their provision of investment services. Coverage is capped at NOK 200,000 per customer. The Fund is managed by the Norwegian Financial Services Association (FNH).

### Information

In 2006, as previously, Kredittilsynet held two information seminars for investment firms in cooperation with Oslo Børs. Central themes included the Opticom affair, rule updating, MiFID and transaction reporting systems (TRS).

## Management companies for securities funds

### Supervision

Rising share prices on an international front along with growth in the Norwegian equity market brought steady growth in Norwegian equity funds' total assets in 2006 thanks both to rising share values and net new share capital subscribed. Management companies also saw improved earnings.

At the end of 2006 23 management companies were licensed to manage securities funds. Ten of these were also licensed to carry on business described in the Securities Trading Act section 1–2 as *"active management of investors' portfolios of financial instruments on a client-by-client basis and in accordance with investors' mandates"*. Two new management companies received a licence, no company had its licence expanded and no company lost its licence. The number of securities funds managed by the companies rose by 18 to a total of 447 in 2006.

Four ordinary on-site inspections were conducted at management companies in 2006. In addition, one on-site IT inspection was

carried out at these companies. Risk-based criteria are used to select companies for on-site inspection. The criteria include portfolio return and risk, size, client complaints or suspected breaches of conduct of business rules. Companies' periodic reporting to Kredittilsynet is also used as a basis for selecting companies for inspection.

Kredittilsynet carried out a general survey of management companies' use of derivatives in their management of securities funds. Twenty management companies participated in the survey. Nine companies managed funds trading in derivatives, although several reported relatively modest activity. All management companies trading in derivatives had associated internal guidelines and control procedures, some more comprehensive and detailed than others. While the survey did not provide a basis for taking measures of a more general nature, it will to some extent be followed up by on-site inspections.

Furthermore, a survey was conducted of investment limits in the

Securities Trading Act sections 4–8 and 4–11 in the second half of 2005, and was completed in 2006. All asset management companies licensed by Kredittilsynet participated in the survey, and no serious breaches were brought to light.

### Legislation and administration

Kredittilsynet prepared a new circular containing corrections and clarifications of the standard articles of association described in Circular no. 15/2004. The new circular, no. 15/2007, is based on experience and input submitted after the 2004 circular. It is designed to streamline and simplify Kredittilsynet's task of approving changes to articles of association and of certifying new articles of association. The changes will make some aspects of articles of association clearer and reduce their volume.

On commission from the Ministry of Finance, Kredittilsynet completed a study of possible changes in management companies'

right to differentiate securities fund management fees. A limited right to employ different management fees within the same fund has been introduced under the Regulations on differentiated management fees, which enables one and the same fund to be marketed to both the retail market and the corporate segment. Differentiation will be based on the number of fund units and will apply only within a specified quantity interval. There is also a limited right to differentiate on other, objective, grounds in the individual case. Kredittilsynet recommends amending the regulations to allow differentiation to apply to the overall investment. A final decision will be made by the Ministry of Finance.

Kredittilsynet's administrative practice previously denied management companies the opportunity to dispose over their incomes by revenue sharing with their clients. Kredittilsynet has changed this practice to enable management companies to establish revenue sharing agreements with their clients.

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## Reporting by investment firms and asset management companies

Off-site supervision of investment firms and asset management companies is based on quarterly returns from supervised entities. No significant breaches of laws or regulations were reported through this channel in 2006. However, Kredittilsynet followed up a small number of breaches of laws and regulations over the year.

Under the new Markets in Financial Instruments Directive (MiFID), and as proposed by NOU 2006: 3, a transaction reporting system (TRS) must be established through which Norwegian investment firms and foreign branches will report to Kredittilsynet completed trades in quoted financial instruments in all regulated markets within the EEA. In some cases reports will be exchanged with other supervisory authorities in the EEA area, requiring the establishment of systems for receipt, retention and exchange of transaction reports with other EEA countries. Costs and resources in this connection are expected to be substantial. According to

MiFID the system will be operative as from 1 November 2007. The final framework for this reporting obligation will be established in regulations.

Kredittilsynet set up a project group in 2006 to report on and consider alternative TRS solutions in Norway. Three main alternatives were considered: 1) purchase of a virtually complete solution, 2) development of a solution together with other Nordic supervisory authorities and 3) development of a solution specific to Norway. The project group has yet to complete its work. Representatives of Kredittilsynet also participated in various meetings and groups under the auspices of the Committee of European Securities Regulators (CESR) in 2006 in connection with the implementation of a TRS solution at the European level. The emphasis was on drawing up common definitions and a common European solution for exchanging reports between supervisory authorities.

## Market infrastructure

Kredittilsynet oversees Oslo Børs ASA, the Norwegian Central Securities Depository (VPS), VPS Clearing ASA (VPS Clearing), Nord Pool ASA (Nord Pool), Nord Pool Clearing ASA (NPC), and International Maritime Exchange ASA (Imarex). The securities market infrastructure was closely monitored in 2006 i.a. through the processing of licence applications. Turnover volumes in the equity market were still high in 2006, and a large increase was noted in new admissions to Oslo Børs. Foreign investors' ownership share remains substantial.

### **VPS Clearing authorised to operate a clearing house for equity derivatives**

Acting on Kredittilsynet's recommendation, the Ministry of Finance authorised VPS Clearing to operate as a clearing house for equity derivatives. This business was sold and transferred from NOS to VPS Clearing on 1 September 2006. After the transfer NOS' business is confined to clearing freight derivatives contracts and bunker derivatives contracts. As from the same date NOS was taken over by Imarex NOS ASA. This company concurrently established a new subsidiary, Imarex, which was authorised by the Ministry of Finance to operate as an authorised market place, continuing the business previously operated by the present parent company, Imarex NOS ASA.

### **FishEx ASA applies for permission to operate a market place for fish and seafood derivatives**

Kredittilsynet recommended the Ministry of Finance in November 2006 to authorise FishEx ASA to operate an authorised market place for commodity derivatives with fish and/or seafood as the underlying commodity. The market place will enable industrial actors to reduce the financial risk attending this business by offering price hedging contracts linked to underlying physical purchases or sales of fish and/or seafood. The market place also wishes to be attractive to financial actors, inter alia to ensure ample liquidity in the market. Nord Pool Clearing ASA has applied for permission to deliver clearing services to FishEx ASA.

### **Oslo Børs authorised to operate a market place for financial instruments**

Oslo Børs (Oslo Stock Exchange) applied in summer 2006 for a licence to operate an authorised market place for financial instruments. Oslo Børs intends the market to quote the same types of instrument as today's stock exchange, but with lower general admission requirements. The requirements for admission to Oslo Børs will concurrently be raised, for example by tightening the criteria for dispensation from these requirements. The requisite licence was granted by the Ministry

of Finance in December 2006 in line with Kredittilsynet's recommendation. The licence is conditional upon clear separation of the new market place from the traditional Oslo Børs market place. In connection with the application, Kredittilsynet issued in November 2006 a consultative statement on the proposed regulations on authorised market places in which the agency supported the rules requiring as far as possible the same market surveillance, and disclosure and mandatory offer obligations, as those applying to stock exchanges.

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

Price levels in the electricity and electricity derivatives market in the Nordic area reached very high levels in the second half of 2006, only to fall back slightly towards year-end. Among the key reasons for the high prices were low water reservoir levels in Norway and Sweden in summer 2006 and the fact that Swedish nuclear power stations were out of commission in parts of the year. At year-end the influx to the water reservoirs rose by an abnormally high margin, accompanied by abnormally low consumption. Price levels fell. Kredittilsynet has since 2003 collaborated with the Competition Authority and the Norwegian Water Resources and Energy Directorate on supervision of the electricity market. A close watch has been kept on prices in the electricity market and the CO<sub>2</sub> quota market. The collaboration with the other two supervisory agencies will continue.

### **Freight derivatives**

Imarex's market place for freight derivatives brings it into competition with international actors. Given the high price volatility in the freight derivatives market and the bunker derivatives market, Kredittilsynet will give continued attention to this market ahead. NOS, whose clearing house activities are now confined to freight derivatives, has further increased its risk-bearing capacity, and at end-2006 its overall clearing capital totalled about USD 155 million.

At Kredittilsynet's request NOS carried out a self-evaluation under "Recommendations for Central Counterparties" issued by the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO). The same process was undertaken by Nord Pool Clearing ASA (NPC). Both self-evaluations were reviewed by Kredittilsynet. Kredittilsynet carried out an on-site inspection at VPS in 2006. An IT review of clearing and settlement systems in the securities market was also conducted in 2006 as part of a wider survey encompassing the entire financial industry's ICT systems.



## Supervision of compliance with the general rules of market conduct of the Securities Trading Act

Through its supervision in this field Kredittilsynet plays an important role in the effort to ensure orderly conditions in the securities market. The overarching aim is to reduce the risk compensation required by investors and thereby reduce issuers' capital costs.

54 The rules on unlawful insider trading, market manipulation and due care in handling inside information are at centre-stage. Kredittilsynet also oversees compliance with the rules on the drawing up of insider lists, the duty to investigate, the prohibition of unreasonable business methods, notification rules and rules requiring disclosure of acquisitions of large shareholdings. Hence a 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 freight and electricity derivatives. Kredittilsynet aims to show potential lawbreakers that contravention incurs risk, and it will also apply other measures to discourage criminal acts.

### Supervisory tasks

#### Investigations

Many of the large number of cases dealt with by Kredittilsynet in 2006 were referred to it by Oslo Børs. Under an agreement between Oslo Børs and Kredittilsynet only a low level of suspicion is required to justify referral to Kredittilsynet. 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, especially where the investigations involved other countries. As in 2005, Kredittilsynet availed itself on several occasions in 2006 of cooperation agreements with foreign supervisory authorities when conducting investigations. Kredittilsynet similarly assisted foreign supervisory authorities in their investigations in a number of cases.

Kredittilsynet also investigated several cases of suspected market manipulation and breach of provisions concerning unreasonable business methods in 2006. Investigations were also prompted by suspected breaches of notification rules and rules requiring disclosure of acquisitions of large shareholdings.

#### Notifications to the prosecuting authority and follow-up of notified cases

Five cases of suspected unlawful insider trading and/or breaches of the duty of confidentiality were reported to the prosecuting authority in 2006, as were one case of market manipulation, two failures to disclose acquisitions of large shareholdings and five breaches of the notification rules. Kredittilsynet also issued warnings after minor breaches in the two last-mentioned areas.

Where follow-up of reported cases is concerned, Kredittilsynet further stepped up its assistance to the prosecuting authority in 2006, both in cases reported to ØKOKRIM and to various police districts. Kredittilsynet participated in police operations and assisted the police in examinations and in the review and analysis of impounded items. Kredittilsynet's staff were also called in as expert witnesses in criminal proceedings. On request, assistance was also provided to various police districts in cases that had not been referred to them by Kredittilsynet. Kredittilsynet views the assistance it provides to the prosecuting authority in winding up cases of securities crime as money well spent in terms of the agency's overarching goals.

#### Collaboration

In addition to collaboration in individual cases, emphasis was given in 2006, as previously, to extensive contact between Kredittilsynet, Oslo Børs and ØKOKRIM in the shape of regular meetings and a joint seminar for staff from the three institutions. Kredittilsynet also collaborates fruitfully with Nord Pool. The collaboration is designed to enhance overall market surveillance. Themes discussed included procedures, priorities and legal issues.

#### Sentences passed for unlawful insider trading

In 2006, for the first time, the Supreme Court pronounced a sentence for violation of the insider trading provision. The judgment signalled stiffer punishment in such cases compared with previous legal practice. One sentence for violation of the same provision was delivered by a district court, as was a conviction for violation of the prohibition of unreasonable business methods. In the latter case the defendants were also convicted of providing investment services without the requisite authorisation. The two last-mentioned judgments are,

however, appealable. One sentence was pronounced and three fines were imposed for breach of the rules governing notifiable securities trading, while one fine was imposed for failure to disclose an acquisition of large shareholdings.

#### Investigation of nominees in the Central Securities Depository

In September 2005 Kredittilsynet started an investigation of companies authorised by Kredittilsynet to appear as nominees in the Central Securities Depository. The project was largely brought to a completion in 2006. Its main aim was to check whether nominees were in a position to disclose to Kredittilsynet the identity of the underlying investors. It turned out that a number of nominees had difficulty delivering such information, either because of secrecy provisions, and/or because a sub-nominee was unable or unwilling to deliver information about his clients. In December 2005 several were given a preliminary warning that their authorisations would be revoked, but after keen determination was displayed to make the changes needed to comply with the rules, no authorisations were revoked in 2006.

Among the changes required of the nominees was their introduction of systems for requiring clients' prior consent for information to be disclosed to Kredittilsynet in connection with trading in securities registered in the CSD, and that nominees should request confirmation from sub-nominees of the latter's legal right to deliver information to Kredittilsynet. The project was brought to close with all active nominees receiving an identically worded letter clarifying the nominee's obligations. Kredittilsynet believes that the investigation will boost efficiency in cases where Kredittilsynet is in need of information from nominees. Other authorities and issuers are also expected to benefit from better access to information on the owners of nominee-registered positions.

#### Improving efficiency

As part of its effort to improve efficiency, Kredittilsynet instigated in autumn 2005 a dialogue with Verdipapirsentralen ASA with a view to improving the securities register's searchability. The changes sought were made available in March 2006. Kredittilsynet also received access to a new electronic search tool for collating information registered in the Brønnøysund Register Centre. Both moves have resulted in major efficiency gains for Kredittilsynet's supervisory regime.

#### Legislative tasks

Kredittilsynet took a close look at investment firms' compliance with some parts of the Market Abuse Directive (2003/6/EC), including

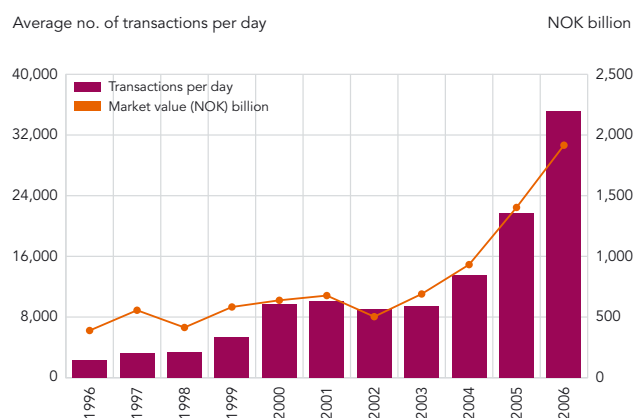
compliance with obligations to report suspicious transactions. Kredittilsynet also scrutinised procedures for voice recording assignments received by investment firms in an effort to obtain a better basis for considering whether the current regulations should be widened.

#### Information

Kredittilsynet held several seminars and presentations in 2006 for representatives of the industry and public agencies on themes related to the market conduct rules.

A rising tendency for investor fraud by international ringleaders has been noted across Europe. Kredittilsynet uses the media to warn the general public of the methods used. In addition to publishing marketing warnings on its website, Kredittilsynet is taking action to provide even better information to enable members of the public to protect themselves against such fraud.

**Chart 4: Turnover and number of trades at Oslo Børs**



Source: Oslo Børs

As from 2005 listed companies are required to apply International Financial Reporting Standards (IFRS) when preparing and presenting consolidated accounts. Kredittilsynet is tasked with ensuring that they do this correctly. The oversight 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 do not come within Kredittilsynet's remit. The oversight applies to periodic reporting such as annual accounts at group and company level, directors' reports and interim accounts.

## Financial reporting supervision



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## Oversight of listed companies' financial reporting

An important aim of the EU Financial Services Action Plan for a well functioning market for capital and investment services in the European Economic Area is to protect investors' interests and thereby promote deep, liquid capital markets in Europe. The international financial reporting standards (IFRS) regulation forms part of this plan, requiring all listed companies to apply international financial reporting standards to their consolidated accounts from 2005 onwards. National enforcement bodies have been established to oversee

that firms apply IFRS, and laws and regulations in the accounting area, in a satisfactory manner. In Norway this oversight is performed by Kredittilsynet. Control 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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## Scope of the oversight

The oversight includes all Norwegian-registered issuers, i.e. companies which are listed on a stock exchange or authorised market place in Norway or on a regulated market elsewhere in the EEA. Listed issuers as well as issuers that have applied for listing are included. Foreign companies from other EEA countries that are listed on Oslo Børs are subject to the oversight of the regulatory authorities in their respective home countries. Issuers listed on Oslo Børs but not registered in the EEA will not be subject to the oversight arrangement. Central government, municipalities and county municipalities are not encompassed by the oversight, neither are municipal or inter-municipal enterprises/companies. State-owned enterprises are, however, included.

Oversight focuses in principal on companies' periodic reporting, irrespective of the accounting standards applied, i.e. annual accounts (at both group and company level), directors' report and interim reports.

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, others based on risk analysis prompted by reports received via the Altinn internet portal. A rotation system will be employed to ensure that the financial reporting of all enterprises is checked within a given period.

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## Information to and communication with the market

Information to and communication with the market and important user groups is highly important, not least for confidence in the capital market. Kredittilsynet provides information through a combination of its website, circulars, press releases, seminars on specific themes and oral presentations, as well as annual reporting. It is also in direct contact with all listed companies, each of which is allotted a specific contact person.

Kredittilsynet publishes all closing/final/public letters on its website. In December 2006 it issued a circular outlining experience gained and findings resulting from its scrutiny of financial reporting in 2006 (circular no. 19/2006).

## Oversight of financial reporting

Responsibility for oversight of financial reporting at Kredittilsynet is assigned to the Section for Financial Reporting Supervision at the Accounting and Auditing Supervision Department. An important complement to Kredittilsynet's resources is the IFRS Expert Committee. The panel was appointed by the Ministry of Finance on 13 October 2005 with a basis in Recommendation No. 17 to the Odelsting (2004–2005).

### The Expert Panel

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

The Recommendation was submitted to the Odelsting by the Standing Committee on Finance and Economic Affairs. Kredittilsynet is secretariat to the Expert Panel. The Expert Panel met seven times in 2006, and had eight matters referred to it for comment or discussion. Its advice is announced as a part of Kredittilsynet's final letters as and when they become public.

At the end of 2005 about 280 companies (Norwegian-registered share, primary capital certificate and bond issuers) were subject to Kredittilsynet's oversight of financial reporting. Several new companies were admitted to listing on Oslo Børs in 2006, chiefly share issuers. Kredittilsynet reviewed all or parts of the financial reporting of about 35 companies. Particular attention was focused on issuers of equity instruments such as shares and primary capital certificates. As a result of this review, 13 cases were given closer scrutiny; several have yet to be finalised. No information was received from the companies, their elected representatives, senior employees or auditor to indicate that the financial reporting of the issuers did not provide a fair presentation in conformity with the provisions of the Securities Trading Act.



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## Major individual issues

### Loan impairment

Kredittilsynet conducted a thematic examination of ten large banks in 2006 in which a close look was taken at their application of the Regulations on financial institutions' accounting for loans and guarantees (lending regulations) and of Kredittilsynet's circular no. 10/2005. The valuation rules are adapted, through the lending regulations, to the requirements of IFRS (IAS 39 "Financial instruments – recognition and measurement").

The thematic examination addressed several accounting issues related to loans, including calculation of effective interest rate, impairment of individual loans and impairment of groups of loans. The inspection revealed that the lending regulations' rules governing impairment of groups of loans create the biggest challenges to the banks, and that banks vary widely in terms of how they measure such impairment. Most banks take a basis in their risk classification system and expected losses calculated in conformity with the capital adequacy rules, combined with additional provisions/adjustments. In several cases the inspection revealed flaws in the methods used to calculate, justify and document recognition of impairment losses on groups of loans.

### Allocation of excess values upon acquisition, and assessments related to substantial influence

In 2006 a review was conducted based on a listed company's interim report on the third quarter of 2005. Kredittilsynet deemed that the company's accounting practice was contrary to IFRS rules on accounting for certain intangible assets and for certain investments in other enterprises. The company had acquired a business in 2004, and allocated parts of the acquisition cost to customer contracts and associated customer relationships which it had deemed to have an indefinite life. Intangible assets with an indefinite useful life should not be amortised, but assessed for impairment, cf. IAS 38.107-108.

In Kredittilsynet's view, the customer contracts and associated customer relationships could not be regarded as having an indefinite life, and should therefore have been systematically amortised over the assets' useful life, cf. IAS 38.97.

This company had also invested in two different enterprises in which it had an ownership interest of 25 per cent and 19 per cent respectively. The company held that it did not have significant influence on the enterprises. IAS 28.2 defines significant influence as "power to participate in the financial and operating policy decisions of the investee". Kredittilsynet determined that the company did have such influence, and that the investments should have been accounted for using the equity method, cf. IAS 28.13. In its interim report for the third quarter of 2006, the company opted to come into line with Kredittilsynet's assessments. As a result it had to rework its comparatives for previous periods. This brought a 15.9 per cent reduction in the company's result for 2005 and a 15.8 per cent reduction in its result for the first half of 2006.

### Three firms ordered to change their accounting practice with regard to live farmed salmon

Kredittilsynet resolved on 3 February 2006 to order three firms to change their accounting practice in regard to live farmed salmon. The three firms were Pan Fish ASA, Fjord Seafood ASA and Lerøy Seafood Group ASA. The firms had measured live farmed salmon weighing more than 4 kg at fair value, whereas fish weighing less than 4 kg were valued at the lower of fair value or historical cost. In Kredittilsynet's assessment the firms' measurement of farmed salmon did not conform to IAS 41 "Agriculture". The orders were appealed and thereafter referred to the Ministry of Finance on 6 April 2006 for further consideration. The ministry's final decision in December upheld Kredittilsynet's order, with some minor changes.

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## Regulatory changes and development

Amendments of 20 December 2005 and 21 February 2006 were made to the Annual Accounts Regulations as a result of changes in the Accounting Act. Moreover, the scope of application of the lending regulations was broadened by an amendment of 21 February 2006 to include branches of foreign institutions. Kredittilsynet provided guidance on the amendments in circular no. 10/2006 and 11/2006.

On 3 October 2006 Kredittilsynet forwarded a consultation document to the Ministry of Finance with a proposal for bringing the Annual Accounts Regulations into line with IFRS. The proposal is under consideration by the ministry after completion of the consultation process. The proposal is as follows:

1. Banks, finance companies and mortgage companies which form part of a listed conglomerate to be obliged to draw up company accounts either under IFRS or under the simplified IFRS applying as from 2007.
2. Banks, finance companies and mortgage companies not forming part of a listed conglomerate to be permitted, when preparing company accounts, to choose between the following sets of rules: 1) IFRS, 2) simplified IFRS or 3) existing rules in the Annual Accounts Regulations.
3. Non-life insurers to be entitled to measure investment properties at fair value and owner-occupied property using the value adjustment method applying as from 2007. A further proposal is to adjust the accounting rules for reinsurance to IFRS.

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

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



## Administrative activity in 2006

Kredittilsynet authorises auditors as either registered or state authorised auditors. State authorised auditors are subject to higher education requirements than are registered auditors. 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 Agder University College. The examination was held for the second time in autumn 2006. A total of 26 candidates took the examination, all with pass grades.

Audit firms retained to audit the annual accounts of clients must also be authorised by Kredittilsynet. More than 50 per cent of the share capital or the subscribed capital and votes in such firms must be held by approved auditors or audit firms. Transitional rule E of the Tax Reform resulted in a number of firms opting to set up ownership through holding companies rather than in the form of personal ownership. This resulted, in 2006 as previously, in a number of applications for authorisation of audit firms whose exclusive purpose is to hold ownership stakes in an audit firm.

Table 12: Number of authorised auditors and audit firms

	31.12.2004	31.12.2005	31.12.2006	Approved in 2006
State authorised auditors	2,325	2,469	<b>2,554</b>	<b>134</b>
Registered auditors	3,033	3,026	<b>3,113</b>	<b>75</b>
Audit firms	518	569	<b>730</b>	<b>189</b>

The 8th Company Law Directive (2006/43/EC, Statutory Audit) of the European Parliament and the European Council was adopted on 17 May 2006 with the date for implementation set at 29 June 2008. The directive regulates the statutory audit of annual accounts and consolidated accounts. The Ministry of Finance has asked Kredittilsynet to prepare by 1 June 2007 a consultation document drafting the legislative provisions needed to implement the directive. Kredittilsynet has invited the Norwegian Institute of Public Accountants (DnR) to join in this process.

The Auditors Act provides for the adoption of regulations on an appeal board to decide appeals against Kredittilsynet's orders for withdrawal of authorisation and other orders made under the act. The Accountants Act contains an equivalent provision. At the request of the Ministry of Finance, Kredittilsynet is drafting regulations on such an appeal board.

In spring 2006 a synoptic report was published based on the off-site supervision of auditors and audit firms conducted in autumn 2005. According to the survey about 173,000 firms had an auditor. The four largest audit firms accounted for 25 per cent of all audit assignments, but for 90 per cent of the companies listed on Oslo Børs. The majority of firms having an auditor are small. Eighty-three per cent paid an annual audit fee below NOK 30,000. The figures also show that, at NOK 5.5 billion, incomes in the audit industry in 2004 were 28 per cent higher than in 2002. The four largest audit firms accounted for 50 per cent of overall audit income in 2004. The likely reason is higher requirements on auditors and a greater focus on auditors' role

and responsibilities. Audit partners spent 20 per cent more time on their assignments in 2004 than they did in 2002. Audit firms still earn substantial revenues on non-audit (advisory) services.

Follow up of the off-site supervision of individual auditors in 2006 led to 11 withdrawals of authorisation due to failure to answer the questionnaire. Written enquiries were sent to 159 auditors to check whether their advisory services to audit clients were in compliance with the requirements of independence and objectivity. Kredittilsynet wrote to some auditors who lacked the number of hours of continuing education required by the Auditors Act.

The Money Laundering Act was extended to auditors on 1 January 2004. In 2006 a special circular (no. 13/2006) was sent to auditors and external accountants giving detailed guidance on their duties and obligations under the money laundering legislation.

Cooperation in the audit sphere is rapidly increasing at the Nordic level, in the EEA area and globally. There has also been bilateral contract with the US supervisory authority, the Public Company Accounting Oversight Board (PCAOB), with a view to possible supervisory collaboration. See *International activity* on page 84 for further details.

## Supervisory activity in 2006

Since 2002 Kredittilsynet has coordinated its supervisory activity with the quality control conducted by the Norwegian Institute of Public Accountants (DnR) in respect of its members. Under the arrangement all members with audit responsibility are checked by DnR over a five-year period. Kredittilsynet checks non-members, ensuring that all statutory auditors are quality controlled in the same period. Should DnR's quality control bring to light circumstances that may prompt withdrawal of an auditor's licence, the matter is referred to Kredittilsynet for further action. Four cases were referred by DnR in January 2007 for the year 2006. See page 63 for DnR's report for 2006.

Kredittilsynet also carries out supervision prompted by its own risk assessments, reports received and signals emerging, 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 an auditor.

147 cases were handled in 2006, of which 52 were based on on-site inspections. A single inspection can include several statutory auditors.

Kredittilsynet received 78 reports on auditors in 2006, compared with 95 in 2005.

Table 13: Withdrawal of auditors' licences

	2002	2003	2004	2005	2006*
State authorised auditors	1	0	0	2	5
Registered auditors	5	3	4	2	9
Audit firms	8	1	0	0	1

\* 11 licence withdrawals were due to failure to respond to the off-site supervision carried out in 2005.

In 2006 a thematic inspection was conducted of the audit of enterprises operating under special legislation enforced by Kredittilsynet.

Kredittilsynet's review included checking the audit of a random sample of small and medium-size banks. Inspections of auditors who audit such banks is also a follow up of work started by Kredittilsynet in 2005 on assessing external auditors' scrutiny and oversight of the use of information systems in banking operations. Thematic inspection included on-site inspections at 14 audit firms, in which 24 auditors were checked in relation to their audit of 30 banks, seven estate agency firms, one housing cooperative with property sales, three debt collection agencies, six external accounting firms, one mutual fire insurance company, nine lawyers with client funds and one pension fund. The auditors concerned were responsible for the audit of 39 banks. The general impression gained from the thematic inspection was that auditors were sufficiently aware of the special legislation governing the audited entities. Some observations were made regarding audit documentation, however.

Kredittilsynet's observations in regard to the audit of Sunndal Collier Fondsforvaltning ASA also fall within the sphere of thematic inspection. Kredittilsynet had established in 2005 that the company had committed serious and systematic violations of the provisions of the Securities Trading Act, resulting in the company's decision to

surrender its authorisation to carry on mutual fund management. In Kredittilsynet's view the auditor had underrated the significance and consequences of the unlawful circumstances of which he was fully informed. He therefore had insufficient focus on the potential consequences of the company's breaches of the special legislation, for example in his going concern assessment and his duty to report the unlawful circumstances to Kredittilsynet.

As a step in the follow-up of the largest audit firms and of the thematic inspection of the audit of entities subject to Kredittilsynet's oversight, work started on scrutiny of the audit of a major financial conglomerate. This will include an assessment of the audit firm, and in that context selected aspects of its procedures and guidelines will be examined.

In 2006 Kredittilsynet initiated an assessment of the audit of Nedre Romerike Vannverk AS (a water utility) based on irregularities that had been brought to light. Kredittilsynet aims to complete its assessment early in 2007.

## DnR Quality Control – Annual Report 2006

With reference to the “Guidelines for collaboration between Kredittilsynet and Den norske Revisorforening (DnR – the Norwegian Institute of Public Accountants) regarding quality control of statutory auditors”, the Board of DnR hereby presents a summary of the results of the quality control conducted in 2006.

### Organisation of quality control in 2006

The control regime is described in “Details of the quality control set-up 2006” as posted at [www.revisornett.no](http://www.revisornett.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.

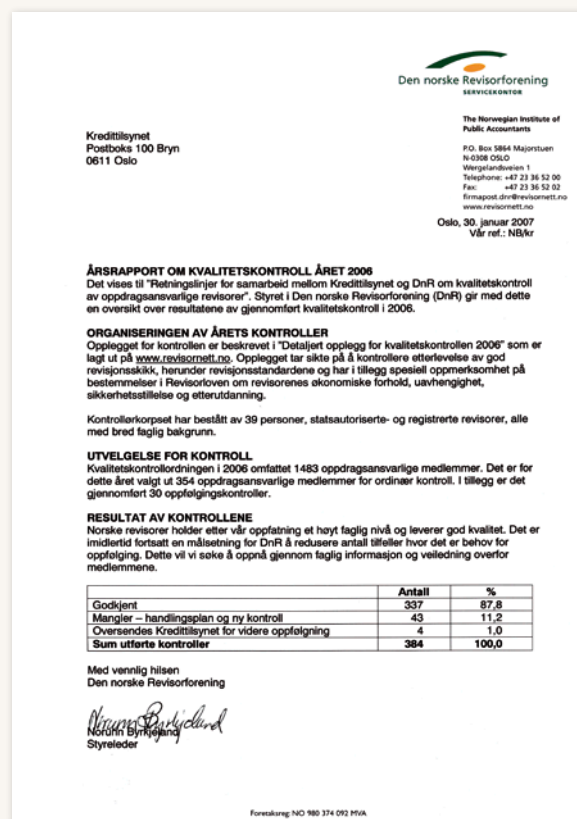
The controller team comprised 39 state authorised and registered auditors, all with a broad professional background.

### Selection of auditors for quality control

The quality control scheme in 2006 encompassed 1,483 statutory auditors. 354 statutory auditors were selected for ordinary control measures. A further 30 statutory auditors were subject to follow-up control.

### Result of the quality control process

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



	Number	%
Approved	337	87.8
Deficiencies noted – action plan and new control	43	11.2
Referrals to Kredittilsynet for further action	4	1.0
<b>Total controls conducted</b>	<b>384</b>	<b>100.0</b>

Yours sincerely  
(sign.)

Norunn Byrkjeland  
Chairperson  
Norwegian Institute of Public Accountants





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 controlling that the activities of providers of external accounting services comply with laws and regulations and are conducted in an appropriate and satisfactory manner.

## External accounting services

## Administrative activity in 2006

The Authorisation of External Accountants Act and the Authorisation of External Accountants Regulations were amended with effect from 1 July 2006. The amendments addressed the conditions for authorisation of individuals and firms, stricter requirements on continuing education and the rules governing withdrawal of authorisation. "Good accounting practice" has been introduced as a legal standard for providers of external accounting services. Industry practice no longer qualifies for exception from the authorisation requirement, and authorisations no longer need to be renewed. Kredittilsynet accordingly processed no applications for renewal of authorisation in 2006.

According to Kredittilsynet's circular no. 18/2006, firms whose CEO is not an authorised external accountant will be given a deadline to

rectify the matter. 464 firms did not meet this requirement at the end of 2006. The circular also warned that checks would be made of authorised firms' compliance with the new requirement that their articles of association define their business as accountancy.

Kredittilsynet launched a sectoral database for all supervised entities in February 2006. The agency has entered into agreements with the Central Co-ordinating Register for Legal Entities in Brønnøysund and the Population Register on electronic retrieval and updating of basic data. This ensures that the Register of External Accountants contains correct data on names, addresses and termination. Data on authorised external accountants and external accounting firms became available in Kredittilsynet's online register in October 2006.

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Table 14: Number of authorised external accountants and external accounting firms

	31.12.2004	31.12.2005	31.12.2006	Authorised in 2006
Individuals	6,724	7,179	<b>7,472</b>	<b>568</b>
Firms	2,542	2,632	<b>2,652</b>	<b>254</b>

The Authorisation of External Accountants Act provides for the adoption of regulations on an appeal board to decide appeals against Kredittilsynet's orders of withdrawal of authorisation and other

orders made under the act. The Accountants Act contains an equivalent provision. Kredittilsynet is drafting regulations on such an appeal board in response to a request from the Ministry of Finance.

## Unlawful external accounting activity

Kredittilsynet investigates entities reported to be carrying on business in violation of the Authorisation Act. In 2006 47 reports of unlawful accounting activities were received compared with 29

in 2005. As a result of Kredittilsynet's investigations 18 orders were issued to suspend activities. Two cases were reported to the police.

Table 15: Unlawful external accounting activity

	2002	2003	2004	2005	2006
Reports received	39	38	74	29	<b>47</b>
Activities suspended	0	12	9	12	<b>18</b>
Reports to the police	1	3	1	0	<b>2</b>

## Supervisory activity in 2006

At its on-site inspections Kredittilsynet checks external accountants' compliance with law and regulations and the organisation of their business. Checks are based on complaints and reports received from sources such as the Norwegian Association of Authorised Accountants (NARF), the Tax Administration, liquidators of bankruptcy estates, clients of accountants and the like.

Quality control of authorised external accountants and authorised external accounting firms is resource-demanding due to the large number of entities under oversight. Guidelines for cooperation with NARF on quality control of authorised external accountants came into force on 1 January 2006. The arrangement is based on NARF's quality control of its members and is similar to the collaboration established with the Norwegian Institute of Public Accountants (DnR). NARF's quality control report for 2006 can be found on page 67 of this annual report.

Kredittilsynet processed a total of 81 supervisory cases in 2006, 46 of which were based on on-site inspections. A single inspection can include several statutory accountants. Thirty-one of the 46 on-site inspections were at non-NARF members. Several were follow-up inspections in cases where Kredittilsynet had previously brought to light deficient professional conduct. Kredittilsynet also conducts inspections at external accountants based on checks carried out by NARF. Sixty-four reports on external accountants were received from NARF, tax authorities and other bodies in 2006 compared with 45 in 2005. Membership or non-membership of NARF is a criterion employed when selecting external accountants for inspection.

Table 16: Revocation of authorised external accountants' licences

	31.12.2003	31.12.2004	31.12.2005	31.12.2006
Licence revoked – individuals	3	4	18*	11
Warning issued	2	2	2	0
Licence revoked – firms	–	–	–	1

\* 14 revocations in 2005 were due to failure to reply or respond to off-site supervision in 2004.

The provision on written warnings was removed with the amendments made to the Authorisation Act effective as from 1 July 2006.

Every second year all external accountants are subject to off-site supervision. The supervision conducted in autumn 2006 involved 7,354 external accountants and 2,701 external accounting firms. Most reports were filed via the Altinn internet portal, 170 manually. Off-site supervision is designed to provide an overview of the structure and composition of the external accounting industry. Specific questions were asked on accountants' presentation of their own accounts, as well as on key routines in their performance of accounting assignments for others. The replies are used in the preparation of statistics. They also provide a basis for analysing trends in the accounting profession. Processing of the information received will be completed in 2007. Failure to respond to off-site supervision results in revocation of authorisation as an external accountant or external accounting firm. After preliminary reminders, 226 warnings of revocation were issued.

The previous off-site supervision of external accountants, conducted in autumn 2004, showed a number of external accounting firms in a negative equity position. In 2006 Kredittilsynet selected 10 of these for closer scrutiny. The aim was to ensure that they complied with the duty of action upon loss of equity, and that they remained solvent as required by law. Kredittilsynet subsequently noted that three companies had strengthened their equity position, two were being wound up, one had had its authorisation revoked while four had strengthened their equity capital thanks to solid profit performances.

Kredittilsynet has assessed whether the ICT regulations from 2003 should also apply to external accountants and external accounting firms. As a basis for its assessment an interview survey was conducted in which 23 were asked some 75 questions on various processes in their ICT systems. After an overall assessment Kredittilsynet concluded that the ICT regulations should not be applied to these supervised entities at the present stage.

## NARF Quality Control – Annual Report 2006

With reference to the “Guidelines for collaboration between Kredittilsynet and the Norwegian Association of Authorised Accountants regarding quality control of authorised accountants and authorised accounting firms”, an overview is hereby presented of the scope and results of the quality control programme conducted in 2006.

### Organisation of quality control

Quality control is based on applicable industry standards and legislation. Twenty-nine controllers were engaged, all with a broad professional background and some with auditing experience. The scope of the control is evident from the inspection forms employed, which have already been submitted.

Quality control was mainly carried out at members that have not been checked in the past six years, as well as at members previously subject to follow-up control. On-site quality control of members with minimal professional activity (less than 0.5 full-time positions) is only considered after obtaining further information on the business. In 2006 it was decided not to conduct on-site quality control at 16 of 32 relevant members in this category.

### Result of the quality control programme

Processing of the quality control reports entails the following alternative decisions: 1) approval, 2) limited follow up – issue of order to rectify specified deficiencies and to confirm rectification by a specified deadline, 3) follow-up controls / other measures.

The quality control programme produced the following result:

	Individuals	%	Firms	%
Approved	200	40.7	125	37.8
Limited follow-up	193	39.3	130	39.2
Follow-up controls / measures	98	20.0	76	23.0
<b>Total</b>	<b>491</b>	<b>100</b>	<b>331</b>	<b>100</b>

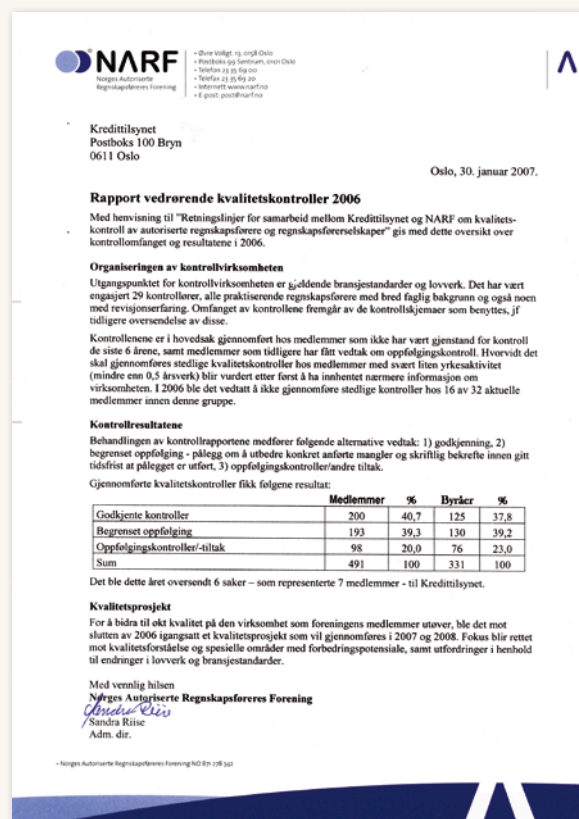
Six cases – involving 7 members – were referred to Kredittilsynet.

### Quality project

A quality project to be carried out in 2007 and 2008 was initiated towards the end of 2006 with a view to increasing the quality of the services provided by the Association's members. The focus will be on quality awareness and areas with a potential for improvement, as well as on challenges posed by changes in legislation and industry standards.

Yours sincerely  
(sign.)

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 law and regulations, including observance of good estate agency practice. Kredit-tilsynet is also assigned administrative and consultative tasks and information tasks under the Estate Agency Act.

## Estate agency





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## High start-up rate in 2006, as previously

2005 saw unprecedented activity levels in the estate agency industry, with 131,000 properties sold, total property sales worth NOK 260 billion and no less than NOK 4.6 billion generated in estate agency fees. This steep growth continued into 2006 with a first half that easily outstripped the first six months of 2005 on all three counts: property sales were up by 5,000 or 9 per cent, property sale values by 28 per cent, and estate agency fees by about 17 per cent.

The level of market concentration is rising steadily in larger towns and in some out-of-town areas, intensifying competition between agencies. While the start-up rate remains high, the net increase in agencies in 2006 (40) was smaller than in 2005 (70). Ninety-seven new licences were issued in 2006 compared with 106 in 2005. Sixty per cent of start-ups in 2006 were members of chains.

According to half-yearly accounting data reported to Kredittilsynet, about a quarter of estate agencies regularly run a deficit. This is probably largely due to keen competition for assignments which squeezes estate agency fees. Moreover, 5 per cent of agencies report negative equity, i.e. they no longer fulfil one of the conditions for carrying on estate agency. An important contributor here is undercapitalised start-ups. However, bankruptcies are the exception. Agencies that fail to operate profitably usually opt for straightforward closure if their owners are unwilling or unable to inject fresh capital.

At the end of 2006, 682 firms were licensed to carry on estate agency, of which two thirds were located in the ten largest towns. At the same point 38 ordinary housing cooperatives brokered sales of their own flats, and 1,355 lawyers had furnished security to engage in estate agency.

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## Follow up of Notar Eiendom Bergen AS and Notar Nybygg Bergen AS

During its inspection of Notar Eiendom Bergen AS and Notar Nybygg Bergen AS in 2005, Kredittilsynet brought to light a number of irregularities, including own trading in projects and serious flaws in record keeping, which led to their licences being revoked in January 2006. Dealing with these cases – i.e. processing the results of the actual inspections and information subsequently received from the firms' clients and others – was resource consuming. Several Notar

agency owners were tested for fitness and propriety, and some assignments carried out by agents at the firms concerned were investigated. In light of the affair in Bergen the rules on own-account trading were tightened by an amendment to the Estate Agency Regulations making it difficult for estate agents and their closest relatives to buy units in projects for which they themselves are the responsible estate agent.

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## Own trading

The Estate Agency Act's prohibition against own trading prevents employees of estate agency firms, as well as their close associates, from selling or buying their own property through the agency, and from carrying out assignments where employees and/or their close associates have a personal or financial interest in the transaction to which the assignment relates. Kredittilsynet notes a general lack of knowledge of these rules and considers that many in the industry

fail to take them sufficiently seriously. In many cases this lack of knowledge and/or apparent disregard for an absolutely key aspect of the rules is deplorable. However, after giving a sharp response in the most serious cases, Kredittilsynet's impression is that the industry now complies with the prohibition of own trading to a greater degree than previously, thanks in part to preventive measures such as training and inspections.

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## Inspections at estate agency firms

In 2006 Kredittilsynet carried out 40 on-site inspections of estate agency firms and some lawyers engaged in estate agency. The inspections focused particularly on estate agents' compliance with the prohibition of own trading. This was at centre stage in Kredittilsynet's inspections in 2005 at Notar Eiendom Bergen AS and Notar Nybygg Bergen AS. These cases received much media coverage, and prompted numerous approaches from clients of estate agents and others alleging own trading at named estate agency firms. There were frequent reports in the media of actual or alleged own trading.

Kredittilsynet responded to these approaches and media coverage with on-site inspections as well as with random checks of own trading at various firms. Breaches of the own trading prohibition impair

public confidence in estate agents in general and are detrimental to the industry's reputation.

The inspections and checks showed that as many as 19 of the total of 40 inspected firms and branch offices had breached the ban on own trading. In some cases serious breaches were brought to light, both in terms of their frequency and nature. One firm and one branch office of a firm lost their right to carry on estate agency.

The largest breach of the own trading provision was exposed at DnB NOR Eiendom AS where five of the firm's branch offices were checked. The branch office in Bodø, responsible for the most serious violations, had to cease its estate agency business.

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## Quality of estate agency services

Kredittilsynet has noted a lack of professionally qualified personnel at several firms, due above all to the rapid expansion in the industry. The formal requirements of the Estate Agency Act relate only to the education and experience of the person *effectively in charge* of the firm. Consequently assignments are largely carried out by estate agents without such education. Tighter rules, introduced in 2004, requiring the estate agent in charge to be present at the agency and to check the work done by the estate agents employed there, appear in many cases not to be sufficient to raise the quality of estate agents' services.

Kredittilsynet's investigations of individual cases suggest that in many cases professional estate agents are subordinate to the firm's management board and general manager, and that the latter fail sufficiently to recognise the responsible estate agent's primacy in regard to the professional and technical aspects of estate agency. Kredittilsynet also has the impression that at a number of firms neither the responsible estate agent nor the management as a whole give sufficient priority to the obligations ensuing from professional estate agents' responsibility for estate agency assignments. Kredittilsynet presumes that salary systems giving emphasis to sales may play a part here.

## Fitness and propriety testing of estate agency owners

In connection with its revocation of licences in 2006, Kredittilsynet assessed the fitness and propriety of some estate agency owners. This was done with a basis in the fitness and propriety requirement applied as from 2004 to holders of substantial owner interests in estate agency firms. The threshold for disqualifying agency owners is in general high. In one of the cases concerned the censurable circumstances brought to light related above all to deficient oversight on the part of the estate agent in charge and the general

management. Kredittilsynet did not therefore find the owners unfit for purpose. In another case where two shareholders of an estate agency wished to increase their stakes to a level enabling fitness and propriety testing, Kredittilsynet refused them permission. It did so since the shareholders had been held accountable, in their capacity as estate agent in charge and general manager, for breaches of the estate agency legislation at a now defunct agency whose licence had been revoked by Kredittilsynet.

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## Special challenges facing the industry

Recent years have seen a high rate of building starts in the apartment market on both the recreational and residential fronts. Assistance in the organising and broking of such projects requires special professional knowledge and experience. Kredittilsynet's impression is that not all agents who take on such assignments have the requisite professional qualifications.

Recently more and more developers have organised ownership in apartment projects on a housing cooperative basis as opposed to a the unitary system of apartment ownership. Kredittilsynet has also noted that several actors appear to have found a niche in purchasing old apartment blocks which they fully renovate and then sell as cooperative flats.

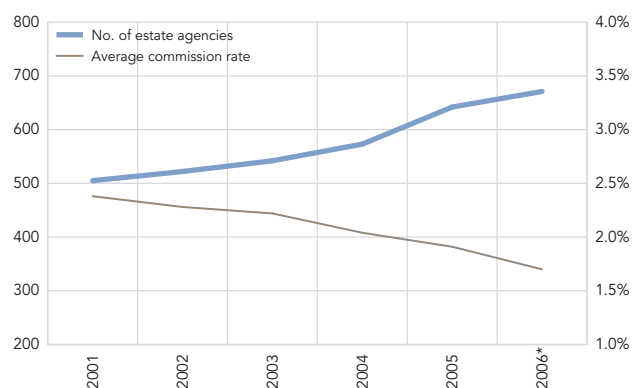
A substantial upturn is noted in the number of new housing cooperatives. According to figures from the Register of Business Enterprises in Brønnøysund, 300 new housing cooperatives were founded in 2004, an increase of 70 per cent on the previous year. In 2005 405 new housing cooperatives were established. There appears to be a tendency for higher loan to value ratios in such projects, in some cases as high as 90 per cent, making the entry ticket to such housing very low in relative terms.

Moreover, it is now fairly common for loans to housing cooperatives to involve an interest-only period. Costs to the individual unit holder are consequently far lower in the initial period than when instalments kick in. Rising interest rates will compound the difference. Many of these projects target young people, many of whom could not afford to buy a dwelling of the type concerned without sharing in a joint mortgage. In these projects the unit holders are collectively responsible for servicing the debt. If the housing cooperative is

dissolved, the unit holders' responsibility for the cooperative's liabilities will be confined to their initial contribution. This arrangement opens up a new market for developers, lenders and estate agents. The housing cooperative model is also being employed by holiday property developers.


This form of dwelling is criticised primarily because buyers do not receive information about what they are *really* buying. Estate agents have an important role to play here in terms of the Estate Agency Act's information requirement. Buyers are entitled to any and all information which is of significance for a transaction and which they have reason to expect. Moreover, estate agents are required to provide buyers with advice.

**Chart 5: Number of estate agencies and average rate of commission**



\* First half 2006

Source: Kredittilsynet



Supervision of the debt collection industry encompasses agencies' financial position and their treatment of client funds, agencies that collect overdue debt on behalf of other businesses and organisations as well as agencies that purchase overdue debt and collect it themselves.

Collection of own claims and lawyers' debt collection activities lie outside the scope of Kredittilsynet's supervision. At on-site inspections Kredittilsynet checks in particular that recovered funds are properly handled and that the business in general is conducted in accordance with generally accepted debt collection standards.

## Debt collection

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## The market for debt collection services still stable – fewer new cases referred for recovery

117 ordinary debt collection agencies were registered at the end of 2006. In 2005, for the first time, a marked fall (about 5 per cent) was seen in the number of cases referred for recovery. Based on agency reports, the first half of 2006 also showed a fall (about 2 per cent) compared with the same period of the previous year. At mid-2006 debt collection agencies had just over 2.7 million

ongoing cases in their portfolios, accounting for NOK 42.1 billion, including collection fees and other expenses.

The reason for the falling number of debt recovery cases is unclear, as is the question of whether or not this signals a lasting tendency.

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## Debt purchase and collection

Since the purchase of overdue debts and collection of the same were brought within the scope of the Debt Collection Act on 1 January 2002 and became subject to a special licensing requirement, only a small number of firms have applied for and been granted licences to conduct business of this nature. One reason is that firms with a licence to conduct financing activities under the Financial

Institutions Act do not need a separate licence to recover purchased debt. During 2006 the number of agencies licensed to purchase and recover overdue debt fell from eight to six. At end-2006 these six firms held claims for recovery totalling NOK 1.3 billion and approximately 21,000 cases for recovery.

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## Industry structure

At the end of 2006 a small number of agencies still dominated the debt collection industry in terms of their share of both the value of claims for recovery and the number of claims in process. At that point in time the seven largest ordinary debt collection agencies accounted for almost 80 per cent of the value of claims for recovery, and almost 65 per cent of the number of claims in process.

The structure of the industry should be viewed in light of the potentials offered by information and communication technology (ICT). Although administrative procedures have become far more efficient, larger assignment volumes have been needed in order to exploit the economies of scale enabled by the sometimes substantial ICT investments. This has prompted mergers and acquisitions. Moreover, agencies have developed new products based on the ICT investments, targeted above all at their principals (creditors). This

tends to tie the latter to the debt collector. Examples of such products include tracking the progress of a case via the Internet, and services offering analysis and information as decision support for the debt collector's principals in relation to their customers (debtors).

Several of the products offered require considerable knowledge of debtors' payment history. Small debt collection agencies are consequently unsuited as debt collectors for many principals who currently have a customer relationship with one or more of the large debt collection agencies. Many principals expect the debt collector to be able to offer products/services over and above traditional debt collection. Hence there is reason to believe that the industry structure will not change significantly, for one thing because few debt collection agencies have the financial and/or technological resources to compete for the largest principals (the creditors).



## Invoice administration / ledger service

Many debt collection agencies, both large and small, offer creditors a product known as invoice administration or ledger service. Agencies offering this product issue invoices on behalf of creditors and follow up any failure to pay with payment demands as a part of their ordinary debt collection business.

An invoice remains a monetary claim until the stated due date. Since debt collection is broadly defined as recovery of overdue debts, invoice administration or ledger service as a product falls to some extent outside the act's definition of debt collection. The fact that issuance of invoices and debt collectors' receipt of funds related to not-yet-due monetary claims on behalf of creditors fall outside

the act's definition of debt collection, means that such funds are not entrusted funds (client funds) in the sense of the act. Consequently the security provided for debt collection activity does not cover the receipt and handling of funds related to monetary claims that are not yet due. Hence any irregular treatment of such funds by the debt collector, for example his use of them in ordinary operations, entails risk of loss to the creditor. Kredittilsynet's impression is that creditors are insufficiently aware that funds received by a debt collector on the basis of issued invoices are not covered by the security provided. The reason may be that debt collectors do little to provide such information.

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## Poor financial results

Several firms engaged in debt collection make a loss on ordinary operations. Twenty-nine firms ran an operating deficit at mid-2006. Figures reported by several firms that had started debt collection in 2005 or 2006 showed operating deficits. This confirms high establishment costs, and also the apparent difficulty faced by start-up agencies in concluding agreements with a sufficient number of principals (creditors) and/or principals able to provide large debt collection portfolios. Operating deficits are reported not only by start-ups but also by established agencies.

The reason why well-established, previously profit-making, debt collection agencies fail to earn money on ordinary operations may be a failure to adjust sufficiently to a change in the fee system,

effective from 1 March 2002, whereby the debt collection fee was set in relation to a "collection fee calculation base" and no longer pegged to the court attendance fee. The number of full-time job equivalents (FTEs) in debt collection in the first half of 2003, for example, was 1,495 – virtually identical to the figure for the first half of 2006. The operating deficits reported by well-established debt collection agencies may also be explained by investments in new technology needed in order to maintain and/or increase the number of principals.

## Fitness and propriety testing of key personnel at debt collection agencies

Effective from 1 January 2006, amendments were made to the Debt Collection Act including the introduction of fitness and propriety testing of directors, CEO and owner(s) with a significant holding. Transitional rules were adopted for agencies awarded a licence before 1 January 2006. Directors and CEO at such agencies were given until 31 December 2006 at the latest to submit a police certificate to Kredittilsynet.

Kredittilsynet's scrutiny of police certificates brought to light only one criminal offence (of a financial nature). Based on its gravity,

Kredittilsynet issued an order declaring the individual concerned to be unfit to be CEO and director of a debt collection agency.

With effect from 1 January 2006 a further amendment to the Debt Collection Act permitted debt collection agencies whose permanent place of business is in the EEA to carry on debt collection in Norway provided they are registered with the Register of Business Enterprises in Brønnøysund. The amendment brought the Debt Collection Act into line with the EEA agreement. Kredittilsynet received no applications from such agencies in 2006.

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## On-site inspections – complaints against debt collection

Kredittilsynet inspected four ordinary debt collection agencies in 2006. These inspections were not prompted by specific circumstances, but were carried out to check agencies' compliance with case-handling rules and procedures for receipt and treatment of entrusted funds (client funds), as well as their accounts. No circumstances that called for special action were brought to light by the inspections.

Kredittilsynet's general impression is that the individual(s) effectively directing the business of debt collection do not always appear to be aware of their responsibilities. They are responsible for ensuring that

the business, including procedures for the receipt and treatment of entrusted funds, is carried on in conformity with the provisions of the Debt Collection Act.

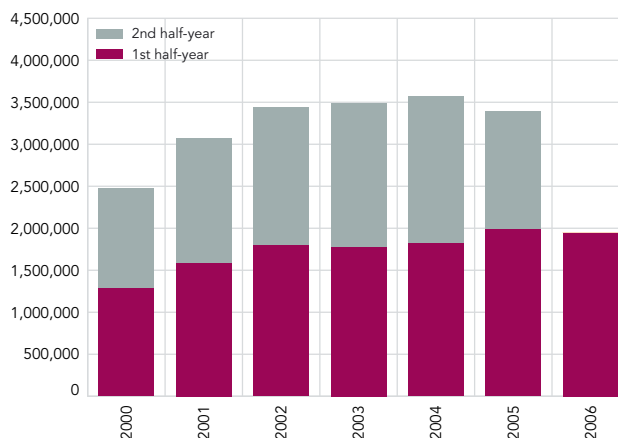
Kredittilsynet refers virtually all approaches from consumers to the Debt Collection Complaints Board for assessment and possible review. Decisions made by the board are routinely forwarded to Kredittilsynet for its information and for possible action. The board's decisions are taken into account in selecting agencies for on-site inspection.

## Breaches of good debt collection practice

In addition to its cooperation with the Debt Collection Complaints Board, Kredittilsynet also has regular meetings with the Consumer Council on debt collection issues. It has emerged that some debt collection agencies recover claims on behalf of creditors engaged in telephone sales of diet supplements and natural products, with no documentation to show that a customer relationship was established. The same is true of telephone entertainment services.

Kredittilsynet's general position in cases where a debtor contests the legitimacy of a claim and where neither the creditor nor the debt collector has any documentation of a customer relationship, is that the creditor must relinquish the claim, or that the matter/dispute be brought before a conciliation court. Moreover, the debt collector has to consider the prudence of maintaining a debt collection agreement with creditors who do not have in place acceptable procedures for quality assuring claims against debtors.

Chart 6: Number of debt collection cases received



Source: Kredittilsynet



## Supervision of ICT infrastructure and other issues

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## IT supervision

Kredittilsynet conducted 21 IT inspections in 2006 at banks, insurers, finance companies, securities institutions, debt collection agencies, real estate agencies, external accountants and e-money institutions. IT inspections were also carried out at IT service providers and data processing centres under the ICT Regulations section 12 on the outsourcing of ICT operations. The IT inspections were conducted in conjunction with the department responsible for the supervision of that sector at Kredittilsynet. A further 25 simplified IT inspections were carried out in conjunction with personnel responsible for ordinary inspections. One thematic IT inspection was conducted to map out and assess transaction flow related to the various actors in the securities settlement system.

The inspections showed that the ICT regulations have probably led to improvement in a number of areas in terms of institutions' use of information technology. Kredittilsynet has published a guidance on the regulations for small firms, with a basis in the estate agency industry. This was prompted by an interview survey carried out in that industry in 2005 to assess its knowledge and application of the ICT regulations.

The main module of Kredittilsynet's IT supervision framework was upgraded in 2006 to bring it into line with CobiT version 4.0. The framework was also updated to enable compliance with individual provisions of laws and regulations bearing on IT use, for example the Accounting Act and the Money Laundering Act. This work received priority in 2006 and is continuing in 2007.

### Notification duty under the Payment Systems Act

Kredittilsynet received 24 notifications based on self-evaluation and replies to 19 control questions in connection with the establishment of new payment services or substantial changes in existing services. This forms an essential part of the preventive effort directed at the payments services area and is an important aspect of Kredittilsynet's information base.

### Risk and vulnerability analysis

Kredittilsynet publishes each year a risk and vulnerability (RAV) analysis of the financial sector's use of ICT the previous year. The following risk and vulnerability areas were identified as particularly important with a view to putting risk-mitigating measures in place: organised crime, incomplete reporting of events, non-compliance with external requirements, adequate testing of contingency plans and implementation of change management.

As announced in the RAV analysis for 2005, work continued in 2006 on systems for reporting events and on recommendations for improvements. Dialogue is in progress with trade organisations with a view to producing a better system in 2007.

Some serious events were reported in the IT area in relation to internet banking in 2006, and some serious events at IT operation service providers caused instability in banking operations for short periods. A causal analysis was initiated and steps were taken to prevent a repetition, some of which are still being followed up.

The financial industry is critical to the social infrastructure, with ICT at centre stage. Kredittilsynet therefore plays an active part in relevant forums and collaborates with other authorities in Norway and elsewhere to enhance its own competence and to contribute to the possible development of a joint programme and practical cooperation.

Kredittilsynet participates in the Coordinating Committee for Information Security, the Contingency Committee for Financial Infrastructure (BFI), Nordic collaboration on IT supervision and the Information Technology Supervisors Group, which is the international forum for IT supervision. Kredittilsynet also plays an active role in the Critical Information Infrastructure Protection Project (BAS5) under the auspices of the Directorate for Civil Protection and Emergency Planning (DSB), and cooperate with the Norwegian Defence and Research Establishment on RAV analyses. Kredittilsynet has also established collaborative arrangements with foreign IT supervisors.

Kredittilsynet plays an active part in ISACA Norway's and Standards Norway's groups on banking and security standards and on electronic signatures and infrastructures standardisation (ETSI ESI), and in the IT security working group under the International Federation for Information Processing (IFIP).



## Security and crisis preparedness

Maintaining a 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 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 requirements of society. Priority is given to crisis preparedness focusing on activities and areas of significance for financial stability. Preparedness plans have been drawn up in all such areas.

Like other agencies subordinate to the Ministry of Finance, Kredittilsynet reviewed its security and preparedness regime in 2006. In November/December 2006 it participated in a preparedness exercise related to terrorism. The exercise was initiated by the Ministry of Finance. Its chief purpose was to test security measures in place for Kredittilsynet in the face of a heightened threat level and as part of the national emergency response plan. The agency also reviewed its routines for physical protection and ICT security in 2006, and some adjustments were made. Security and preparedness initiatives are carried out on a continuous basis, and are included in the annual planning of Kredittilsynet's activities.

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## Political action on financial portal

Kredittilsynet has for several years collaborated with the Consumer Council and the Consumer Ombudsman on measures to improve information to financial market end-users. This work was taken forward in 2006, and in June 2006 Kredittilsynet submitted, together with the two consumer bodies, a proposal to the Ministry of Finance and the

Ministry of Children and Equality recommending the establishment of an independent internet-based information portal for financial products and services under government auspices. The basis for the recommendation was a report entitled "*Finansportalen.no – better information for consumers. A basis for deciding further development*"



produced by a working group drawing participants from the three partners.

The Government followed up the initiative by proposing an appropriation totalling NOK 6 million over the government budget for 2007 to enable work to start on such a portal, with NOK 4 million to the Finance Ministry's budget and NOK 2 million to the budget of the Ministry of Children and Equality. The latter ministry concurrently circulated the proposal to relevant bodies for comment, setting the reply deadline at 1 December 2006. In its submission Kredittilsynet expressed the view that the portal should

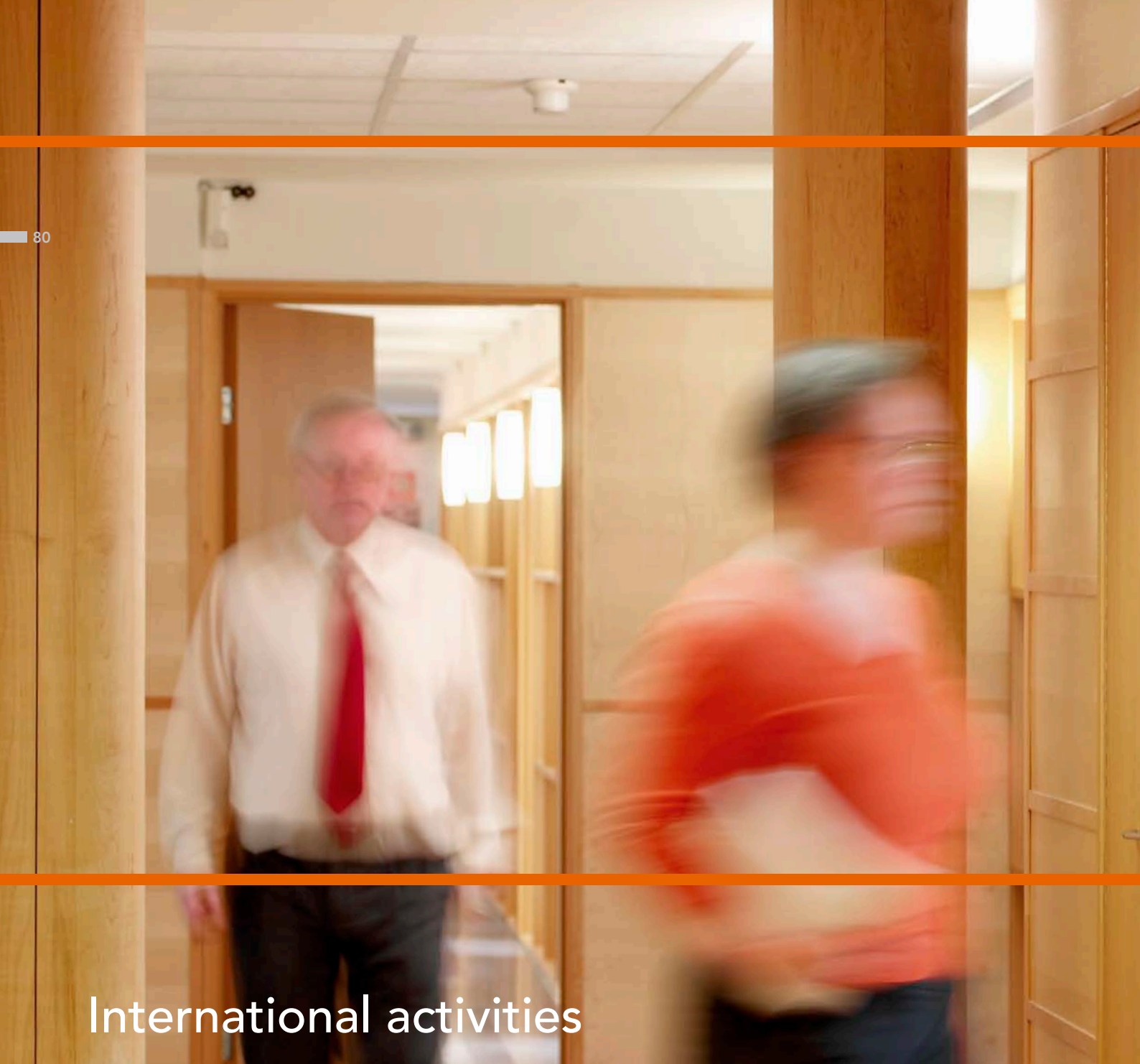
be an independent legal entity, organised for example as a foundation or limited company. To achieve a well functioning organisation the agency also recommended that the operation should be co-located with one of the trade organisations. Kredittilsynet broadly supported the proposal for a working group as presented in the report. This entails that the portal should contain bank, insurance and savings/ investment products, and that it should contain both structured data (prices etc.) for comparison purposes and editorial material / neutral information on products and services. Kredittilsynet expressed its willingness to contribute to the establishment of the financial portal, especially at start-up.

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## Appeal processing – Register of Company Accounts in Brønnøysund

Kredittilsynet is the appeal body for decisions given by the Register of Company Accounts on applications for remission of penalties imposed for late filing of annual accounts, annual reports and audit reports to the Register of Company Accounts. 258 appeals were processed in 2006 compared with 472 in 2005. Processing of appeals against penalties imposed in 2006 continues in 2007. Kredittilsynet completely or partly waived the late filing penalty in 43 cases, i.e. in 16.7 per cent of cases compared with 35 per cent in 2005.

The obligation to file with the Register of Company Accounts was extended to include all enterprises with an accounting obligation. For the accounting year 2005 late filing penalties were confined to private limited companies, public limited companies, mutual insurance companies and savings banks. According to the Register of Company Accounts, penalties will also be imposed on other entities as from the accounting year 2006, thereby ensuring that all entities with a filing obligation that disregard the deadline will be penalised as from the accounting year 2007. Stricter enforcement of the filing deadline is expected to bring an increase in appeals to Kredittilsynet.



## International activities

Kredittilsynet's activities are greatly influenced by international regulatory developments. 2006 saw a particular focus on the new capital adequacy rules from Basel and the EU, the development of new solvency standards for insurance and the establishment of new committees for the regulation and supervision of auditors. The European Commission has presented its strategy for the development of the European financial market over the next five years, and Kredittilsynet has taken this on board in its own strategy process for the years ahead. Hence participating in international cooperation and in cross-border coordination of supervisory methods and standards remains important for Kredittilsynet.

## Growing number of integrated supervisory authorities

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 2006 both Slovakia and the Czech Republic merged their respective financial supervisory authorities into a single body. Poland began its integration process by merging the supervision of insurance, pensions, stock exchanges and the securities market in a single body, the Polish Financial Supervision Authority, which will also assume responsibility for banking supervision as from 2008. Switzerland is also approaching the final stage of integration of its supervisory bodies in the financial sector.

Since 1999 a number of supervisory authorities with an integrated approach to supervision have met informally each year to discuss administrative and technical matters of common interest. In 2006 the Integrated Financial Supervisors Conference was hosted by Hungary's Financial Supervisory Authority. Topics discussed included market developments, quality management, informal authority and instruments and supervisory responsibilities over and above those required by law. The conference was attended by top-level representative of supervisory authorities from 16 countries<sup>1</sup>.

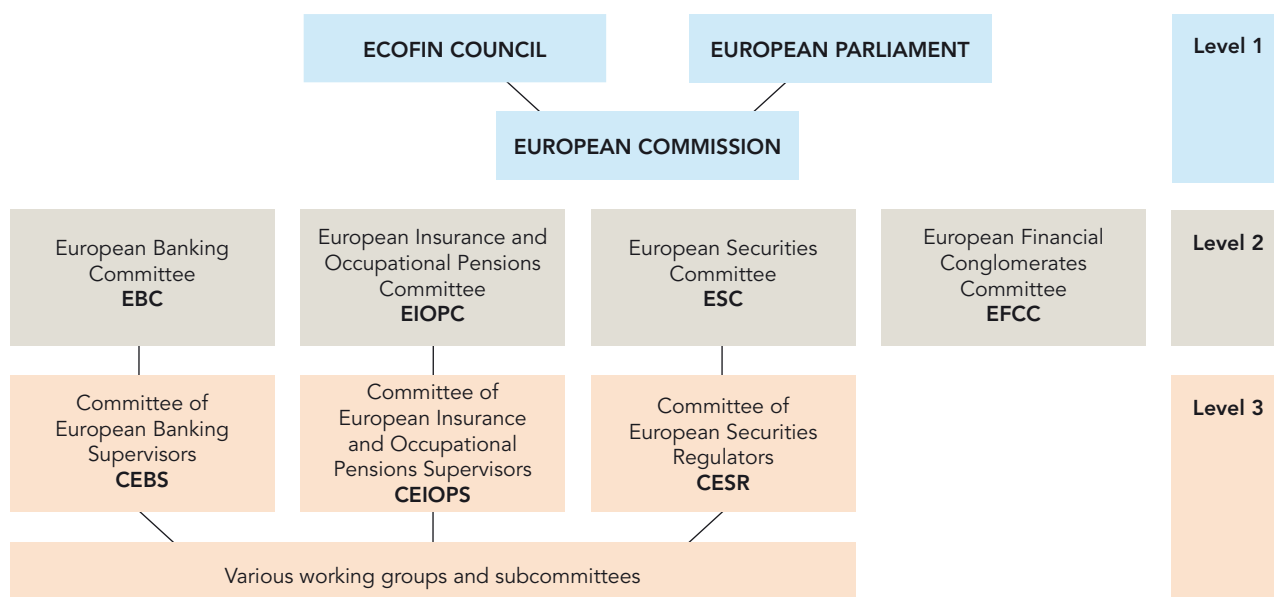
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## Cooperation within the EU/EEA – committee structure

The EEA Agreement sets crucial premises for Norwegian laws and regulations and hence for developments in the areas to which the Agreement applies. In the financial sector Norway is obliged to transpose all adopted EU legislation into Norwegian law. While EU acts give some leeway for interpretation, relevant legislation has to be transposed into Norwegian law with little scope for national adjustments. Once a proposal is submitted to the Council of Ministers and the European Parliament, Norway has little

opportunity to influence the discussions and the decisions made under the co-decision procedure, since only EU members have access to the Council's and Parliament's decision-making processes. Hence it is all the more important for Norway to attend meetings under the European Commission, and Kredittilsynet prioritises participation in the supervisory committees and the Commission working groups since this is where Kredittilsynet has the best opportunity to influence the regulatory development.

Chart 7: EU financial architecture – bodies and committees



<sup>1</sup> The supervisory authorities of Australia, Austria, Belgium, Canada, Denmark, Germany, Hungary, Iceland, Ireland, Japan, Korea, the Netherlands, Norway, Singapore, Sweden and the United Kingdom participated in the conference.



The Ministry of Finance attends meetings of the level 2 bodies – the European Securities Committee (ESC), European Banking Committee (EBC) and European Insurance and Occupational Pensions Committee (EIOPC). Kredittilsynet attended the EBC and the EIOPC meetings and one ESC meeting in 2006 as adviser to the Ministry of Finance.

Kredittilsynet attends meetings of the Level 3 supervisory committees and most of their subcommittees and working groups. 2006

saw the establishment of an informal cross-sectoral committee, the Interim Working Committee on Financial Conglomerates (IWCFC), drawing members from the three supervisory committees. IWCFC coordinates matters of common interest, particularly issues related to financial conglomerates. All three committees attach importance to openness in their working methods, and publish consultation papers on their respective web sites. Consultative panels have also been established.

## Securities market

Kredittilsynet is a member of the International Organization of Securities Commissions (IOSCO) which held its 2006 annual meeting in Hong Kong. Under IOSCO Kredittilsynet is a member of the European Regional Committee which meets twice yearly. Kredittilsynet also participates in a working group under the Technical Committee which deals with enforcement of IOSCO resolutions and collaborates on issues related to surveillance, enquiries, investigation and prosecution of criminal offences. Under a Multilateral Memorandum of Understanding (MMoU) on cross-border cooperation and information sharing drawn up by IOSCO, supervisors must apply for accession to the MMoU by completing a comprehensive questionnaire. There are currently 30 signatories. Kredittilsynet applied for accession in 2005, and received approval in 2006.

Kredittilsynet hosted the 2006 annual meeting of the Enlarged Contact Group for Supervisors of Collective Investment Funds (ECG) which meets once a year. ECG draws participants from

international supervisors of collective investment schemes for the purpose of exchanging views and information.

At EU/EEA level Kredittilsynet attends meetings of the Committee of European Securities Regulators (CESR). CESR acts as an advisory committee to the ESC and the European Commission, and works for consistent implementation of community law in member countries. Kredittilsynet plays an active part in CESR working groups. Several legislative acts were adopted by the Commission under the Lamfalussy procedures in 2006.

In the course of the year Kredittilsynet attended a number of meetings on implementation of the Directive on Markets in Financial Instruments (MiFID) and the transparency directives. CESR is currently drafting level 2 regulations and seeking a common understanding and application of level 1 and 2 directives and regulations.

## Banks and financial institutions

No true global forum on a par with IOSCO and IAIS exists for banking supervision. The Basel Committee on Banking Supervision under the Bank for International Settlements (BIS) coordinates global cooperation in this field<sup>2</sup>. Kredittilsynet receives relevant documents from the Committee and is invited to comment on them, and to take part in some of the Committee's activities. The new capital adequacy rules adopted by the Basel Committee in 2004 (Basel II) were implemented in the EU/EEA in 2006 as a result of new directives (see *Banking and finance*, page 38–39). Every second year the Basel Committee organises an international conference

for banking supervisors (International Conference of Banking Supervisors – ICBS). The 2006 conference was held in Mexico.

Kredittilsynet attended all meetings of the Committee of European Banking Supervisors (CEBS) in 2006. CEBS has set up several working groups focusing on, among other issues, implementation of the new capital adequacy framework. One such group is looking into the merits of coordinating supervisors' procedures and routines for publishing information related to capital adequacy. Kredittilsynet attends meetings of Groupe de Contact (the main working group

<sup>2</sup> The Basel Committee comprises representatives from the banking supervision authorities and central banks in the following countries: Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States.

under CEBS) and of a number of other CEBS subgroups. Within this forum, banking supervisors exchange information on a number of supervisory issues and gain an overview of supervisory methods in member countries. Groupe de Contact has also set up further working groups, and delivered several reports to CEBS in 2006 with particular emphasis on the supervisory processes to be applied to follow up on the new capital adequacy regime. In 2006 CEBS delivered technical advice to the European Commission on large exposures, on definition of own funds and on commodities derivatives. See also CEBS' website, [www.c-ebs.org](http://www.c-ebs.org).

### **Cooperation on financial stability and macro-economic surveillance**

Developments in financial markets have led to closer international collaboration on financial stability and macroeconomic surveillance. Kredittilsynet and Norges Bank attend contact meetings with the European Central Bank (ECB). Kredittilsynet has also attended meetings of a working group under ECB auspices focusing on crisis management. In 2006 Kredittilsynet was invited to attend meetings under the auspices of the ECB's Banking Supervision Committee

together with Norges Bank. Kredittilsynet also sends a representative to meetings of the UN-coordinated Project Link, a macroeconomic analysis centre. Kredittilsynet is not a member of the Financial Stability Forum or Joint Forum, but keeps abreast of the work done under the auspices of these forums, particularly through its participation in the European supervisory committees.

### **High-level meetings on financial stability**

The International Monetary Fund (IMF) reviewed Norway's financial sector by way of its Financial Sector Assessment Program (FSAP) in 2004–2005 (see Kredittilsynet's annual report 2005, page 67). The review was in general positive, although the IMF recommended some measures aimed at strengthening the financial system. As a follow up to this, a regime of regular tripartite meetings was formally established between the Ministry of Finance, Norges Bank and Kredittilsynet. The ministry presides over the meetings which are held twice yearly. The meetings are of an overarching nature, addressing among other things the outlook for financial stability and coordination of crisis preparedness. The first such meeting was held in autumn 2006.

## **Insurance and pensions**

Kredittilsynet participates in the development of international principles for supervision of insurance business by virtue of its membership of the International Association of Insurance Supervisors (IAIS). Kredittilsynet is represented on several IAIS subcommittees in addition to the technical committee, which has overarching responsibility for standard setting.

The IAIS held its thirteenth annual conference in Beijing in October 2006 (see [www.iaisweb.org](http://www.iaisweb.org)). Themes presented at the conference included an assessment of insurers' solvency, cross-border supervision of insurance business, supervision of conglomerates, financial reporting, corporate governance, international accounting standards, insurers' role in national pension systems, natural disaster insurance etc.

Several reports were presented, and guidelines and standards adopted, at the General Meeting of the IAIS, among them standards and guidelines on life insurers' reporting of technical risk and results, insurance fraud and finite reinsurance. One issue paper was presented, and a standard adopted, on asset-liability management (ALM). Other issue papers addressed the regulation and supervision of captive insurance companies. It was also agreed to draw up a Multilateral Memorandum of Understanding (MMoU) along the lines of IOSCO's MMoU.

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

Supervisors (CEIOPS), and also participates in CEIOPS working groups and committees. The bulk of CEIOPS' work consists in preparing advice to the European Commission on the reform of EU solvency rules (the Solvency II project), and in 2006 CEIOPS gave detailed advice to the Commission on several issues. See *Insurance and pensions*, page 44, and CEIOPS' website at [www.ceiops.org](http://www.ceiops.org).

### **Cooperation agreement between European and US insurance supervisors**

Based on a mandate from the European Commission and CEIOPS, Kredittilsynet has participated in negotiating a standard cooperation agreement between European and US insurance supervisors to set the stage for supervision of insurance groups operating on both sides of the Atlantic. An agreement on exchange of supervisory information was needed to meet the requirements of the EU Insurance Groups Directive.

### **International cooperation on pension supervision**

In 2004 the OECD initiated the setting up of a new international body, the International Organisation of Pension Supervisors (IOPS). The OECD secretariat acts as secretariat to the IOPS, of which Kredittilsynet is a member.



## Auditing

The increasing importance attached to auditors' role, and the international significance of new US and EU rules, have increased the need for cross-border cooperation and information exchange between audit regulators. It was decided at an informal meeting of audit regulators in September 2006 to establish the International Forum of Independent Audit Regulators (IFIAR), whose first meeting is scheduled for March 2007. Kredittilsynet is a member of IFIAR. The forum provides a focus for contacts between audit regulators and promotes the sharing of knowledge on the audit market environment, practical experience of independent audit regulatory and supervisory activity, etc.

Given the fact that Norwegian audit firms involved in the audit of companies listed in the US must be registered with the Public Company Accounting Oversight Board (PCAOB), Kredittilsynet held talks with the PCAOB in 2006 on possible supervisory cooperation, and visited the PCAOB in August with this in mind.

In autumn 2005 Kredittilsynet initiated a meeting in Oslo between the audit supervisory authorities of Sweden, Denmark, Finland and Norway. This was followed by meetings in Copenhagen and Stockholm in 2006 which showed that closer contact and cooperation is also useful in the audit area, as elsewhere, not least in order to discuss issues associated with transposing the 8th Company Law Directive (statutory audit) into national law.

Based on provisions in the directive, the European Commission has set up two new committees: the Audit Regulatory Committee (AuRC) and the European Group of Auditors' Oversight Bodies (EGAOB). Kredittilsynet attends meetings of both these committees and other relevant subgroups as an observer.

## Accounting

Kredittilsynet and the Ministry of Finance attend the meetings of the Accounting Regulatory Committee (ARC) which is assessing the new International Financial Reporting Standards (IFRS) and advising on their implementation in the EU. Kredittilsynet participates in the EU's development of accounting rules and standards for auditors in the EEA area. It also participates actively in European Enforcers Coordination Sessions (EECS) under CESR, whose aim

is to promote consistent and harmonised enforcement of IFRS in the EEA. All concluded cases are assigned to a common database to ensure that the information is available to accounting and securities supervisors, and to promote harmonisation. The group also has regular meetings with IASB and IFRIC – the standard setter and the interpretations body, respectively – to ensure that IFRS standards are consistently applied in the EEA.

## Combating money laundering and terrorist financing

Kredittilsynet plays a 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 standards for measures to combat money laundering and terrorist financing. Kredittilsynet participates in the FATF Terrorist Financing Working Group and collaborates with the United Nations in this field. Kredittilsynet also plays an active part in other international meetings and seminars on measures against money laundering and terrorist financing, and was involved in the evaluation of Iceland under FATF auspices.

At the EU level a new committee has been established under the third

money laundering directive, the Committee on the Prevention of Money Laundering and Terror Financing (CPMLTF), which replaces the previous Contact Committee on Money Laundering. Kredittilsynet participates in this committee. In addition, a task force has been set up under the auspices of the supervisory committees CEBS, CESR and CEIOPS to coordinate these committees' work on anti-money laundering measures.

### Attendance at OECD meetings

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

## EFTA cooperation

Kredittilsynet participates in EFTA's Working Group on Financial Services and 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 meet three or four times each year, and are also useful forums for obtaining updates on legislative developments in the

EU. European Commission representatives are invited to each meeting to give presentations on a variety of measures and to give updates on the decision-making process in the European Council and the European Parliament. Each year EFTA's Working Group on Financial Services organises a seminar in conjunction with one of the working group meetings, offering the opportunity to enlarge on a particular theme. In 2006 the Swiss authorities hosted a full-day seminar on reinsurance in conjunction with a working group meeting.

## Nordic cooperation

Nordic cooperation remains a high priority despite the increasing cooperation both within the EU and EEA framework and on the global level. Kredittilsynet has concluded common cooperation agreements with its Nordic counterparts at an overarching level, along with individual cooperation agreements on the supervision of specific financial groups. In addition to annual meetings of

Nordic financial supervisors at director general level, annual meetings are held at department level within the various sectors along with administration and ICT. Kredittilsynet's representatives attended several meetings with their Nordic counterparts focusing on supervision of Nordic financial groups, and several joint inspections were carried out at such groups.

## Bilateral cooperation and visits from abroad

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. Whereas multilateral MoUs at the EU/EEA or global level underlie international supervisory cooperation in the field of securities and insurance, bilateral MoUs are the solution chosen for supervision of the banking sector. Kredittilsynet has established several bilateral MoUs on banking sector supervision with a number of European supervisors. In 2006 a bilateral MoU was established with the Russian banking supervisor in connection with DnB NOR's acquisition of Monchebank. A further MoU was established in 2006 with the Chinese securities supervisor to help the Government Pension Fund – Global gain entry to the Chinese securities market. A delegation from China visited Kredittilsynet for the signing of the MoU.

**Chart 8: International meetings attended by Kredittilsynet**





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

**Cross-sectoral meetings**

- Integrated Financial Supervisors Conference
- EFCC (European Financial Conglomerates Committee – Level 2)
- IWCFC (Interim Working Committee on Financial Conglomerates – Level 3)

**Banking/Finance**

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

**Insurance**

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

**Securities**

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

**Accounting and auditing**

- IFIAR (International Forum of Independent Audit Regulators) – established in 2006
- ARC (Accounting Regulatory Committee)
- Accounting Contact Committee
- AuRC (Audit Regulatory Committee) – established in 2006
- EGAOB (European Group of Auditors' Oversight Bodies) – established in 2006
- Nordic meetings

**Money laundering and terrorist financing**

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

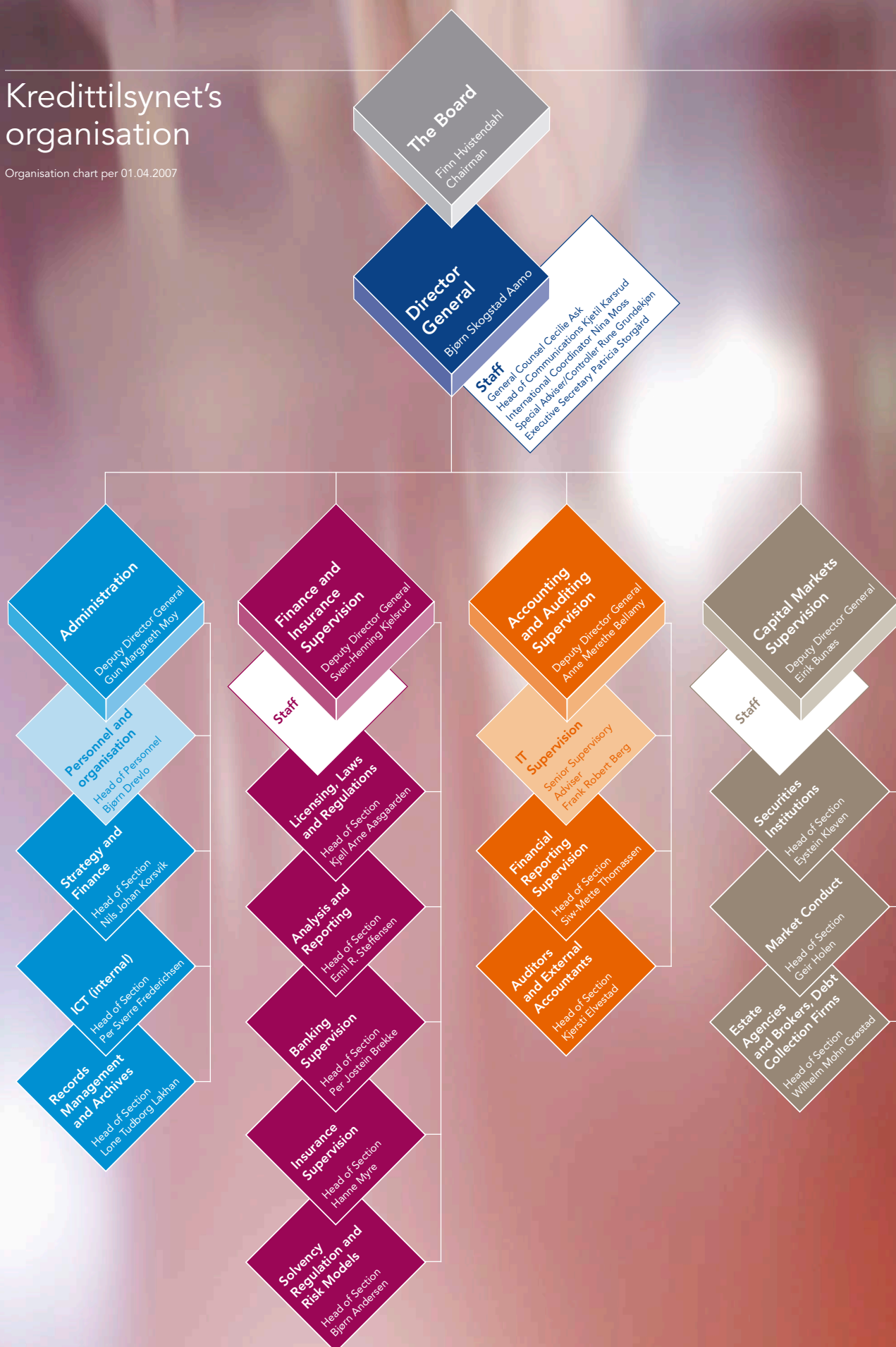
**EFTA**

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



# Kredittilsynet's organisation

Organisation chart per 01.04.2007



## The Financial Market in Norway 2006: 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.

### Kredittilsynet

The Financial Supervisory Authority of Norway  
Østensjøveien 43  
P.O. Box 100 Bryn  
NO-0611 Oslo

Tel. +47 22 93 98 00  
Fax +47 22 63 02 26  
[post@kredittilsynet.no](mailto:post@kredittilsynet.no)  
[www.kredittilsynet.no](http://www.kredittilsynet.no)