



FINANSTILSYNET

THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

Strategy:

STRATEGY FINANSTILSYNET 2023-2026

Finanstilsynet's Board of Directors adopted the authority's new strategy for the period 2023-2026 on 31 January 2023.



STRATEGY 2023–2026

20 December 2022

FOREWORD

Every four years Finanstilsynet reviews the strategy underlying its activities. The strategy formulates goals and provides direction for ongoing prioritisation and management of Finanstilsynet's activities, including the priorities assigned in the annual activity plans.

Finanstilsynet's area of responsibility is broad and covers various functions in society. The responsibilities are set out in the Financial Supervision Act and in provisions of special legislation in the various supervised sectors. Much of the legislation is based on comprehensive EEA legislation. The legislation and the participation in the European supervisory cooperation require substantial resources on Finanstilsynet's part. Existing tasks are increasing in scope, and new types of activities become subject to licensing and supervision requirements.

Finanstilsynet is met with high expectations in most supervised sectors. Individually, these expectations may be well justified, but overall, they are not possible to meet within realistic limits. This is the case even though Finanstilsynet will continue to streamline and refine its activities in the years ahead through digitalisation and in other ways.

During the 2019–2022 strategy period, financial markets and Finanstilsynet's activities were affected by crises and developments that had not been identified when the strategy was drawn up. The Covid-19 pandemic and the way it was handled had major consequences, both for the financial markets and for Finanstilsynet's activities. In the more recent period, the war in Ukraine and other geopolitical tensions, as well as rising inflation and a sharp rise in interest rates, have weighed on the markets. Considerable uncertainty attends developments in the financial markets and the real economy in the coming period.

In the strategy for 2019–2022, it was emphasised that Finanstilsynet must be able to handle unexpected events and trends. The goals and priorities set out in the strategy have provided Finanstilsynet with a good framework for prioritising and managing its operations during crises and sudden market shifts.

In its work on the strategy, Finanstilsynet assessed key trends and potential changes in the statutory framework, risk factors, products and behavioural patterns. Views were obtained from relevant trade organisations. In addition, strategic assessments and plans from the European Supervisory Authorities and national supervisory authorities in other countries were reviewed.

The financial markets and regulations have changed since Finanstilsynet's strategy was adopted four years ago, and new tasks and challenges have been identified. Nevertheless, no changes have occurred and no experience has been gained that would call for a significant restructuring of Finanstilsynet's activities. The goals for Finanstilsynet's operations have been upheld, and the main priorities have largely been maintained.

Finn Arnesen

Board Chair

Morten Baltzersen

Director General

1. STATUTORY FRAMEWORK AND REQUIREMENTS MADE OF FINANSTILSYNET

Finanstilsynet's operations are regulated by the Financial Supervision Act. The Act is under review by a committee with a deadline of 1 March 2023. The revised Financial Supervision Act may have consequences for Finanstilsynet's areas of responsibility and the scope and structure of its supervisory activities.

In addition to the Financial Supervision Act, specific supervisory tasks follow from the Financial Institutions Act and other legislation specific to the various supervised sectors. The sector legislation is largely based on EEA legislation. Through the EEA Agreement, Finanstilsynet participates in the European supervisory cooperation that aims to harmonise supervisory practices within the EEA. The European supervisory authorities for banking, insurance and securities supervision, respectively, set common supervisory standards that form the basis for Finanstilsynet's activities.

The Ministry of Finance has issued main instructions for Finanstilsynet with general requirements relating to its activities.

The financial framework for Finanstilsynet is determined in the National Budget, and expenses are subsequently apportioned on the supervised institutions. Based on the apportionment decision made by the Storting (Norwegian parliament), the Ministry of Finance sets out more detailed requirements for operations in its annual letter of allocation, including which tasks are to be given special priority during the year. In addition to the tasks specified in the letter of allocation, Finanstilsynet also receives other assignments from the Ministry of Finance, for example related to regulatory development and investigations. The assignments are often extensive and may require changes in priorities during the year.

Finanstilsynet documents its activities, and how they contribute to fulfilling its main goal, in its annual report, interim reports and individual reports to the Ministry of Finance. In addition, its activities are documented by publishing annual overviews of activities targeting the various supervised sectors, inspection reports, risk assessments and analyses, etc.

Finanstilsynet is often assigned new tasks related to the management of regulations of increasing complexity and scope. It is then important and necessary to ensure that there are sufficient available resources for Finanstilsynet's core task, which is supervision. Finanstilsynet must therefore be cautious not to assume roles related to the development of new products or services that are not necessary to comply with statutory requirements or international obligations. Nor can Finanstilsynet take a leading role in addressing other, broader social challenges that fall outside its main area of responsibility.

In order to fulfil its main goal, Finanstilsynet needs to have well-functioning and efficient operations and competent employees.

A strong professional environment is characterised by a high level of competence, commitment and knowledge sharing. Finanstilsynet aspires to be an attractive employer and will make sure to have the necessary professional expertise by actively recruiting employees and facilitating competence development. Finanstilsynet has adopted a separate strategy for

this. Finanstilsynet must take expected changes in work tasks and working methods into account both in its ongoing skill building activities and in its recruitment of new employees. These changes may also require adjustments to the organisation.

Digitalisation is crucial to the streamlining of operations, for example to refine work processes and supervisory methods. Good digital solutions and work tools are also necessary to retain Finanstilsynet's position as an attractive employer. Finanstilsynet shall facilitate the development of employees' digital competence. The digitalisation process will take place in accordance with Finanstilsynet's digitalisation strategy and the digitalisation mandate from the Ministry of Finance.

In order to share knowledge about its role in society and ensure public confidence in Finanstilsynet, it is necessary to be open about its assessments, supervisory practices, data and decisions. Communication shall be clear and adapted to the various target groups' prerequisites and needs. Finanstilsynet's communication shall be consistent and reliable and be consistent with its adopted communication strategy.

2. FINANSTILSYNET'S STRATEGIC GOALS

Finanstilsynet has established a main goal for its activities. Based on the main goal, six operational goals have been formulated as a basis for planning and evaluating activities. The main goal and the operational goals are the same as those used by the Ministry of Finance in budget propositions and allocation letters.

Main goal:

Finanstilsynet will promote financial stability and well-functioning markets

Financial stability and well-functioning markets are necessary to ensure confidence in the financial system, stable economic development and protection of consumers and other users of financial services.

Financial stability implies that the financial system can manage disturbances and unexpected shocks while performing its functions so that there are no major, negative consequences for the rest of the economy. Well-functioning markets contribute to effective allocation and pricing of capital and risk.

There is a clear connection between financial stability and well-functioning markets. In the absence of financial stability, the markets cannot distribute capital and risk effectively. If capital is not distributed effectively, and risk is incorrectly priced, the outcome may be financial instability.

The operational goals are closely interrelated and are largely overlapping for many supervisory activities. For example, Finanstilsynet's efforts to promote financially sound and well-capitalised financial institutions, a robust infrastructure, investor protection and effective crisis management play an important part in safeguarding consumer interests.

Consumer protection has nevertheless been formulated as a separate operational goal in order to highlight activities that directly target consumers' purchases of financial services and products.

Finanstilsynet shall contribute to effectively safeguarding the interests of customers in supervised institutions and markets. The 'customer' term may encompass more than consumers and professionals, as defined in sector legislation in various areas. For example, most small businesses use an authorised external accountant to handle their obligations under the Bookkeeping Act and the Accounting Act. The operational goal 'consumer protection' therefore covers customer protection in a broader sense.

Finanstilsynet shall aim to ensure the highest possible overall achievement of its operational goals. However, the achievement of the individual operational goals will also depend on decisions taken by other authorities and on matters over which Finanstilsynet has no or limited influence.

Operational goals:

1. Financially sound and well-capitalised financial institutions

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

2. Robust infrastructure

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

3. Investor protection

Reliable and adequate information is needed to ensure that the securities markets contribute to effective allocation and pricing of capital. Finanstilsynet helps ensure that current and periodic information from listed companies is correct and timely, and that the companies' prospectuses are designed in keeping with relevant requirements. The supervision of auditors and external accountants supplements and supports this. Through its supervision of investment firms and fund managers, coupled with effective and swift

enforcement of codes of conduct in the securities market, Finanstilsynet contributes to market discipline and the safeguarding of investors' and issuers' interests.

4. Consumer protection

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

5. Effective crisis management

Preparedness to deal with critical situations is important in ensuring confidence in the financial system. Finanstilsynet is prepared to deal with crises in both individual institutions and markets in order to mitigate the risk of the crisis having wide-reaching, long-lasting harmful effects for the financial sector and customers. By overseeing that banks and investment firms prepare recovery plans and by drawing up resolution plans Finanstilsynet helps ensure that critical situations are handled in a satisfactory manner. The ability to quickly provide relevant information to the general public is also a key element of crisis preparedness.

6. Fight against crime

It is up to the financial sector to prevent the exploitation of financial institutions and other market players for criminal purposes. Finanstilsynet oversees that the institutions comply with the obligations set out in the anti-money laundering and counter-terrorist financing legislation. Both activities carried out without the necessary licence and illegal activities in supervised institutions undermine confidence in the financial markets and also represent unfair competition for institutions operating in compliance with the regulations. Supervisory efforts aim to prevent illegal activities, and offences uncovered in supervised institutions are followed up. Suspicion of serious financial crime is reported to the police. Auditors and external accountants have important control functions that prevent and uncover financial crime. Finanstilsynet's supervision of auditors and external accountant helps ensure that they fulfil their control and reporting obligations.

3. MAIN TRENDS AND CHALLENGES

Economy and markets

At the start of the strategy period, the economies of Norway and several other countries are characterised by high levels of activity and few available resources. However, the economic outlook is highly uncertain. Supply chain disruptions, partly as a result of the Covid-19 pandemic and the war in Ukraine, have dampened growth prospects and contributed to a sharp rise in global inflation. Central banks in several countries have raised their policy rates considerably and announced further rate hikes. In addition, central banks are tightening monetary policy by scaling back their bond holdings. Prospects of weaker economic growth combined with persistently high inflation have raised fears of stagflation. In the event of stagflation, fiscal and monetary policy authorities will have very limited opportunities to counteract an economic downturn by stimulating demand for goods and services.

The global economy is facing major challenges. Geopolitical turmoil poses a considerable risk to developments in the real economy and the financial markets in the period ahead. The Russian attack on Ukraine in late February 2022 was a dramatic turn in history. The acts of war and the economic sanctions and other restrictions on economic cooperation resulting from the war could have far-reaching economic and financial consequences.

Over a number of years, there has been a strong increase in the debt of households and non-financial corporations in many countries. It takes time to reduce debt, and the high debt burden will have an impact on the financial position of households and firms in the years ahead. Experience from previous financial crises has shown that high debt amplifies the effects of negative events and is a major source of financial instability.

In many countries, sovereign debt has also increased considerably in recent years, partly as a result of support measures implemented during the pandemic. High sovereign debt makes the economies vulnerable to rising interest rates on such debt and reduces fiscal space.

High debt in Norwegian households and elevated property prices represent the key vulnerabilities in the Norwegian financial system. Households' debt burden is high both in historical terms and compared with other countries. Ample access to credit and strong household credit demand have contributed to a sharp rise in house prices. Almost all of the household debt carries floating interest rates or has a short fixed-rate period. There has been a further increase in the proportion of households with a high debt burden in recent years. These are vulnerable to declining incomes, rising lending rates and falling house prices. If a large number of households are also required to reduce their consumption, it could have major ripple effects in the economy and the financial system.

The coming years may be characterised by major macroeconomic challenges, geopolitical unrest and risks related to new technology, climate issues, sustainability, etc. The risk picture underpins the need for macroprudential supervision, strong crisis preparedness and the ability to handle unforeseen events in individual institutions, the infrastructure and the markets.

EU/EEA regulation

Pan-European financial legislation is under continuous development to reflect changes in the market and to promote European integration. The legislation is increasingly based on full harmonisation and has a high degree of detail. In a number of areas, the legislation allows national authorities to lay down stricter rules for managing risks in the economy, markets and firms. Norway has availed itself of this scope for national discretion.

An important objective of the European supervisory cooperation is to identify risks in firms and markets. The supervisory cooperation enables the authorities to coordinate measures to handle risks and crises in the market or in individual institutions. In recent years, the European Supervisory Authorities have increased their efforts to promote more harmonised supervisory practices in the EEA, for example through joint supervisory activities.

The European Securities and Markets Authority (ESMA) directly supervises rating agencies, trade repositories, securitisation repositories, administrators of specified benchmarks, certain data reporting service providers and third-country central counterparties. Only the regulation of credit rating agencies and trade repositories has been incorporated into the EEA Agreement and implemented in Norwegian law. The EU is considering whether more areas should be subject to supranational supervision. Among other things, it has been proposed that external providers of classification services to issuers of green bonds should be subject to direct supervision by ESMA, and that certain crypto-assets should be subject to direct supervision by the European Banking Authority (EBA). Efforts are also being made to organise supranational supervision of critical ICT service providers, one of the objectives being to monitor concentration risk. It is not clear to which of the European supervisory authorities these responsibilities will be assigned. A special resolution authority (Single Resolution Body - SRB) has been established for the eurozone banks under direct supervision by the ECB. The SRB chairs the resolution colleges for these banks, including banks with operations in Norway. In addition, it has been proposed to establish a new EU anti-money laundering authority (AMLA).

Increasing internationalisation through foreign ownership of supervised institutions and more cross-border activity have an impact on the operations of Norwegian supervised institutions and the structure of the Norwegian financial market. It also results in changes in Finanstilsynet's supervisory tasks and intervention options.

The legislation entails extensive reporting of financial information from most of the supervised sectors. It is resource-demanding to put in place systems to receive the reports and to review and assess the quality of the reporting. A common European reporting system has been proposed, to which all information that market participants are legally obliged to prepare can be sent.

The EEA obligations place considerable demands on Finanstilsynet's follow-up and give Finanstilsynet less room for manoeuvre in its day-to-day supervisory activities. Comprehensive new requirements to be met by institutions and supervisory authorities require strict prioritisation to ensure targeted and risk-based supervision.

Digitalisation

Financial institutions have long been adopting new technology and developed digital customer solutions. The institutions' activities are also affected by the arrival of new market players and providers of products and services.

Strong dependence on digital solutions makes financial services vulnerable to cyberattacks and other serious information security incidents. Cyberattacks are a threat both to individual institutions and their customers and to markets. Such attacks may also threaten financial stability. The EU's proposed new regulatory framework on digital operational resilience regulates, among other things, institutions' cyber risk management. The financial sector is putting considerable effort into strengthening its ability to withstand attacks and other cyber risks. Finanstilsynet cooperates with other Norwegian authorities and plays a role in testing, coordinating and preventing cyber incidents in the Norwegian financial sector.

Increasing outsourcing of operations has been registered, which includes the use of cloud services. The turbulent geopolitical situation affects the risk associated with outsourcing, and the basis for institutions' risk assessments may change rapidly. It is therefore increasingly important that institutions make sure to be able to implement alternative solutions. When several supervised entities use the same provider of ICT services, outsourcing also entails concentration risk.

Providers of exchange and custodial services for virtual currencies are obliged to notify Finanstilsynet and are subject to the AML legislation. The EU has proposed a pan-European framework to ensure due process protection and regulate the emergence of various assets that currently fall outside the existing regulations. For example, service providers and issuers of crypto assets that currently fall outside the regulatory framework will be subject to authorisation and supervision requirements. Risks associated with the emergence of crypto assets are also discussed in other international forums, such as the Financial Action Task Force (FATF) and the International Monetary Fund (IMF). The IMF has pointed out that digital vulnerabilities and developments within decentralised finance may pose a risk to financial stability.

Climate and sustainability

Climate change and other environmental, social and governance factors (so-called ESG factors) have been high on the political agenda in recent years, both internationally and in Norway. Firms are increasingly assessed on the basis of such criteria, and financial market regulation is intended to help ensure that market players take sustainability risk into account in their business strategies and ongoing operations.

The EU's political ambitions for Europe to become a climate-neutral continent by 2050 are followed up through an ambitious political action plan ('Green Deal') involving measures in virtually all areas of society. In the financial area, the stated goal is to transfer capital into more sustainable investments, manage climate and other sustainability risks, and promote openness and transparency. In recent years, a number of comprehensive EU rules and regulations in the financial area have been adopted to support these political goals. A significant number of these rules and regulations are expected to be implemented in Norway

shortly. Norway has also adopted climate policy targets that will have a strong bearing on both markets and supervised institutions.

Sustainability risk will affect a number of risk areas in supervised institutions, and climate-related risk will be a key factor in the financial markets in the coming years. Financial institutions are exposed to heightened risk of losses related to insurance policies, loans, investments and operational events. Higher losses could have consequences for large parts of the industry and may pose a threat to financial stability.

The European Supervisory Authorities are in the process of drawing up guidelines for how financial institutions and supervisory authorities should include sustainability risk in their risk management and assessments of capital needs. International efforts have been initiated to develop methods for identifying sustainability risk. Among other things, emphasis is placed on developing relevant climate scenarios for use by financial institutions and supervisory authorities in scenario analyses and stress tests. The EU and the European Supervisory Authorities are currently considering adjustments to the solvency framework for banks and insurers to take account of climate-related risk and promote the transition to a low-carbon society.

Relevant information on climate effects and climate risk associated with an institution's current operations and business strategies is a prerequisite for ensuring sound and informed purchase and investment decisions. An important purpose of developing regulations on sustainability in the EU is thus to prevent products or businesses from appearing more sustainable than they really are, so-called greenwashing. On account of new regulations, the information requirements to be met by Norwegian institutions are in the process of becoming much stricter. Strong growth in the market for green investment products means that it will receive much attention in the future.

Pensions

A key feature of the pension market is that defined-contribution pension schemes have largely replaced defined-benefit schemes in the private sector. Strong growth is expected in defined-contribution pension funds under management in the years ahead. The transition from guaranteed products to unit-linked products and time-limited benefits entails stricter requirements for information and advice to enable customers to make informed choices.

Although the share of defined-contribution pensions is growing, the bulk of liabilities still represent contracts providing an annual guaranteed rate of return that is difficult to fulfil in a low interest rate environment.

For a number of years, solvency challenges related to paid-up policies have been a key concern when following up life insurers. Through retained profits and other adjustments to their operations, life insurers have succeeded in meeting new pan-European capital requirements. Pension funds have also handled the transition to the new capital requirement in spite of a substantial increase in paid-up policies on pension funds' balance sheets.

Interest rates have risen in the recent period. This could make it more attractive for new or existing entities to players to manage paid-up policies. However, it must be taken into account that the increase in interest rates may be short-lived and that interest rates may decline in the longer term and approach the low level observed in recent years. If interest rates and inflation remain relatively high over a protracted period, there will be increased focus on customer protection, especially with respect to paid-up policies where a limited upward adjustment reduces the value of the pension over time.

4. PRIORITISATION OF SUPERVISED SECTORS

Finanstilsynet will maintain an acceptable level of activity in all supervised sectors. Within the limits thus set, the trends and challenges described in chapter 3 indicate that Finanstilsynet should give particular priority to the following during the strategy period:

- macroprudential supervision
- prudential supervision of financial institutions
- supervision of the distribution of loans, pension and mutual fund products and other financial instruments
- supervision of actors in the payment, trading and settlement systems and other financial infrastructure
- supervision of compliance with the AML legislation
- crisis preparedness

Priority will be given to following up climate and sustainability risk, which will be included in the first three priorities (macroprudential supervision, prudential supervision of financial institutions and distribution of loans, pension and fund products and other financial instruments).

The financial markets may change significantly during the strategy period, which may necessitate a review of priorities. Activities must nonetheless be planned in conformity with the priorities set out in the annual letter of allocation and other assignments given by the Ministry of Finance.

Macroprudential supervision and prudential supervision of financial institutions

Past experience in Norway and other countries has shown that the supervisory authorities need to pay particular attention to the reciprocal influence between the macroeconomy and the financial system. Macroprudential supervision is a prerequisite to enable Finanstilsynet to best promote financial stability and well-functioning markets. It will be particularly important in light of the considerable global economic uncertainty and the vulnerabilities that have built up through high household debt and elevated property prices.

Banks play a key role in the financial markets as they manage funds from the general public, provide loan capital to the corporate sector and to households, and perform an important function in payment transfers. Bank deposits should be a secure investment, and financially

sound banks ensure the necessary confidence in the banking sector. Prudential supervision of banks is therefore a fundamental and highly prioritised task for Finanstilsynet.

Supervision of financial institutions' lending practices is important to prevent financial imbalances and promote robust financial institutions through good credit quality. Healthy lending practices are essential to help prevent debt problems among vulnerable households.

Although there is a major transition from agreements with guaranteed pension benefits to unit-linked (defined-contribution) pension policies for employees in the private sector, pension institutions' share of guaranteed liabilities will be significant for many years. Supervision of pension institutions' solvency therefore remains important.

Supervision of the distribution of loans, pension and mutual fund products, etc.

As stated above, strong growth is expected in defined-contribution pension funds under management in the years ahead. Unit-linked pension products entail that customers must bear the return risk themselves, and investment decisions have a strong bearing on future pension payments. Correspondingly, customers bear the return risk when investing in various mutual fund products. It is of vital importance that customers receive good information and advice when entering into pension savings agreements to ensure that the products are suitable. This applies regardless of whether it is the producer or a distributor that provides advice on and sells such products.

Raising loans is an important decision for consumers. In addition to promoting financial stability and solvent financial institutions, healthy lending practices are crucial to consumer protection. Finanstilsynet's supervision of lending to consumers will be expanded in new legislation.

Supervision of the financial infrastructure

A serious failure or collapse of the payment system or other financial infrastructure could have a profound impact on the financial sector and vital social functions and threaten financial stability.

Increasing digitalisation, new and advanced digital solutions, more outsourcing and new players affect risk, and the risk picture may be subject to rapid change. The dependence on digital solutions makes financial services vulnerable to cyberattacks and other information security flaws. Supervision of institutions' ICT activities is therefore given priority.

Supervision of compliance with the AML legislation

The majority of obliged entities, as defined in the AML legislation, are under supervision by Finanstilsynet. Non-compliance heightens the risk that institutions are exploited for criminal ends and also constitutes a significant operational and financial risk for the institutions as a consequence of possible administrative fines, claims for compensation and loss of reputation. There is increased international focus on the fight against money laundering and terrorist financing, also as a result of the forthcoming expansion of EU regulation.

Crisis preparedness

In view of the uncertainty surrounding economic developments in Norway and a number of other countries, Finanstilsynet must be prepared for potential crises with far-reaching

consequences in supervised institutions, the markets and the financial infrastructure. Finanstilsynet must maintain adequate crisis preparedness to respond to both crises that affect the financial system and crises in individual institutions that do not threaten financial stability but nevertheless have a considerable impact on the confidence in service providers in the financial market. Finanstilsynet must fulfil its role of resolution authority under the EEA regulations and as chair of the Financial Infrastructure Crisis Preparedness Committee (BFI), as well as responsibilities arising from other collaboration.

Follow-up of climate and sustainability risk

Finanstilsynet manages a major part of regulations relating to sustainability, and forthcoming regulations will give an increase in its responsibilities. Among other things, the regulations are intended to ensure that supervised institutions manage climate-related risk. Financial institutions' climate risk management will be a key element in both macroprudential and prudential supervision of financial institutions on a par with other risks they need to manage.

The regulations set requirements for institutions' reporting, which Finanstilsynet will follow up in the same way as other statutory reporting requirements. The follow-up of institutions' sustainability reporting is intended to counteract greenwashing, and Finanstilsynet's supervision of auditors covers confirmations related to sustainability reporting. Follow-up of greenwashing and institutions' reporting requirements will be part of the supervision of securities and fund markets. The combination of new regulations and strong growth in the market for green investment products means that Finanstilsynet must devote considerable resources to meeting its responsibilities in this area.

5. RESPONSIBILITIES AND INSTRUMENTS

Finanstilsynet's role as supervisory authority entails active enforcement of the regulations managed by Finanstilsynet. Finanstilsynet must continuously assess which activities most effectively fulfil its adopted goals and underlying considerations.

Supervision

Inspections carried out to monitor institutions' compliance with statutory and regulatory requirements constitute a major and important part of Finanstilsynet's activities. The inspections also cover the quality of reported data.

Finanstilsynet's supervisory efforts are risk-based. Successful goal achievement requires that Finanstilsynet continuously assesses which risks need supervisory attention. For example, it is logical that large institutions whose problems may threaten financial stability or affect the functioning of the market are monitored more closely than smaller entities. Nevertheless, Finanstilsynet cannot refrain from following up small entities, both on account of statutory supervisory obligations and because problems in small entities may affect the required confidence in the financial system.

Finanstilsynet receives a number of signals of regulatory violations. The signals may be identified in reports or media entries, or may be uncovered at inspections of individual

institutions. Finanstilsynet carries out a risk-based assessment of how the signals should be followed up.

The regulations managed by Finanstilsynet contain a number of provisions that set governance and control requirements for key risk areas. The responsibilities and tasks assigned to the institution's management are not limited to compliance with these provisions, but also entail comprehensive governance and control of operations. Finanstilsynet's core activities include controlling and assessing whether the supervised institutions have identified material risks and manage these in an appropriate manner. In order to be effective, Finanstilsynet's control must include verification of the executive management's statements and a review of the documentation that forms the basis for management's assessments and decisions.

As part of its supervisory activity, Finanstilsynet makes decisions concerning licences, including terms and conditions for the commencement of operations, and subsequent decisions on approvals and dispensations concerning ongoing operations. As part of its supervisory activity, Finanstilsynet also makes decisions on individual capital requirements and approves models. Finanstilsynet's can also make decisions on revocations of licences or orders for corrective measures. In addition, Finanstilsynet makes decisions on fees and other administrative sanctions.

Finanstilsynet enforces regulations that apply to financial market participants that are not subject to supervision. This applies, inter alia, to regulations intended to prevent insider dealing and manipulation of the securities market and regulations intended to prevent the continuation of operations conducted without the necessary licence.

Analysis and monitoring of financial markets

Sound risk-based supervision must take into account the reciprocal influence between the macroeconomy and the financial markets. Financial crises cannot be prevented solely by supervising individual institutions. Risk factors identified in the real economy and in the markets are used in the supervision of individual institutions, and matters identified through supervision form part of the basis for macroprudential supervision.

Finanstilsynet receives large amounts of data, including from supervised institutions, and the volume of data is increasing in line with the development of new regulations in the EU. The data can form the basis for assessments of risks and trends in institutions and markets. Further use of data analyses in supervisory activities will contribute to further developing and improving the risk-based supervision and help uncover problems in institutions and markets at an earlier stage.

Crisis preparedness and crisis management

Finanstilsynet acts as resolution authority as required by EEA regulations and fulfils the responsibilities assigned to this role. Finanstilsynet is also involved in the work on cyber risk in various ways. Crises that arise in individual institutions, sectors or markets subject to supervision must be handled by Finanstilsynet.

Regulatory development

Finanstilsynet has limited authority to lay down regulations, but prepares proposals for amendments to acts or regulations on commission from the Ministry of Finance or on its own initiative. Through this work, and through consultation statements concerning legislative proposals prepared by others, Finanstilsynet has the opportunity to influence the content of the regulations. This also applies to the implementation of EU legislation in Norwegian law.

Communication

Finanstilsynet publishes inspection reports and decisions that clarify important matters or matters of principle. Openness about decisions is important for the sector in question and in order to ensure public confidence. Finanstilsynet prepares reports on risks building up in the market. The reports are shared with the supervised institutions and the markets, thus enabling the institutions' executive management and others to take these factors into account in their risk management. Finanstilsynet publishes warnings about activities conducted in Norway without the necessary licence. Other information on Finanstilsynet's website also contributes to fulfilling the obligations incumbent on Finanstilsynet as a government body and to keeping consumers updated.

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