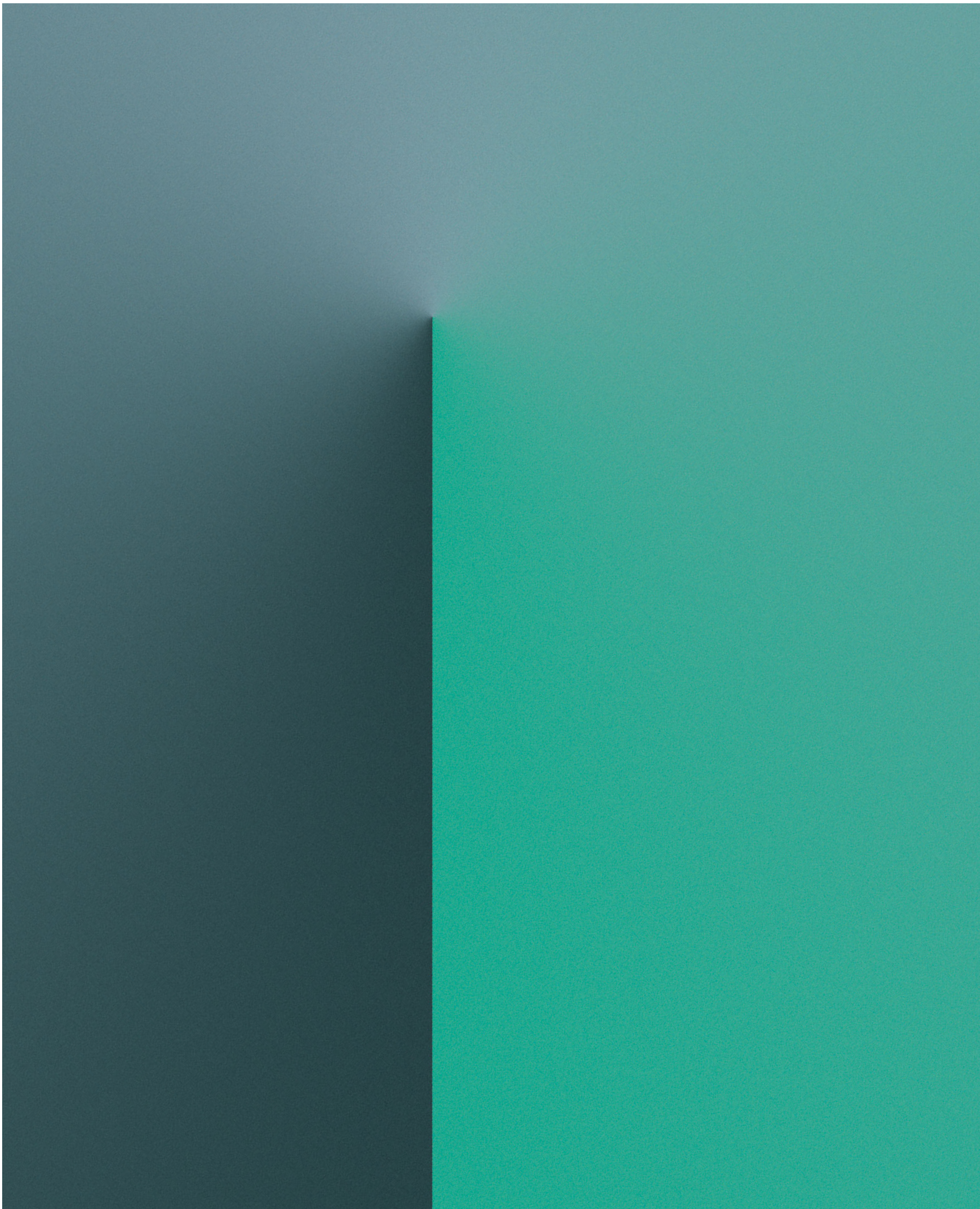
FINANSTILSYNET
THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

ANNUAL REPORT
2014



Finanstilsynet is responsible for the supervision of banks, finance companies, mortgage companies, e-money institutions, payment institutions, insurance companies, pension funds, insurance intermediaries, investment firms, securities fund management, stock exchanges and other regulated markets, clearing houses and securities depositories, real estate agencies, debt collection agencies, external accountants and auditors.

Other supervisory and control tasks are: macroprudential supervision and regulation, prospectus control, listed companies' financial reporting, conduct in the securities market, supervision of payment systems and measures against money laundering.

Financial Supervision Act, section 3

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

Risk Outlook 2015: The Financial Market in Norway

Since 1994 Finanstilsynet 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 Finanstilsynet's ongoing supervision of individual institutions.

Much of the assessment of individual institutions' profitability, financial strength and risk needs to be carried out in light of the general state of the financial market. As from 2003 Finanstilsynet 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, and assesses risks facing banks and other institutions in the Norwegian financial market and potential sources of future stability problems in the Norwegian financial system. Finanstilsynet publishes the report *Risk Outlook* in the spring and *Financial Trends* in the autumn.

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The chapters on external accounting services, estate agency and debt collection are not included in the English annual report. For analyses of financial market trends, see the report *Risk Outlook 2015: The Financial Market in Norway.*

PREFACE

2014 was another good year for the Norwegian economy, with good growth in the mainland (non-oil) economy and low unemployment. However, since the summer the oil price has fallen sharply. Should the oil price remain low for a protracted period, there could be substantial negative impulses to the mainland economy and hence greater risk of a setback in the Norwegian economy.

The international economy continues to be affected by great uncertainty. Growth has picked up in the US and the UK. Japan and most of Europe, however, are on a weak trend. Growth remains strong in China, but high debt and high property prices pose a substantial risk of a setback. Monetary policy in the industrialised countries remains very expansionary with interest rates at or close to zero and extraordinary liquidity supply measures in a number of countries.

Uncertainty in the Norwegian economy is compounded by the high level of household debt and house prices. After dipping towards the end of 2013, house prices again rose substantially over the course of 2014. Concurrently household debt continued to grow at a faster rate than incomes. Lower interest rates and intense competition for borrowers may contribute to continued high growth in debt and house prices. However, increased economic uncertainty in the wake of the oil price fall could put a brake on that growth. Continued rapid growth in debt and house prices is not sustainable.

High activity levels in the Norwegian economy and low interest rates contributed to Norwegian banks' very low losses and good profits in 2014. Norwegian banks have improved their financial position in recent years, although their equity ratios are no higher than at the start of the 2000s. It is important that banks continue to bolster their capital positions by retaining the bulk of their good profits as this will ensure their ability to grant credit in harder economic times.

Norwegian banks' procedures for monitoring and assessing credit risk in individual exposures and concentration risk in pools of exposures are generally sound. Systemic risk is captured to a lesser extent by the individual bank's risk management function, but none the less has a crucial bearing on financial stability. Should the Norwegian economy experience a setback, there is a risk that banks will seek to mitigate credit risk by switching from commercial to residential lending. While this may be considered sound risk management by the individual bank, it could increase the systemic risk associated with household debt and house prices.

Finanstilsynet does not have at its disposal instruments able to prevent a build-up of systemic risk, but can counteract systemic risk by imposing requirements on capital strength and risk management at the individual bank, and by imposing general requirements on banks' risk management and credit assessments. Finanstilsynet also publishes analyses and assessments of systemic risk, and can recommend to the political authorities rules designed to promote stability.

Long-term interest rates have fallen further both in Norway and internationally and are now at unprecedentedly low levels, reflecting expectations of low future return on capital. The interest rate fall compounds the challenges facing the pension institutions, which carry wide-ranging rate-of-return guarantees on defined benefit pensions and also need to increase their provisioning to keep up with rising longevity. The risk attending defined benefit pensions will become more transparent upon the introduction of new European solvency requirements (Solvency II) on 1 January 2016, which at current market interest rates will require a significant increase in solvency capital.

The real issues facing pension institutions are lower potential returns and increased longevity, not new rules that make this risk more visible. However, the pension liabilities are long-term, which justifies pension institutions being allowed a reasonable period in which to comply with new requirements. Finanstilsynet has duly approved escalation plans to build up reserves needed to accommodate rising longevity, and has recommended the adoption of transitional arrangements for Solvency II requirements in keeping with EU rules.

Last autumn agreement was reached between the EU and EFTA members of the EEA on principles for incorporating in the EEA Agreement the Regulations governing the respective European financial supervisory authorities. Once this is achieved, other EU financial legislation that builds on common exercise of authority under the auspices of the European financial supervisory authorities can also be incorporated in the EEA agreement. This will ensure Norway's ability to play a full part in the single market for financial services and will provide a clear framework for Finanstilsynet's participation in the European supervisory regime.

The EU's new financial legislation is very wide-ranging and complex. It calls for a considerable effort on the part of national supervisors and imposes new wide-ranging reporting requirements on entities under supervision. Finanstilsynet puts much emphasis on compliance with the obligations set under the financial regulatory regime and the supervisory collaboration. At the same time, resources expended on regulatory development and licensing tasks must throughout be properly balanced against the need to prioritise supervisory, monitoring and control functions.

In December Finanstilsynet adopted a new strategy for the four-year period 2015–2018. Changing financial markets and increased requirements on regulatory administration and development will require Finanstilsynet to prioritise its resource use well. This entails a focus on core functions, and the preparedness and ability to adapt to new challenges. The main objective will continue to be financial stability and well-functioning markets. Finanstilsynet will give particular priority to the financial position of banks and pension institutions, macroprudential supervision, supervision of payments and settlement systems and other infrastructure, and supervision of advice on and sales of pension products, mutual fund products and other financial instruments.

Oslo, 30 January 2015

Endre Skjørestad
Board Chair

Morten Baltzersen
Director General

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FINANSTILSYNET'S GOALS

The strategy document is an important basis for the ongoing assignment of supervisory priorities and for guiding Finanstilsynet's activities, and for the priorities established in annual activity plans.

The reporting in the annual report on 2014 is based on the strategy for 2010–2014. Finanstilsynet's strategy identifies the following priorities:

- supervision of institutions and areas of greatest significance to financial stability and well-functioning markets
- macroeconomic surveillance and macroprudential supervision
- ensuring that international requirements on institutions and supervision are complied with
- promoting investor and consumer protection and ensuring broad public awareness of Finanstilsynet's requirements and supervisory activities

The strategy also describes measures and priorities in the respective areas of supervision.

Main goal 2010–2014

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

Intermediate goals

The intermediate goals are defined as:

1. Financially sound and liquid financial institutions
2. Good monitoring of risk in the economy and markets
3. Consumer protection through good information and advice
4. Fit and proper management and satisfactory governance at institutions
5. Robust infrastructure ensuring satisfactory payments, trade and settlement
6. Adequate and reliable financial information
7. Good market conduct
8. Effective crisis management

Finanstilsynet's goal attainment in 2014

Finanstilsynet oversees a large number of institutions and markets. Resource use in the respective areas of supervision varies with market developments and the national and international regulatory framework in which institutions operate. Each year Finanstilsynet prepares a plan of operations setting out measures and tasks to support each intermediate goal in the strategy. The Ministry of Finance's prioritised tasks are also covered by these measures and tasks.

Finanstilsynet's strategy for 2010–2014 contains main goals and intermediate goals. Further goals for Finanstilsynet's activity in the particular year are set out in the Ministry of Finance's letter of allocation. They are mainly qualitative outcome goals for institutions and markets under supervision. Their attainment will depend on decision-takers and factors additional to the instruments that are available to Finanstilsynet.

Implementing the various measures and tasks that are described in the plan of operations provides an important basis for gauging goal attainment. This is the subject of a separate report to the Ministry of Finance. Finanstilsynet has largely implemented the measures and tasks that were planned for 2014.

New strategy 2015–2018

Finanstilsynet reviews its strategy every fourth year. The strategy for 2010–2014 has provided a sound basis on which to assign priorities and give direction to Finanstilsynet's operations. However, the financial markets and regulation of the financial sector are undergoing substantial change. Hence goals, instruments and priorities needed to be reviewed if a good basis for further operations and priorities was to be assured. Finanstilsynet's board of directors adopted a new strategy on 15 December 2014, covering the period 2015–2018.

Work on the new strategy involved an assessment of developments and possible changes in statutory framework conditions, risk factors, products and behaviour patterns. Weight was given to obtaining views from important trade organisations and from other public bodies. Strategic assessments and plans from a number of other countries' supervisory authorities were also reviewed.

Main goal carried forward

The main goal will be carried forward to the new strategy:

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

Financial stability and well-functioning markets are mutually dependent objectives and must be taken forward as a combined main goal. Financial stability is an important part of the basis for safeguarding consumer interests.

Intermediate goals 2015–2018

A number of intermediate goals in the new strategy are designed to facilitate operationalisation of the main goal and evaluation of operations:

1. Financially sound and liquid financial institutions
Finanstilsynet is mandated

- to assess the risk of instability in the financial system and make active use of policy instruments to reduce systemic risk.
- to combine information from inspections of individual institutions with information from macroprudential monitoring and to turn the result to account.
- through licensing requirements and ongoing supervision to ensure that supervised institutions have fit and proper management and satisfactory governance. Institutions must have good systems to monitor and manage credit, liquidity and market risk, along with operational risk.
- to help to ensure that financial institutions are adequately capitalised, have robust funding and enjoy the necessary confidence in the capital markets. Banks must have the ability to maintain normal lending activity in periods of poorly functioning money and capital markets as at other times.

2. Robust infrastructure
Finanstilsynet is mandated

- to promote a robust financial infrastructure that ensures satisfactory payment services systems, commerce, pricing and settlements.
- to ensure that risk and vulnerability in the systems are properly handled through requirements on the institution's governance and control.

3. Investor protection
Finanstilsynet is mandated

- to contribute to ensuring that ongoing and periodic information from listed companies is sufficient, reliable and timely.
- to contribute to ensuring that audits of annual financial statements are of satisfactory quality
- to promote good market discipline and confidence on the part of investors and issuers through effective and prompt enforcement of the conduct of business rules.

4. Consumer protection
Finanstilsynet is mandated

- to contribute to ensuring, through targeted information and supervision of product providers and financial advisers, that sales and intermediation of financial products and real estate are carried out in a proper manner and take due account of customers' ability to understand the risk involved and other product characteristics.

5. Effective crisis management
Finanstilsynet will maintain preparedness

- to deal with critical situations in such a way as to avoid harmful spillover effects and lasting problems for the financial sector and financial services users.
- to meet unforeseen problems in individual institutions, markets and infrastructure and wider-scale crises in the financial system.

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SOME IMPORTANT EVENTS IN 2014

Supervision, monitoring and licensing

EU-wide stress test of banks
The European Banking Authority (EBA) conducted stress tests of European banks. DNB Bank participated, and passed the test by an ample margin.

Requirements on mortgage models tightened
Finanstilsynet tightened its requirement on the internal models used by banks to calculate risk weights on home mortgage loans.

New guidelines issued for increased technical provisioning
In response to rising longevity and a new mortality table (K2013), Finanstilsynet issued guidelines that require life insurers to increase their technical provisioning and permit use of net profit to that end. Finanstilsynet will allow insurers up to seven years to increase their technical provisions (from and including 2014).

Survey of commission rebates at life insurers
Finanstilsynet surveyed commission rebates from securities fund management companies at a selection of Norwegian life insurers and Norwegian branches of foreign insurers. In a letter to the companies in February, Finanstilsynet drew attention to the companies' obligation to inform their clients of the commission rebates received by the companies.

Insurers' compliance with anti-money laundering legislation investigated
Finanstilsynet investigated insurers' compliance with the requirements of the anti-money laundering legislation. The investigation showed that most insurers' procedures to ensure compliance with this legislation were inadequate.

Check on compliance with guidelines for credit card invoicing
Finanstilsynet issued guidelines for credit card invoicing in 2013. A survey conducted by Finanstilsynet in 2014 showed that many credit card issuers are now compliant with the guidelines. There is still room for improvement in the information given to customers on the costs of card use.

Sale and marketing of unlawful bundled products halted
Finanstilsynet has tightened bank's practices regarding the sale of bundled products by making clear that combinations of banking, insurance and mutual fund products are in principle illegal. The Ministry of Finance, after considering appeals from two companies that were ordered by Finanstilsynet to stop selling and marketing bundled products, upheld Finanstilsynet's orders in a letter of September 2014. Finanstilsynet asked the banks to review their bundled products and bring their offerings into line with the Authority's and the Ministry's understanding of the rules.

Systemically important banks identified
In November 2013 Finanstilsynet sent the Ministry of Finance a draft consultation document proposing criteria for the identification of systemically important financial institutions. In May 2014 the Ministry adopted regulations on the identification of such institutions. DNB ASA, Nordea Bank Norge ASA and Kommunalbanken AS were identified as systemically important financial institutions and are subject to a special capital conservation buffer requirement as from 1 July 2015.

Warren Capital AS's authorisations under the Securities Trading Act withdrawn
Finanstilsynet withdrew Warren Capital AS's authorisations to engage in asset management due to serious violations of the conduct of business rules in dealing with client assets.

Navigea Securities AS's authorisations to provide investment services withdrawn
Finanstilsynet withdrew Navigea Securities AS's authorisations to provide investment services following serious breaches of the Securities Trading Act's conduct of business requirements.

Two companies ordered to relinquish gains
Following their violation of the Securities Trading Act's prohibition of uncovered short selling, Scoggin Capital Management II LLC and Ellis Lake Capital LLC were ordered to relinquish the gain achieved through the violation.

Administrative fine imposed on Rocksource ASA
Finanstilsynet imposed an administrative fine on Rocksource ASA for violation of the prospectus obligation. The company removed information from the prospectus without Finanstilsynet's approval. The information was included in the prospectus by mistake.

Survey of the bond market
Finanstilsynet conducted a survey of the Norwegian bond market. The survey covered 16 selected banks and investment firms. An aim was to investigate the extent to which retail customers have invested in high yield bonds.

Financial reporting checked – Statoil ASA
Finanstilsynet criticised Statoil ASA for three errors in its annual financial statements for 2012. The company revised its accounting practice in respect of two of the errors, while Finanstilsynet ordered correction of the third. The order was appealed against.

Letter written to audit firms that audit public interest entities
Finanstilsynet clarified auditors' obligation to verify that an entity (the audit client) abides by Finanstilsynet's conclusions after the latter has examined the entity's accounts. If the entity fails to come into line, the auditor cannot state in the audit report that the accounts provide a «true and fair view».

Criticism of the audit of the consolidated accounts of Troms Kraft

Finanstilsynet identified shortcomings in the audit of the Troms Kraft group. The shortcomings related to Kraft och Kultur AB in Sweden, a significant subsidiary in the Troms Kraft group, which had been audited by another auditor.

Oslo Creditservice AS's debt collection licence withdrawn

Finanstilsynet withdrew Oslo Creditservice AS's licence to carry on collection business due to serious violations of the requirements of good debt collection practices. The order was appealed against.

Advised rejection of housing cooperatives' application to establish a commercial bank

Finanstilsynet advised the Ministry of Finance to reject an application from Romerike Boligbyggelag and Nedre Buskerud Boligbyggelag to establish a commercial bank.

New licences recommended in the banking market

Upon Finanstilsynet's recommendation, the Ministry of Finance authorised a merger between Klepp Sparebank and Time Sparebank. The ministry, also on Finanstilsynet's recommendation, authorised Merchant & Maritime Bank AS to operate as a niche bank for small and mid-sized companies in the shipping and offshore service sector.

Alternative investment fund managers give rise to new tasks

Finanstilsynet acquired new licensing and supervisory tasks when the activity of managers of alternative investment funds became licensable. Finanstilsynet received 39 applications for a licence to manage such funds in 2014.

New commodities exchange granted authorisation

Upon Finanstilsynet's recommendation, the Ministry of Finance granted Norexco ASA authorisation to operate as a regulated commodity derivatives market for forest and paper products.

Absorption of Oslo Clearing ASA by SIX x-clear AG recommended

Upon Finanstilsynet's recommendation, the Ministry of Finance granted the Swiss company Six Group AG authorisation to provide settlement services in Norway, subject to certain conditions, through a Norwegian branch (the business of what was previously Oslo Clearing).

Evaluation of Norway's measures to combat money laundering and terrorist financing

The Financial Action Task Force (FATF) evaluated Norwegian authorities' compliance with the anti-money laundering and terrorist financing legislation. Finanstilsynet was among the authorities evaluated. Substantial resources were expended on the evaluation. The post-evaluation report pointed to several shortcomings in Norway's compliance with FATF standards.

Regulatory development

Regulations drafted to implement solvency framework for insurance companies (Solvency II)

Finanstilsynet drafted regulations and a consultation document with a view to implementation of the new European solvency framework for insurers (Solvency II) in Norway.

Regulations drafted to implement new Capital Requirements Directive (CRD IV)

Finanstilsynet drafted regulations to implement CRD IV. The Ministry of Finance's regulations on capital requirements and adaptation of domestic law to CRR/CRD IV entered into force on 30 September 2014.

EEA adjustment to EU's new supervisory structure

The EEA and EFTA countries and the EU agreed a framework for EEA adjustment to the EU's new supervisory structure in the financial markets area. Finanstilsynet assisted the Ministry of Finance in finding solutions.

Proposal to place fixing of reference interest rates under public regulation

Finanstilsynet proposed that the authorities be given statutory authority to oversee the organisation of commonly used reference interest rates, and the opportunity to place such rates under public regulation.

Paid-up policyholders permitted to invest in unit-linked products

As from September paid-up policyholders were allowed to convert such policies to unit-linked contracts. Stringent requirements are imposed on the information and advice given to paid-up policyholders intending to invest in unit-linked contracts.

Report on the settlement arrangement in the estate agency area

Finanstilsynet asked the Ministry of Finance to consider the need to change to the present arrangement for settlement of property transactions. Today a wide gap exists between many estate agency firms' holding of client funds and the amounts covered by the guarantee arrangement.

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ORGANISATIONAL SET-UP AND RESOURCE USE

KEY FIGURES ON SUPERVISORY ACTIVITIES

INFORMATION AND COMMUNICATION

ORGANISATIONAL SET-UP AND RESOURCE USE

Board of Directors

Finanstilsynet's Board of Directors has by law the overarching responsibility for Finanstilsynet'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 term of four years. A new Board took up duties on 1 March 2014. Mr Endre Skjørestad, Board chair, was appointed for a new four-year term.

The Board of Directors had the following composition up to 1 March 2014:

Endre Skjørestad
attorney-at-law
chair

Vivi Lassen
assistant director
deputy chair

Hilde C. Bjørnland
professor
board member

Mette Bjørndal
professor
board member

Harald Indresøvde
former bank manager
board member

Beate Sjåfjell
professor
first alternate

Jostein Skaar
partner
second alternate

Arild J. Lund
special adviser
at Norges Bank
observer at board meetings

Sindre Weme
director
alternate for observer from Norges Bank

As from 1 March 2014 the Board was composed as follows:

Endre Skjørestad
attorney-at-law
chair

Giuditta Cordero-Moss
professor
deputy chair (took up duties on 1 May 2014)

Hilde C. Bjørnland
(professor
acted as deputy chair from 1 March to 30 April 2014)

Mette Bjørndal
professor
board member

Lars Sørgard
professor
board member

Arne Skauge
retiree
board member

Beate Sjåfjell
professor
first alternate

Kjetil Wibe
attorney-at-law
second alternate

Sindre Weme
director at Norges Bank
observer at board meetings

Ylva Søvik
assistant director
alternate for observer from Norges Bank

Two members elected by and from among the employees supplement the Board when administrative matters are dealt with. As from May 2013 the following have represented the employees:

Anders S. Hole
senior supervisory adviser

Gry Evensen Skallerud
senior supervisory adviser

Their alternates were senior supervisory adviser **Aud Kogstad**, senior executive officer **Anne Nybohm** and special adviser **Irene Støback Johansen**.

Eleven ordinary board meetings and one board meeting by telephone were held in 2014. The Board dealt with 29 administrative matters and 60 supervisory matters requiring formal decisions. The Board received information on a further 31 administrative matters and 43 supervisory matters, bringing total items dealt with to 163. In addition, the Board receives a verbal briefing on relevant matters at each meeting.

Board of Directors of Finanstilsynet

Endre Skjørestad
Attorney-at-law, partner at HAVER Advokatfirma ANS

Giuditta Cordero-Moss
Professor, Department of Private Law, University of Oslo

Mette Bjørndal
Professor, Department of Finance and Management Science, Norwegian School of Economics

Lars Sørgard
Professor, Department of Economics, Norwegian School of Economics

Arne Skauge
Retiree

Beate Sjåfjell
Professor, Department of Private Law, University of Oslo

Kjetil Wibe
Attorney-at-law at Advokatene Rege & Wibe

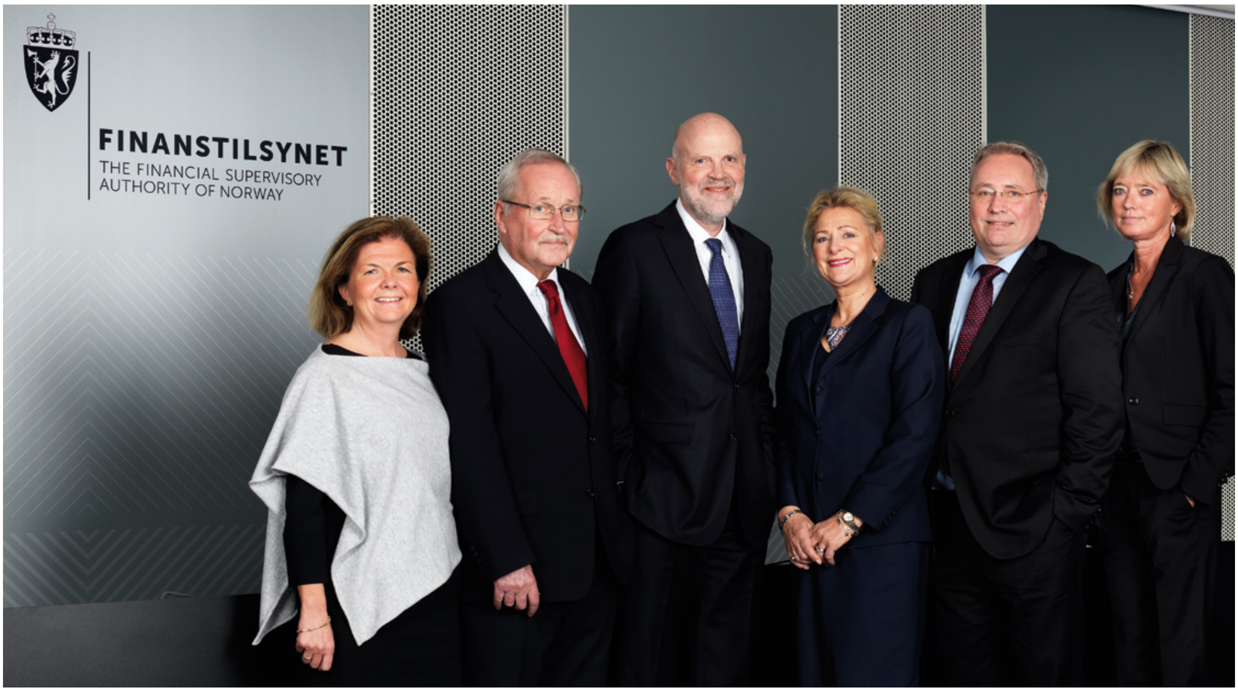
Sindre Weme
Director, Norges Bank Financial Stability, Banking Analysis

Anders S. Hole
Senior Supervisory Adviser

Gry Evensen Skallerud
Senior Supervisory Adviser

From the left:
Gry Evensen Skallerud
Giuditta Cordero-Moss
Mette Bjørndal
Sindre Weme
Arne Skauge
Lars Sørgard
Beate Sjåfjell
Endre Skjørestad
Kjetil Wibe
Anders S. Hole

Photo:
Jarle Nyttingnes



Finanstilsynet's management team

Morten Baltzersen
Director General

Emil R. Steffensen
Deputy Director General,
Banking and Insurance Supervision (on leave of absence)

Erik Lind Iversen
Acting Deputy Director General,
Banking and Insurance Supervision

Anne Merethe Bellamy
Deputy Director General, Capital Markets Supervision

Cecilie Ask
General Counsel

Gun Margareth Moy
Deputy Director General, Administration

Kjetil Karsrud
Communications Director

From the left:
Anne Merethe Bellamy
Erik Lind Iversen
Morten Baltzersen
Gun Margareth Moy
Kjetil Karsrud
Cecilie Ask

Photo:
Jarle Nyttingnes

Personnel policy and organisation

Finanstilsynet works continuously to further develop its organisation in keeping with national guides and its own needs. Priority setting, efficient administrative case handling, appropriate expertise and flexible use of staff resources are key areas.

Finanstilsynet attaches importance to measures designed to recruit, retain and further develop capable staff members and managers. The Authority scores highly on popularity surveys among economics and law students. Measures to develop staff competence are in place. In 2014 a management development programme for all mid-level managers was completed.

Finanstilsynet's activities require cross-disciplinary competence and spearhead competence in the various areas of supervision. Its departments have highly competent staff with good industry knowledge. More than 90 per cent hold a university degree or the equivalent, and a number hold PhDs. The majority have their training in economics and business economics, law and auditing. The organisation is stable: in 2014 staff turnover measured 4.8 per cent.

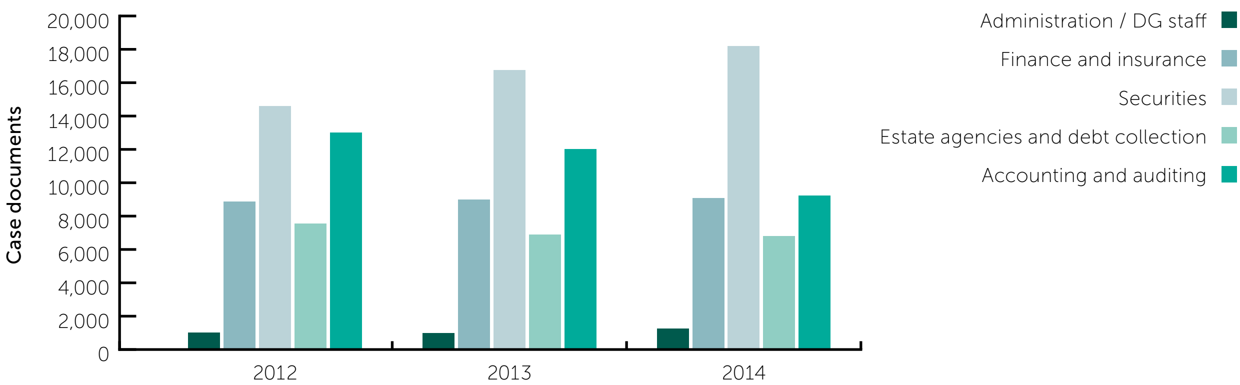
With its espousal of the Government-sponsored "IA Agreement" designed to promote inclusive employment, Finanstilsynet attaches importance to reducing sickness absence, to diversity and to a good policy on older employees. Sickness absence was 4.3 per cent in 2014 compared with 3.6 per cent in 2013. According to a work environment survey conducted in December 2013, staff view their work as educative and meaningful, and the general wellness factor is high.

Finanstilsynet: facts and figures

At the end of 2014 Finanstilsynet had 270 full-time staff, compared with 280 at the end of 2013. Fifty-two per cent of the full-time staff are women. The management team comprised equal proportions of women and men at year-end. Women made up 52 per cent of all staff with managerial responsibilities.

The Director General's salary at the end of 2014 totalled NOK 1,438,000. Fixed annual remuneration to the Board Chair was NOK 240,000, to the Deputy Chair NOK 161,000, and to each board member NOK 140,000. Remuneration to the first alternate was NOK 118,000, and to the second alternate NOK 98,300.

Chart 1: Registered case documents – by area



	2012	2013	2014
Total case documents	45,052	45,604	44,518

The number of incoming and outgoing documents registered fell slightly from 2013 to 2014. The fall in the accounting and auditing area is due in part to Finanstilsynet's introduction of an electronic form for applying for authorisation as auditor or external accountant via the Altinn internet portal. Applications are more complete, and the need to send on information is reduced. The fall is likely also due to changes Finanstilsynet has made to the External Accountants Regulations, and to the industry's compliance with Finanstilsynet's circular on the statutory continuing education requirement for auditors and external accountants. The increase in the number of documents in the securities area is mainly due to the inception of a new supervisory remit ensuing from the new Act on the Management of Alternative Investment Funds, in force from 1 July 2014.

Document access at Finanstilsynet

Finanstilsynet received a total of 2,737 requests for document access in 2014. Two hundred documents were distributed as public versions, and 480 were not released since their entire content was barred from publication. These figures compare with the previous year's. Most access requests are received via the public electronic mail journal, used by all central government agencies.

Table 1: Requests for document access

	2012	2013	2014
Orders placed	2,751	2,759	**2,737**
Not released	491	503	**480**

Security and crisis preparedness

Finanstilsynet aims to be a confidence-inspiring and reliable agency, and acknowledges its security responsibilities towards entities under its supervision, its staff and other bodies with which it collaborates. Security and preparedness are accordingly an integral aspect of Finanstilsynet's activity. Finanstilsynet adheres to Norges Bank's security regulations, which cover physical security and preparedness with respect to the office premises. Finanstilsynet has taken into use a new security and preparedness tool to put its preparedness effort on a more systematic footing. Further, increased weight is given to information security, particularly with regard to ICT solutions. Separate security rules apply to the technical infrastructure, applying both to the supervisory activity and Finanstilsynet's own organisation. Safety tests and drills are regularly conducted in the ICT area.

Management and control in Finanstilsynet's operations

Finanstilsynet's activity is regulated by the Financial Supervision Act, Public Administration Act and Freedom of Information Act. These statutes are reflected in Finanstilsynet's internal policies and procedures and ethical guidelines. The internal policies and procedures contain information on lines of responsibility, security and preparedness, and administrative case handling rules. There is a clear-cut organisation set-up with line management, and the line managers are responsible for ensuring that staff follow relevant rules and internal policies and procedures.

Finanstilsynet is placed under the Office of the Auditor General which conducts performance audits and financial audits of the public sector. Specific procedures are in place for budget utilisation, payments and procurement based on the central government framework.

Finanstilsynet has an internal controller with special responsibility for acting on non-compliance with certain aspects of the internal policies and procedures and the ethical guidelines. The controller reports to Finanstilsynet's director general and sends each year a report to the Board of Directors.

Based on the letter of allocation from the Ministry of Finance and Finanstilsynet's own strategy, plans for activity are drawn up describing the respective organisational units' activities and resource use, and a common plan is drawn up for the entire organisation. The planning process includes the drawing up of risk assessments for the organisation. The joint plan is adopted by the Board of Directors and sent to the Ministry of Finance. Concrete measures and tasks to contribute to Finanstilsynet's attainment of its goals are set out in these plans. Progress is followed up on a regular basis at meetings between the director general and the management of the respective units. Regular reports on the activities are submitted to the Board of Directors and the Ministry of Finance.

Simplifications and efficiency enhancement

Finanstilsynet develops on a continuous basis ICT systems designed to contribute to simpler supervisory processes useful both to Finanstilsynet and to entities under supervision. Pertinent examples are electronic licence application forms and reporting solutions. Importance is attached to providing information on Finanstilsynet's website. Increased reporting requirements resulting from EEA legislation and supervisory cooperation nonetheless limit the scope for national efficiency enhancement initiatives.

A continuous effort is made to improve work processes through the development of internal frameworks and models and through standardisation and automation.

Over and above this, Finanstilsynet proposed changes designed to simplify the rules, and procedural requirements to enhance efficiency. The proposals are as follows:

Further delegation of powers from the Ministry of Finance to Finanstilsynet

A number of law provisions in the financial area empower the King or the Ministry to issue regulations or to adopt decisions in individual matters. Some of these provisions delegate the management prerogative to Finanstilsynet. In other areas delegation is delimited. Finanstilsynet considers that a greater degree of delegation to Finanstilsynet could promote simplification and prevent unnecessary time use, and it asked the Ministry to review the current regime.

More efficient use of Altinn – ID for foreign reporting entities

Finanstilsynet has for several years sought to increase the use made of the Altinn internet portal for reporting by entities under supervision. Altinn simplifies matters for reporting entities and Finanstilsynet alike. However, foreign reporting entities lacking a Norwegian D-number or personal identification number may not use this facility. The Agency for Public Management and eGovernment (Difi) has project responsibility for the ID portal, which is used to log in to Altinn. In a bid to increase efficiency and economise on resources, Finanstilsynet recommended Difi to modify Altinn to permit the recognition of foreign reporting entities.

Amendment to the Estate Agency Regulations

Finanstilsynet is empowered to grant dispensation from the cap on the number of attempts which may be made to pass the final estate agency examination. In Finanstilsynet's view, applications for dispensation should be vetted by the educational institution concerned. Finanstilsynet proposed an amendment to the Estate Agency Regulations to that end.

Reporting of annual accounts et al. – amendment to the Accounting Act

Although supervised entities' official annual financial statements are available from the Brønnøysund Register Centre, Finanstilsynet obtains these documents directly from supervised entities themselves. Based on the Government's aim to simplify and coordinate business and industry's reporting obligations, supervision should be based on the official annual financial statements. This requires the deadlines for submission to the Brønnøysund Register Centre to be somewhat shorter than they are at present. Finanstilsynet proposed appropriate rule changes.

New legislation on coverage of Finanstilsynet's expenses

Finanstilsynet's expenses are apportioned among supervised entities. According to the Financial Supervision Act, the amount is to be levied by Finanstilsynet and approved by the Ministry of Finance. Finanstilsynet proposed that the levy and approval process be enshrined in law and regulations. This process is wide-ranging and resource-demanding. Clearer cut rules will enhance efficiency.

Approval of amendments to articles of association

According to existing rules, amendments to the articles of association of entities under supervision require Finanstilsynet's approval. Many amendments deal with matters in which there is no question of Finanstilsynet holding back approval so long as the amendments meet statutory requirements. The approval process is resource-demanding for Finanstilsynet and the entities alike. Finanstilsynet accordingly proposed rule changes, and expects such changes to be made when regulations to the new Act on Financial Undertakings are adopted.

Effective use of Lovdata – official consolidated version of relevant EU Regulations

A trend in recent years has been for EU rules to be established in Regulations which are then transposed into Norwegian law as statutes or regulations. In the case of amendments to EU Regulations, the Norwegian legal text is amended to include the date of the amendment. The EU amending Regulation is posted on Lovdata together with the original Regulation. To economise on resources and simplify user access to the legislation, Finanstilsynet requested that official consolidated versions of the Regulations be drawn up and made available on Lovdata.

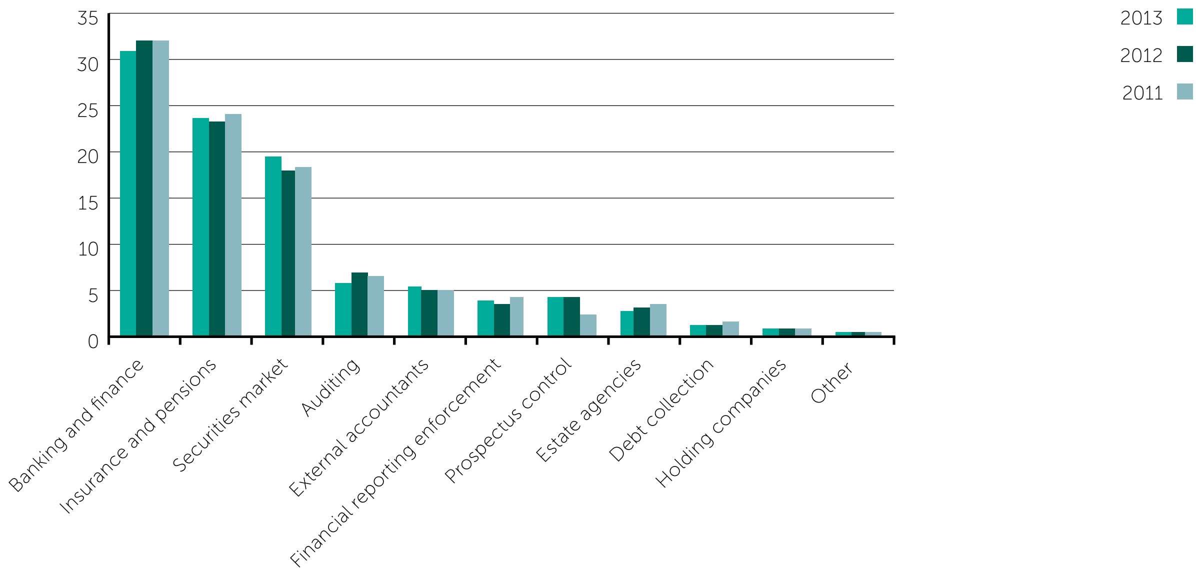
Resource input by area of supervision

Table 2: Resource input by area of supervision

	2012		2013		2014	
	FTEs	Per cent	FTEs	Per cent	FTEs	Per cent
Banks	55.7	21.4	54.0	20.8	58.3	23.0
Finance companies	2.4	0.9	2.9	1.1	2.6	1.0
Mortgage companies	3.2	1.2	2.8	1.1	2.8	1.1
Payment institutions	2.0	0.8	2.3	0.9	2.2	0.9
Insurers	38.6	14.8	38.5	14.8	34.8	13.7
Holding companies	1.7	0.7	1.7	0.7	1.9	0.7
Pension funds	7.7	3.0	8.1	3.1	6.6	2.6
Securities market	43.2	16.6	46.6	17.9	45.6	17.9
Prospectus control	9.9	3.8	8.6	3.3	8.4	3.3
Financial reporting	7.2	2.8	8.8	3.4	8.9	3.5
Accounting rules et al.	0.6	0.3	0.0	0.0	0.0	0.0
Auditors	14.4	5.5	13.8	5.3	12.4	4.9
External accountants	11.4	4.4	11.8	4.5	11.2	4.4
Estate agents	8.4	3.2	7.8	3.0	6.6	2.6
Debt collection	3.4	1.3	3.3	1.3	3.1	1.2
Miscellaneous	2.9	1.1	1.8	0.7	1.8	0.7
Undistributed	47.4	18.2	47.2	18.1	46.9	18.5
Total	**260.1**	**100**	**260**	**100**	**254.1**	**100**

In Table 2 the number of years worked is based on available resources.
Under Annual Accounts, page 18, the number shows total years worked.

Chart 2: Levy distributed on supervised groups



Annual accounts

Comments from the Director General

The annual accounts are prepared and presented in accordance with the Regulations on Financial Management in Central Government and are in keeping with basic principles for budgeting and accounting enshrined in rules on financial management and in circulars from the Ministry of Finance. The presented accounts with notes provide a true and fair view of Finanstilsynet's revenues and expenses in 2014.

The Storting determines Finanstilsynet's expenditure budget and revenue budget as part of the government budget. The 2014 operating expenditure budget (item 01) originally totalled NOK 327.5 million. The budget was increased by NOK 6.1 million as compensation for the public sector wage settlement. Including NOK 9.1 million carried forward from 2013 and refunds of parental and sickness benefits worth NOK 6.6 million, the aggregate disposable operating budget came to NOK 349.3 million.

Parts of Finanstilsynet's budget are allotted over item 45 *Major equipment procurements and maintenance*. This appropriation is earmarked for an IT development project, and unused funds can be transferred to subsequent budget year independently of operating expenditure. In the 2014 budget this appropriation totalled NOK 12.3 million which, together with NOK 4.5 million carried forward, brought disposable funds to NOK 16.8 million.

Aggregate expenditure came to NOK 349.7 million, an increase of 1.3 per cent from 2013. The expenditure underrun for item 01 *Operating expenditure* was NOK 11.2 million, which Finanstilsynet has applied to carry forward to 2015. The expenditure underrun for item 45 was NOK 4.9 million which will be disposable in 2015. Calculation of underruns is shown in Note B.

Total salary expenditure increased by 5.0 per cent. Adjusted for refunds, the increase was 4.2 per cent. Higher growth in salary expenditure at Finanstilsynet than in the state sector as a whole is attributable to a temporary reduction in pension premium in 2013 and to the need to raise salaries for some positions. Disbursements for investment and other disbursements for operating expenses (cf. reporting by natural classification) should be viewed in conjunction. They show an overall decline of NOK 8.9 million from 2013. In order to keep expenditure within the appropriation, it was necessary to reduce staffing and operations in general through 2014. Years worked totalled 263 at the end of 2014 compared with 275 at the end of 2013.

Pursuant to section 9 of the Financial Supervision Act, Finanstilsynet's expenses are covered by the institutions under its supervision over the financial year. The Act requires the expenses to be apportioned among the various institutional groups based on the extent of supervision, and expenses are therefore payable in arrears. The Storting adopts a revenue appropriation equal to the expenditure appropriation for the previous year. Contributions are also claimed from branches of companies from other EEA states.

The Norwegian National Collection Agency annually collects supervision fees and other levies on behalf of Finanstilsynet. These also cover accounting and reporting of payments to the central government accounts. Hence explanatory notes are essential to obtaining a complete picture of Finanstilsynet's annual accounts.

Contributions from entities under supervision totalled NOK 308.7 million in 2014. Total revenues were smaller than actual expenses since contributions from supervised institutions are paid in arrears and unutilised revenues from the previous year are deducted.

The levy proposed by Finanstilsynet for 2013 was approved by the Ministry of Finance on 22 May 2014 after prior consultation with the trade organisations concerned. Supervised entities liable to pay the amount levied for 2013 numbered 14,767, of which 73 were foreign branches. The largest category of supervised entities is external accountants, numbering 11,748. The overall figure in 2012 was 14,080 entities.

The Office of the Auditor General audits the activity of Finanstilsynet. The audit report for 2014 is expected in the second quarter of 2015. The closing letter dated 2 June 2014 from the Office of the Auditor General on the accounts for 2013 had no adverse comments with regard to the accounts or to Finanstilsynet's implementation of the budget.

Oslo, 30 January 2015

Morten Baltzersen
Director General,
Finanstilsynet

Accounting policies

Finanstilsynet's accounts are kept on a cash basis. Revenues and expenses are recognised as and when paid.

Finanstilsynet pays employer's contributions and pension premiums to the Norwegian Public Service Pension Fund. For 2014 a pension premium of 16.45 per cent is computed on fixed salaries. Of this, 2 per cent is withheld from the employee. Finanstilsynet is attached to the central government's consolidated accounts scheme at Norges Bank and has drawing rights equivalent to the Storting's appropriation. Upon the transition from one year to the next the balance on each settlement account is reset to zero.

Appropriation reporting

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

The debit authorisation granted to the Norwegian National Collection Agency is shown in note C.

Reporting by natural classification

Reporting by natural classification with notes shows Finanstilsynet's reports to the central government accounts in 2014 based on the standard chart of accounts in the accounting year with comparatives for 2013. Note 7 shows the difference between the recorded and reported internal government settlement with the Treasury.

Table 3: Appropriation report for the accounting year 2014, itemised

Expenditure chapter	Chapter name	Item	Item text	Note	Total appropriation	Accounts 2014	Expense overrun (-) or underrun
1602	Permanent posts	01	Operating expenses	A, B	342,657,000	337,833,061	4,823,939
1602	Major new procurements and maintenance (IT)	45	Major new procurements and maintenance	A, B	16,801,000	11,885,176	4,915,824
Total expensed					359,458,000	349,718,237	

Revenue chapter	Chapter name	Item	Item text	Note	Total appropriation	Accounts 2014	Expense overrun (-) or underrun
4602	Prospectus control fee in the cash flow account	03	Unspec.	A, C	10,000,000	226,000	-9,774,000
4602	Refund of parental benefits	16	Refund of parental benefits	B		3,291,497	3,291,497
4602	Refund of sickness benefits, pay	18	Refund of sickness benefits	B		3,088,494	3,088,494
4602	Relinquishment of gain and violation penalties, etc.	86	Unspec.	A, C	7,000,000	5,501,175	-1,498,825
5580	Contributions from supervised entities	70	Fee	A, C	309,800,000	110,530	-309,689,470
5700	Employer's contribution	72	Employer's contribution			32,105,841	
Total taken to revenue					326,800,000	44,323,538	
Collected and taken to revenue in Finanstilsynet's revenue chapter of the Norwegian National Collection Agency, see Note C							**323,696,999**

Net amount reported to the appropriation account			**305,394,700**	
Capital accounts				
60050601	Norges Bank CA / receipts		16,319,623	
60050602	Norges Bank CA / payments		-320,799,086	
716106	Change in outstanding account with the Treasury		-915,237	
Total reported			0	
Holdings reported to the capital account (31.12)				
Account	**Text**	**2014**	**2013**	**Change**
6260	Shares	0	0	0
716106	Outstanding account with the Treasury	-12,020,365	-11,105,128	-915,237

Note A Explanation of overall allocation

Chapter and item	Brought forward from last year	Current year's allocations	Overall allocation
160201	9,057,000	333,600,000	342,657,000
160245	4,501,000	12,300,000	16,801,000
460203		10,000,000	10,000,000
460286		7,000,000	7,000,000
558070		309,800,000	309,800,000

Refunds on items 420616 and 420618 also disposable

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

Chapter and item	Head word	Expense overrun (-) or underrun	Expense overrun (-) or underrun after debit authorisations granted	Standard refunds on revenue items 15-18	Overall basis for amount brought forward	Max. amount to be brought forward	Possible amount to be brought forward calculated by Finanstilsynet
160201		4,823,939	4,823,939	6,379,991	11,203,930	16,680,000	11,203,930
160245	*"may be brought forward"*	4,915,824	4,915,824	not applicable	4,915,824		4,915,824

Note C Explanation of revenues

Chapter and item	Overall allocation	Recognised by Finanstilsynet	Recognised by others	Overall revenue	Revenue gain or revenue loss (-)
460203	10,000,000	226,000	7,652,478	7,878,478	-2,121,522
460286	7,000,000	5,501,175	7,461,563	12,962,738	5,962,738
558070	309,800,000	110,530	308,582,958	308,693,488	-1,106,512

Table 4: Statement of reporting by natural classification for 2014

	Note	2014	2013
Revenues reported to the appropriation account			
Receipts of fees	1	226,000	8,193,000
Receipts of grants and transfers	1		0
Receipts of financial revenues	1	-1,482	-1,988
Total receipts		224,518	8,191,012
Expenses reported to the appropriation account			
Disbursements to salaries and employer's contribution	2	261,244,048	248,089,595
Public refunds related to salary	2	-6,379,991	-3,497,765
Disbursed to investments	3	5,167,830	13,559,022
Other disbursements to operations	4	83,304,877	83,601,519
Total disbursements		343,336,764	341,752,371
Net reported expenses to operations and investments		**343,112,246**	**333,561,359**
Collection activities and other transfers to central govt.			
Receipts of taxes, charges, fees etc.	5	5,611,705	1,856,429
Total collection activities and other transfers to central govt.		5,611,705	1,856,429
Revenues and expenses reported on central govt. chapter			
5700 Revenues to National Insurance Fund Scheme – employer's contribution		32,105,841	29,846,263
Total revenues and expenses reported on central govt. chapter		32,105,841	29,846,263
Net expenses reported to the appropriation account		**305,394,700**	**301,858,667**
Overview of outstanding accounts with the Treasury			
Asset and liabilities		**2014**	**2013**
Receivables	7	112,304	290,118
Tax withholdings owed	7	-11,190,454	-10,973,091
Public charges owed	7	-172,959	-198,124
Other liabilities	7	-769,257	-224,031
Total outstanding account with the Treasury		-12,020,365	-11,105,128

Note 1 Revenues reported to the appropriation account in 2014

	2014	2013
Receipts from charges		
Supervision fee	226,000	8,193,000
Total receipts from charges	**226,000**	**8,193,000**
Receipts of financial revenues		
Interest revenues	-1,482	-1,988
Other financial revenues	0	0
Total receipt of financial revenues	-1,482	-1,988
Total revenues reported to the appropriation account	**224,518**	**8,191,012**

Note 2 Disbursements to salaries and employer's contribution and receipts of public refunds

	2014	2013
Disbursements to salaries and employer's contribution		
Salaries	197,896,637	189,742,191
Employer's contribution	31,802,065	29,645,078
Pension expenses*	26,354,738	23,109,114
Other benefits	5,190,608	5,593,212
Total disbursements to salaries and employer's contribution	**261,244,048**	**248,089,595**

** This line to be used by entities that pay pension premium to the Norwegian Public Service Pension Fund.*

	2014	2013
Public refunds related to salary		
Sickness benefit and other refunds	6,379,991	3,497,765
Total public refunds related to salary	**6,379,991**	**3,497,765**
FTEs 31.12:	**263**	**275**

Note 3 Disbursed to investments	2014	2013
Intangible assets etc.	2,022,462	8,998,697
Operating movable property, furniture, tools etc.	2,822,427	4,119,440
Other expensed investments	322,941	440,886
Total disbursed to investments	**5,167,830**	**13,559,022**

Note 4 Other disbursements to operations and disbursement of financial expenses	2014	2013
Other disbursements to operations		
Rent	16,615,696	16,051 614
Maintenance of own buildings and facilities	0	0
Maintenance and conversion of rented premises	162,654	405,733
Other expenses on operation of property and premises	6,056,745	6,451,211
Repairs and maintenance of machinery, equipment etc.	1,691,144	932,558
Minor equipment procurements	854,790	3,940,930
Lease of machinery, furniture etc.	8,452,282	1,556,616
Consultants and other purchases of services from external providers	24,936,193	28,775,183
Travel and per diem	6,390,100	7,249,832
Other operating expenses	18,145,273	18,237,840
Total other disbursements to operations	**83,304,877**	**83,601 519**
Disbursement of financial expenses		
Interest expenses	0	0
Other financial expenses	0	0
Total disbursement of financial expenses	**0**	**0**

Note 5 Collection activity and other transfers to central govt.	2014	2013
Contributions from supervised entities	110,530	349,796
Administrative fines	5,501,175	1,507,200
Interest revenues – outside the consolidated account arrangement	0	-567
Total collection activity and other transfers to central govt.	**5,611,705**	**1,856,429**
In addition the following are reported to or collected by the Norwegian National Collection Agency:	323,696,999	

Note 6 Grant management and other transfers from central govt. in 2014	2014	2013
Total grant management and other transfers from central govt.	**0**	**0**

Note 7 Recorded and reported account with the Treasury

Part A Difference between recorded and reported account with the Treasury		2014 Specification of recorded account with Treasury	2014 Specification of reported account with Treasury	Difference
Financial fixed assets	Financial fixed assets	0	0	0
	Total	**0**	**0**	**0**
Current assets	Accounts receivable	561,262	0	561,262
	Other receivables	112,304	112,304	0
	Cash and bank	0	0	0
	Total	**673,566**	**112,304**	**561,262**
Short-term debt	Accounts payable	1,141	0	1,141
	Tax deductions owed	–11,190,454	–11,190,454	0
	Public charges owed	–172,959	–172,959	0
	Other short-term debt	–769,257	–769,257	0
	Total	**–12,131,528**	**–12,132,669**	**1,141**
Long-term debt	Other long-term debt	0	0	0
	Total	**0**	**0**	**0**
Total		**–11,457,962**	**–12,020,365**	**562,403**

KEY FIGURES ON SUPERVISORY ACTIVITIES

Table 5: Figures for supervised entities as at 31.12.2014

	2010	2011	2012	2013	2014
Banks and financial institutions					
Savings banks	113	111	109	106	**105**
Commercial banks	20	19	17	18	**19**
Finance companies and mortgage companies	57	56	52	54	**55**
Foreign branches of Norwegian banks and other credit institutions	17	14	16	17	**18**
Norwegian branches of foreign banks and credit institutions	35	42	42	42	**40**
Savings bank foundations and financial foundations					
Savings bank foundations and financial foundations	12	18	23	25	**25**
Payment institutions					
Payment institutions	1	17	22	21	**14**
E-money institutions					
E-money institutions	3	3	2	2	**3**
Insurance					
Life insurers	12	12	12	12	**13**
Non-life insurers	44	43	43	44	**44**
Local marine insurance associations	13	13	12	11	**10**
Local fire insurance associations	20	19	19	15	**15**
Norwegian insurers' foreign branches	5	12	16	15	**15**
Norwegian branches of foreign insurers	43	37	36	34	**31**
Insurance intermediaries[1]	98	99	96	97	**102**
Private pension funds	66	63	56	51	**52**
Municipal pension funds	31	32	32	33	**38**
Pension schemes	8	7	5	5	**4**
Holding companies					
Holding companies	11	11	12	12	**11**
Securities institutions					
Investment firms	154	143	136	129	**128**
Norwegian branches of foreign investment firms	17	19	23	21	**22**
Fund management companies	27	29	32	31	**30**
Clearing houses	3	3	3	3	**5**
The Norwegian Central Securities Depository	1	1	1	1	**1**
Regulated markets, incl. stock exchanges	4	4	4	4	**5**
Auditors					
Auditors	6,210	6,484	6,704	6,973	**7,191**
Audit firms	776	674	600	563	**533**
External accountants					
External accountants	9,260	9,971	11,128	11,611	**11,500**
External accounting firms	2,691	2,817	2,862	2,853	**2,858**
Estate agency					
Estate agency firms	550	530	517	508	**499**
Lawyers' practices that include estate agency	1,294	1,317	1,329	1,325	**1,278**
Debt collection					
Debt collection agencies	110	96	94	98	**98**
Debt purchase businesses	5	5	4	5	**4**

Finanstilsynet also oversees the financial reporting of 263 listed firms.

[1] *Insurance agent firms that distribute insurances exclusively for insurers with offices in Norway, are not included in this overview, nor are entities engaged in accessory insurance agent business, i.e. entities whose business includes insurance mediation on a part-time basis.*

Table 6: Number of on-site inspections by type of institutions (incl. IT inspections*)

	2010	2011	2012	2013	2014
Banks/finance	70	53	51	63	**68**
Payment institutions	–	1	–	–	**–**
E-money institutions	–	–	–	–	**1**
Holding companies	–	–	–	–	**–**
Insurers	12	14	8	8	**11**
Insurance intermediaries	6	7	3	5	**3**
Pension funds	8	2	6	5	**3**
Investment firms	24	19	17	12	**10**
Other securities institutions (incl. fund management companies)	5	8	5	3	**4**
Auditors	87	47	48	55	**27**
External accountants	58	56	60	46	**51**
Estate agencies	49	93	43	43	**32**
Debt collection agencies	13	12	11	11	**3**
Data processing centres / IT providers**	4	5	3	1	**–**
Other	1	–	–	–	**–**

** Twenty-two inspections were conducted. Inspections are conducted either separately or in conjunction with ordinary on-site inspections. Finanstilsynet also conducted 41 simplified IT inspections.*

*** As from 2014 the number of inspections at data processing centres / IT providers are included in figures covering the other institutions.*

Table 7: Cases handled after delegation from the Ministry of Finance

	2013	2014
Cases pursuant to the Savings Banks Act No. 1 of 24 May 1961	44	**37**
Cases pursuant to the Commercial Banks Act No. 2 of 24 May 1961	19	**12**
Cases pursuant to the Financial Institutions Act No. 40 of 10 June 1988	201	**188**
Cases pursuant to the Guarantee Schemes Act No. 75 of 6 December 1996	0	**1**
Cases pursuant to the Insurance Activity Act No. 44 of 10 June 2005	77	**95**
Cases pursuant to the Securities Trading Act No. 75 of 29 June 2007	19	**22**
Cases pursuant to the Estate Agency Act No. 73 of 29 June 2007	6	**5**

INFORMATION AND COMMUNICATION

Information and communication are one of four strategic instruments of the supervisory regime, along with supervision and monitoring, licensing and regulatory development. The information effort is directed in the first instance at entities and sectors under supervision, but also the media and the general public.

Finanstilsynet has many areas of responsibility featuring extensive bodies of rules and complex issues that require a pro-active approach to information provision. The information and communication effort is based on the principles guiding the central government information policy, and is accordingly a management responsibility in each area of supervision.

Communication directed at entities and sectors

Finanstilsynet is dependent on the confidence placed in it by supervised entities and by the wider society. Confidence is largely a product of high quality supervision, but also of clear and consistent communication. Good communication with market participants, trade organisations, various government authorities, the media and the wider society is imperative if Finanstilsynet is to properly discharge its social role.

A key channel of communication with supervised entities and individuals is letters written and distributed by Finanstilsynet each year. A total of 16,098 letters were sent in 2014. A central aim is to communicate and inform in a clear and comprehensible language.

Rule clarifications, report-filing requirements and matters which entities and sectors must take on board are usually communicated in the form of circulars. Finanstilsynet issued 22 circulars in 2014. In addition, close cooperation was established with Lovdata (Norway's law database) on publishing Finanstilsynet's circulars on Lovdata Pro.

Seminars and presentations
Seminars and presentations are an important part of Finanstilsynet's communication with sectors under supervision. Each year, for example, the Authority organises a seminar for investment firms and management companies. In May 2014 Finanstilsynet held two identical seminars on reporting requirements under the EU's new Capital Requirements Directive (CRD IV). The seminar was broadcast on Finanstilsynet's website.

Collaboration
Finanstilsynet has an extensive network of contacts, and meets regularly with collaborating public authorities in Norway and elsewhere and with trade and professional organisations. See Finanstilsynet's key relations on page 26.

General information activity

Thirty-three press releases were issued over the course of the year. Three press conferences were held, and were broadcast on Finanstilsynet's website. In April Finanstilsynet presented *Risk Outlook 2014: The Financial Market in Norway* and in November *Financial Trends 2014*. These reports analyse and review trends and risk in the financial market and potential sources of future stability problems in the Norwegian financial sector. In April Finanstilsynet presented the report *Risk and Vulnerability Analysis* on the use made of information and communication technology in the financial sector.

The broad media coverage of Finanstilsynet's guidelines for banks' home mortgage lending continued in 2014. The same was true of the debate on the authorities' requirements on banks' capital adequacy. Matters illuminating consumer rights were also in the public eye. Among them were requirements on credit card invoicing and unlawful product bundling. The media monitoring company Opoint registered 5,207 media entries in 2014 with references to Finanstilsynet (7,628 in 2013). In late autumn 2013 Finanstilsynet established an out-of-hours press answering service which was made permanent as from the second half of 2014.

Annual report format
The Norwegian Government Agency for Financial Management (DFØ) made changes to the Regulations on Financial Management in Central Government with regard to annual reporting. The changes set requirements on sequence and headings in annual reports. Finanstilsynet has sought and been granted dispensation from these requirements from the Ministry of Finance for three years.

Internet-based information
Finanstilsynet's website, *Finanstilsynet.no*, is the main channel for information from Finanstilsynet, containing information on rules, licensing requirements, reporting etc., applying to the various areas of business. Reports, analyses, rules and matters of topical interest are published on the website along with, for example, circulars and press releases. Key statutes and regulations are translated into English.

The licence register is the most used service on the website. This is a searchable register of all firms and individuals under Finanstilsynet's supervision. In 2014 a mobile-friendly web application version of the register was established. The website also provides an overview of market warnings against firms that are not licensed to engage in the business they are pursuing in Norway.

In 2014 the website had 534,000 visits. Around 18 per cent of all visits were by users outside Norway. Finanstilsynet also shares responsibility with ØKOKRIM (The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime) for the website hvitvasking.no, that provides information on anti-money-laundering initiatives. In April Finanstilsynet took into use a new intranet which in the years ahead will be developed into a work surface in which a number of internal tools are to be integrated. Towards year-end work started on upgrading *Finanstilsynet.no*.

Finanstilsynet's communication strategy

Main points

1. All relevant public information to target groups shall be available at all times at www.finanstilsynet.no.
2. Rules and amendments, guides and assessments of particular importance shall in addition be communicated actively through other channels.
3. Finanstilsynet shall maintain good contact with trade organisations and other important actors in the drafting of rules and in matters of consumer protection.
4. Finanstilsynet shall profile activities designed to protect the consumer.
5. Finanstilsynet shall tailor its communication to the target group concerned.
6. Finanstilsynet shall regularly evaluate and adjust its communication regime.

Communication objectives

1. To ensure that society has a knowledge of Finanstilsynet and its role. The organisation must be open and predictable.
2. To ensure that Finanstilsynet performs its social role in a manner that instils public confidence.
3. To ensure that financial market participants have good access to structured information on current rules, proposed amendments, practices and administrative decisions.
4. To ensure that the users of financial services have good access to structured information on products, services and rights.
5. To ensure that communication in critical situations is handled in such a way as to minimise harmful effects.
6. To ensure that Finanstilsynet is accountable, to the point and focused in all communication.

Finanstilsynet's key relations

Storting

Government

Ministry of Finance

Norges Bank

Statistics Norway

Oslo Børs and other regulated markets

ØKOKRIM

Consumer Council and Consumer Ombudsman

Brønnøysund Register Centre

Competition Authority

Finanstilsynet

Supervised entities

- Banking and finance
- Insurance and pensions
- Securities market
- Listed companies
- Auditing services
- External accounting services
- Estate agency
- Debt collection

Data Inspectorate

National Security Authority

Water Resources and Energy Directorate

Foreign supervisory authorities

International supervisory organisations

Trade organisations

Media/public opinion

Consumers and investors

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FINANSTILSYNET'S WORK ON CONSUMER PROTECTION

CONSUMER PROTECTION

Consumer protection is at centre stage in the development of rules for the financial market and in the supervision of financial services providers. Solid, well capitalised institutions have highest priority at Finanstilsynet and are the principal requisite for good consumer protection. At the same time, changes made to rules and supervision with a view to improving the position of consumer and customer when purchasing financial services are an increasingly important part of the work.

Experience in Norway as elsewhere shows that consumers need better protection in the financial markets. Good consumer protection is important both for the individual consumer and for public confidence in financial institutions.

In the international arena, requirements on good, well presented information, tailored to consumer customers, are growing apace. The EU is working on new requirements for brief, precise information on the risk and costs involved in various investment products ('key information'). Key information must accompany invitations to invest in securities funds. Similar requirements will follow for other products.

The transition from defined benefit to defined contribution pension schemes involves difficult choices of much significance for very many individuals. Possible conflicts of interest between pension providers and the individual consumer must be properly handled. Sales and advice in relation to pension and mutual fund products accordingly receive much attention at Finanstilsynet.

In its supervision of the estate agency industry, Finanstilsynet prioritises entities in the residential market. Consumer confidence in the bidding process and in the handling of client funds is important.

In its supervision of the debt collection business Finanstilsynet gives close attention to agencies that are the object of frequent consumer complaints. Large agencies are also monitored to assess the reliability and soundness of their collection systems and procedures. The rules governing agencies' conduct when collecting debt are not very clear to consumers. It is therefore important to oversee the agencies' compliance with the rules specifying when charges can be levied on consumers and what charges can be levied.

Cooperation on consumer protection

Finanstilsynet collaborates with the Consumer Ombudsman, the Consumer Council and the Competition Authority to achieve better consumer protection in the financial sector and to facilitate an appropriate distribution of the work involved. The Ministry of Finance has asked Finanstilsynet to take steps to establish a competition policy forum drawing members from the above bodies. The forum's mission will be to improve consumer protection by exchanging information and views on the competitive situation in the financial market in general and on specific issues within the participants' respective areas of responsibility.

Finanstilsynet also works closely with the Finance Portal. The portal publishes consumer-oriented guidelines and market warnings produced by Finanstilsynet. Finanstilsynet follows up on any non-compliance with the obligation to disclose prices etc. to the portal.

Some matters of interest in 2014:

Compliance with guidelines for invoicing of credit card debt

In 2013 Finanstilsynet issued guidelines for invoicing credit card debt. These require card issuers to give users clearer information on the costs of card use. Finanstilsynet surveyed issuers' compliance with the guidelines in spring 2014. The survey covered 34 banks and finance companies that both issue credit cards and invoice credit card debt. See the account on page 35.

Home mortgage loan survey

Finanstilsynet conducts a mortgage survey each year, the latest one in autumn 2014. The banks were largely compliant with the criteria for assessing borrowers' debt servicing capacity. The survey none the less showed that banks have increased the volume of loans with a high loan-to-value ratio, in particular to young borrowers. The mortgage survey can be found on Finanstilsynet's website.

Selling and marketing of bundled products

Finanstilsynet reviewed banks' sales practices with regard to bundled products. It was made clear that combinations of banking, insurance and mutual fund products are in principle illegal. See the account on page 35.

Guidelines for handling of complaints

Finanstilsynet issued in circular 12/2014 guidelines for institutions' handling of complaints. The circular is based on guidelines from the EU financial supervisory authorities. The guidelines apply to the banking, finance, insurance and securities area.

Market warnings

Finanstilsynet published 22 warnings on its website against entities that had provided financial services in Norway without the requisite authorisation, and 333 warnings from foreign supervisory authorities. Very many of these entities are engaged in fraud. The market warnings are also published on the Finance Portal. See the account on page 50.

Alternative investment funds

Finanstilsynet rejected an application to market two Irish investment funds to non-professional investors on the ground that under home state law the funds could only be marketed to certain categories of non-professional investors. The decision has been appealed against.

New rules on bidding

New rules for bidding in house purchases that require bids to be made in writing became effective on 1 January 2014. The new rules aim to ensure that bidding rounds are conducted in a proper and secure manner.

Changes to the rules on settlement of property transactions

The Estate Agency Act was amended on 1 July 2014. Under the new rules the estate agent must ensure that the buyer has registered the title deed (or equivalent protection against third parties) before he can dispose over the purchase amount on behalf of the seller.

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REPORTS FROM THE SUPERVISED SECTORS:

BANKING AND FINANCE

INSURANCE AND PENSIONS

THE SECURITIES AREA

- Investment firms
- Mutual funds and collective investment schemes
- Market infrastructure
- Market conduct rules
- Prospectus control – transferable securities
- Financial reporting enforcement – listed companies

AUDITING

SUPERVISION OF PAYMENT SYSTEMS

BANKING AND FINANCE

Banks play a key role for the entire economy as providers of finance and savings solutions. Regulation and supervision are important contributors to financial stability and confidence in the financial system. Supervision of the banking and financial sector promotes solid financial institutions with good risk awareness, management and control. Financial service provision must be compliant with the regulatory framework and in the best interest of society and the users of financial services.

Developments

Norwegian banks have posted sound profits in recent years. A favourable economic trend in Norway has brought low loan losses, contributing to sound earnings. Net profits have very largely been devoted to increasing banks' equity capital. This has been necessary in order to comply with stricter capital requirements that were introduced after the international financial crisis in 2008. Increased equity capital is necessary in order for the banks to be well equipped to meet economic setbacks.

The risk factors that have affected the international economy in the years following the financial crisis remain in effect. Economic growth has fallen in emerging economies, and is low and fragile in many industrialised countries. Imbalances in government finances and uncertainty about the banks' financial position in many countries could trigger renewed financial turbulence. The securities markets are important for Norwegian banks. The largest of them obtain most of their funding in the market. Market turbulence and increased uncertainty often lead to higher risk premiums in the money and bond markets and falling stock markets. This can impair access to, and raise the cost of, funding for the banks.

Norwegian households' debt burden is at an unprecedented high level. The same is true for house prices. Households are more vulnerable to higher mortgage rates, income lapse and falling house prices than they were previously. Increased uncertainty may prompt higher saving and lower consumption which could adversely affect Norwegian business and industry.

A number of regulatory changes have been made, or are in process, in the financial sphere. The EU's new capital adequacy framework, CRD IV, brings stricter capital and liquidity requirements for credit institutions and investment firms. The financial crisis has led to much focus on systemically important banks and crisis management systems.

Supervision and monitoring

Monitoring and analysis

Finanstilsynet conducts regular analyses of developments in the financial industry and of the economic framework conditions, national and international. Analyses of financial positions and credit and liquidity risk are performed for finance companies, individual banks and for the banking sector as a whole. Quarterly press releases summarise these analyses, which are also published in *Report for Financial Institutions* (Norwegian only) on Finanstilsynet's website. Each spring and autumn Finanstilsynet presents analyses of developments in financial institutions, markets and the real economy and other trends which may pose a risk to financial stability in the Norwegian market. The *Risk Outlook* report was published in April 2014, and the *Financial Trends* report in November. Other analyses of topical themes are also conducted over the year. The various public reports with press releases are available on Finanstilsynet's website.

Risk Outlook and Financial Trends for 2014 pointed to the weakening trend in the international economy. Forecasts for the Norwegian economy indicate continued moderate growth. Reduced investment in the oil and gas sector ahead and the fall in oil prices since June add uncertainty to the forecasts and greater risk of a downturn in the Norwegian economy. Concurrently household debt and house prices continue to grow.

Reporting

To ensure close monitoring of developments in financial institutions and markets, Finanstilsynet is dependent on data submitted by the institutions. All credit institutions in Norway report to ORBOF (a database for accounting information from banks and finance companies) on which Finanstilsynet collaborates with Statistics Norway. In addition, credit institutions report capital adequacy and liquidity positions to Finanstilsynet. Finanstilsynet also obtains reports from savings bank and financial foundations, payment institutions and electronic money institutions.

In recent years the European Supervisory Authorities have compiled more and more information on developments in the respective countries' financial markets. This information is used by the European Banking Authority (EBA), both for its own supervisory purposes and to pass on to the European Systemic Risk Board (ESRB). Finanstilsynet collects data for Norwegian institutions, and is responsible for reporting on the situation among Norwegian institutions to the EBA.

In view of the introduction of the new prudential framework for credit institutions and investment firms, CRD IV, the EU Commission has established binding technical standards in many areas, including the reporting area. CRD IV requires full harmonisation of reporting requirements, i.e. identical reporting in all countries with no opportunity for national adjustments. CRD IV covers, in addition to capital adequacy reporting (COREP), financial reporting (FINREP), and reporting of liquidity ratios, large exposures and leverage ratios. In Norway CRD IV reporting started in earnest in July 2014. Finanstilsynet has set up the new reporting regime for Norwegian institutions. Ongoing impact studies, in which Norwegian institutions participate, will be conducted under EU auspices to assess the effect of the new regime and to tailor the final requirements.

In May 2014 two information meetings were held for all banks and finance companies that are required to report under CRD IV. At these meetings the various reporting formats were reviewed and Finanstilsynet's work on the technical arrangements was presented. A video recording of the information meetings is available on Finanstilsynet's website.

Financial soundness and profitability of Norwegian banks

Recent years' sluggish trend in the international economy has had little impact on the Norwegian economy, and banks have shown sound profitability for several years. Norwegian banks again recorded strong profit growth in 2014 compared with the previous year. This was mainly down to increased net interest revenue, in particular as a result of lower funding costs. Many banks also made substantial gains on the disposal of Nets Holding. Banks as a whole incurred very low loan in 2014. The level of non-performing exposures was reduced over the year.

Growth in lending to retail borrowers declined slightly in 2014, but remained relatively high. Growth in lending to domestic corporate clients was modest, due in part to increased funding via the bond market. Banks' funding largely comprises customer deposits and borrowings on money and securities markets. Banks have increased their long-term financing, and liquidity reserves have grown in recent years.

Norwegian banks have improved their financial positions, mainly through profit retention. Common equity tier 1 ratios rose in 2014, and all Norwegian banks met the minimum requirement of 10 per cent at year-end.

Facts:

At the end of 2014, 105 savings banks, 19 commercial banks and 55 mortgage and finance companies were licensed to operate in Norway. In addition Norwegian credit institutions had 18 branches abroad and foreign credit institutions operated 40 branches in Norway. Twenty-five savings bank and financial foundations, 14 payment institutions and three electronic money institutions held a licence at year-end.

Liquidity monitoring

Large Norwegian banks and mortgage companies obtain much of their funding in international money and credit markets. Conditions in these markets are liable to change rapidly, and refinancing during a crisis of confidence may be both costly and difficult. Finanstilsynet accordingly has a tight focus on liquidity risk. Increased liquidity buffers and a larger element of long-term funding have put Norwegian banks in a better position to meet scarcer liquidity. Covered bond issuance has played a part here. In 2014 the market situation was favourable for senior bonds and covered bonds alike. Risk premiums fell over the course of the year and are now at their lowest level for several years.

The CRD IV framework introduces quantitative liquidity regulation. The requirements involve two indicators: the Liquidity Coverage Ratio (LCR) which measures the institution's liquidity buffer, and the Net Stable Funding Ratio (NSFR) which measures the degree to which an institution is long-term funded. Under CRD IV the minimum LCR requirement is to be introduced in steps, from 60 per cent on 1 October 2015 to 100 per cent on 1 January 2018, but CRD IV also permits the individual member state to opt for faster escalation to 100 per cent. The introduction of NSFR as a minimum requirement has yet to be decided. The EU Commission is expected to come forward with a proposal by the end of 2016. A minimum requirement, if any, would be expected to become effective from 2018 at the earliest.

The Ministry of Finance has asked Finanstilsynet to consider how new liquidity requirements should be introduced in Norway. Finanstilsynet's recommendations will become available in May 2015. In its consideration Finanstilsynet will examine whether the liquidity requirements should be introduced before the date set by the Regulation. Finanstilsynet will also decide whether institutions should be subject to LCR requirements in individual currencies, i.e. in Norwegian kroner alone and in other currencies in which the institution has a significant liquidity risk. The introduction of a derogation to enable the LCR requirement to be met in Norwegian kroner will in that case also be considered.

Reporting under CRD IV, which was introduced in July 2014, replaced the previous reporting of LCR and NSFR under the Basel Committee's definitions. LCR is reported monthly while NSFR is reported quarterly. The new liquidity reporting regime applies to all credit institutions. In addition Finanstilsynet calculates each quarter the ratio of banks' long-term funding to their illiquid assets («liquidity indicator 1 and 2») on the basis of their reporting to the financial database. Institutions with significantly lower liquidity indicator values than the average of the 13 largest Norwegian-owned banks, or low liquidity buffers (after 1 July measured by the LCR or CRD IV definition), are followed up.

Assessments and feedback in the liquidity risk area were at centre stage in the on-site inspection activity and in ICAAP reviews in 2014. Post-inspection reports to a number of banks pointed to insufficient levels of one or more of Finanstilsynet's liquidity indicators, that funding was too short term or that deposit-to-loan ratios should be raised. Some were told that other management limits adopted by the board of directors were insufficiently precise, or that the minimum limits applied to manage the risk level were too few or too low. Some were told that strategy or policy was inadequate, or not complied with. Some were asked to improve emergency preparedness planning or stress testing. The banks were advised that Finanstilsynet regards the LCR as a minimum stress test for a one month horizon, and that the banks themselves should also have stricter stress testing over longer horizons. Challenges related to resources, competence or the organisation of liquidity management were brought to light at some banks. Issues regarding the volume of loans transferred to residential mortgage companies were raised with all banks. Banks' preparation for the introduction of CRD IV's quantitative liquidity requirements was also taken up on a general basis.

Assessment of banks' risk and capital need

Each year Finanstilsynet obtains documentation of the internal capital adequacy assessment (ICAAP) of the largest banking groups (17 in 2014) and a number of smaller and mid-sized banks selected on the basis of risk profile or actual capital adequacy. Finanstilsynet's task is to consider whether the banks' capital level and capital plans are adequate in relation to their risk level. When reviewing the ICAAPs received, Finanstilsynet undertakes its own risk assessment of each individual bank.

The underlying aim of the ICAAP review process is to contribute to continued strengthening of the respective banks' financial position. In Finanstilsynet's view banks must have a common equity Tier 1 ratio that fulfils by an ample margin the sum of regulatory minimum requirements and buffer requirements in effect at any given time, and that, additionally, banks should have the capital needed to cover risk not covered by the minimum requirements under Pillar 1. As in previous years, Finanstilsynet also emphasised that banks must base their assessments of capital needed against credit, market and operational risk on the fact that the minimum requirements under Pillar 1 constitute a floor for Pillar 2 assessments, even if a bank's internal model calculations indicate a lower capital need. Further, Finanstilsynet pointed to the high debt level of Norwegian households as a potential systemic risk. It also pointed to the danger of a setback in the Norwegian and international economies.

In 2014 Finanstilsynet provided feedback on capital level to 36 banks and six finance companies. Just over half of the banks were told that their actual capital adequacy was too low or that their build-up of actual capital adequacy was too slow. A further few banks were urged to raise their minimum target for common equity tier 1 capital adequacy. Banks that have not done enough to set in train or to plan measures to build up necessary capital were instructed to draw up new capital plans showing how they intend to attain a satisfactory level of capital. When shaping their capital plans, banks are expected to assume a continuation of the Basel I floor, that the SIFI add-on for systemically important banks will take effect on 1 July 2015 at 1 percentage point and be stepped up to 2 percentage points on 1 July 2016, and that the requirement for a countercyclical buffer at one year's notice may be increased.

Stricter requirements on IRB models

The largest banks use internal models (IRB) to calculate risk weights that determine how much capital will back their lending. Finanstilsynet has on several occasions expressed concern over the ability of banks' models to capture risk in the housing market. After a special review of the models for residential mortgages in 2012, Finanstilsynet announced in spring 2013 stricter requirements on these models. In 2013 the Ministry of Finance conducted a hearing on various measures to increase risk weights, and the LGD floor was raised from 10 to 20 per cent with effect from 1 January 2014. In July 2014 Finanstilsynet announced further tightening of the requirements in the shape of a closer definition of the assumptions underlying the models. This involves how default figures from the Norwegian banking crisis in the period 1988–1992 are to be taken into account, extra safety margins in the best risk classes and loss ratio levels.

On-site inspection

On-site inspections are important in identifying problem areas at individual banks at an early stage. They build on Finanstilsynet's risk modules which are based on international supervisory standards. The modules are used to gauge banks' credit risk, market risk, liquidity risk, operational risk and overall management and control. Both the actual risk level and the bank's system for management and control of the risk level are assessed in all risk areas. The modules are available on Finanstilsynet's website. The questions put during inspections are based on requested documentation submitted by the banks beforehand.

A total of 45 inspections were carried out at banks and finance companies in 2014, of which ten were thematic inspections of safety assessments and ten were thematic inspections of corporate governance at smaller savings banks. In addition, fourteen inspections focused on ICT infrastructure, catastrophe solutions and preparedness and nine inspections related to IRB applications or follow-up of IRB approved banks.

At small and mid-sized banks most inspections were of a general nature covering all main risk areas, but with particular attention given to credit and liquidity risk. In the credit area Finanstilsynet examined credit quality and management and control. At several banks Finanstilsynet pointed to a high level of actual defaults, a high probability of default or high risk based on the particular bank's own risk classification system. The banks concerned were asked to take steps to reduce risk and to tighten credit practices. Other factors often pointed to are weaknesses in banks' lending process. In most cases this is a matter of inadequate documentation of exposure assessments, inadequate assessments of customers' debt servicing capacity and key risk drivers and the absence of sensitivity analyses. Attention was also drawn to weaknesses in banks' follow-up of individual exposures. Several banks were asked to explain their practice as regards writing down loans in default and potential problem loans, or were asked to concretise action plans for individual customers.

Where liquidity risk is concerned, emphasis is given to ensuring that banks have a long-term funding structure in the form of a high deposit-to-loan ratio and long-term market funding. Several banks were asked to raise their internal minimum requirements for deposit-to-loan ratios. Importance is also attached to banks having sufficient liquidity buffers.

At several banks Finanstilsynet pointed to poor compliance with the anti-money laundering legislation. Finanstilsynet's feedback referred inter alia to an absence of reporting to the management board, a need to develop the banks' internal procedures, a need to tighten customer due diligence, shortcomings in organisation and lines of responsibility and a need for internal training measures.

Home mortgage loan survey

In 2014 Finanstilsynet examined banks' practices as regards residential mortgage lending and home equity lines of credit. The mortgage lending survey of autumn 2014 covered the 30 largest banks, accounting for about 90 per cent of overall repayment loans and home equity credit lines. Data were gathered on 7,300 new mortgage loans and credit lines granted after 1 August 2014.

Banks are required to have concrete internal policies, which must be in accordance with guidelines issued by Finanstilsynet, for assessing borrowers' overall debt relative to collateral prior to granting home mortgage loans. Home mortgages must not normally exceed 85 per cent of the property's market value. In the case of home equity lines of credit, the debt to value ratio must not normally exceed 70 per cent. The survey showed that the average debt to loan ratio for new mortgages was 65 per cent. In the case of loans used for house purchase, the average figure was 71 per cent. Compared to previous years, banks granted more mortgages with a high debt to value ratio. The proportion of loans with a debt to value ratio above 85 per cent was 19 per cent. The criteria for assessment of borrowers' debt servicing capacity were largely complied with by the banks, and an improvement was noted compared with the 2013 survey. However, the growth in the volume of mortgages with a high debt to value ratio gives cause for concern. The home mortgage loan surveys for 2014 and preceding years are available at Finanstilsynet's website.

Thematic inspections of collateral assessments

In spring 2014 Finanstilsynet conducted thematic inspections of ten banks' establishment and assessment of collateral. Sound procedures for assessing collateral values are central to the granting and follow-up of loans and when assessing the need for loan impairment write-downs. In the case of banks using the advanced IRB approach, the value of collateral also has a bearing on capital adequacy measurement. Investigations by banks' internal audit function and Finanstilsynet's review during inspections showed that ensuring sufficient quality of collateral assessments poses a challenge for many banks. Finanstilsynet's assembled report from the round of thematic inspections summarises the most important observations. The report is available on Finanstilsynet's website.

Thematic inspections of corporate governance at smaller banks

In autumn 2014 Finanstilsynet conducted thematic inspections of corporate governance at ten small banks. The inspections were prompted by recent years' events at individual banks at which an absence of control functions and failure of fundamental work division principles had led to losses, negative media reports and some criminal cases. CRD IV sets stricter requirements for corporate governance at all banks. The object of the thematic inspections was to assess the banks' division of work in central decision processes in the credit and securities area and in addition to assess the banks' solutions and processes to ensure satisfactory corporate governance. This includes assessing the management board's composition and competence, board committees, internal control, risk management function and compliance function. The management board's self-evaluation was reviewed and discussed with the board chair of the respective banks. The banks' procedures for remuneration, including any bonus arrangements, were also reviewed. The inspections showed that several of the banks lacked proper division of work and control in the decision-making process and in securities trading. Several of these banks were in the process of tightening their work division procedures, especially in the credit area. Finanstilsynet's assembled report from the inspections will be finalised April 2015 and made available on Finanstilsynet's website.

Analysis of smaller banks' business portfolios

In 2014 Finanstilsynet further developed its analysis of small and medium banks' business portfolios. A total of 101 small and medium banks submitted data on 41,700 business exposures with an overall exposure volume of NOK 123 billion.

An average of 56 per cent of the reported exposure volume could be analysed using the SEBRA («system for EDP-based financial statement analysis») model. SEBRA calculated the average probability of default (PD) of the analysed limited companies at 1.7 per cent. This is well above the average produced by the corresponding analysis of the exposures of the 17 largest banks

(1.14 per cent) and above the average PD for all Norwegian limited companies. Similarly an average high-risk proportion (PD above 3 per cent) of 14.2 per cent was computed for the analysed banks. This is twice as high a proportion as the average of the 17 largest banks (7.6 per cent).

The risk analysis of the banks' business portfolios is used as a basis for selecting banks for on-site inspection and for selecting individual exposures for review at inspections. A small number of banks were instructed to submit further information on their business clients.

Selling and marketing of bundled products

In September Finanstilsynet wrote identically worded letters to the boards of directors of all banks and to the senior management of branches of foreign banks citing many banks' practice of compelling customers to purchase more than one product in order to obtain the best terms, and affirming that such linking of products is in principle unlawful. Finanstilsynet also stated that it has ordered a number of banks to halt sales and marketing of bundled products. The Ministry of Finance upheld Finanstilsynet's order imposed on two banks that had appealed against Finanstilsynet's decision. This concerned bundled products that required a combination of loan and investment/deposit. The letter made clear that the Ministry of Finance's decision on the two appeals provides an important clarification of where the line is drawn in terms of what are legal offerings.

Finanstilsynet asked the board of directors/branch management of each bank to review its bundled products and to bring its offerings into line with Finanstilsynet's and the ministry's understanding of the rules.

Guidelines for invoicing of credit card debt

In 2013 Finanstilsynet established guidelines for invoicing credit cards. It did so based on surveys indicating that firms issuing credit cards should explain more clearly the costs of card use. It is important for customers to easily view the consequences of repayment options and the overall costs of credit card debt.

In spring 2014 Finanstilsynet investigated how far businesses had come in implementing the guidelines. The survey covered 34 banks and finance companies that both issue and invoice credit cards. The bulk of companies are now compliant with most of the guidelines. However, 15 companies still failed to give the customer the opportunity to agree the invoicing of total outstanding debt, and eight were still directly debiting the customer without the latter's formal agreement. An earlier survey showed that 46 per cent customers pay the total outstanding debt upon first-time invoicing and 26 per cent pay more than the minimum required amount.

Accounts meetings

In 2014 Finanstilsynet held semi-annual meetings with the management of the largest banking groups at which the banks presented their results along with updates on key risk factors. They also gave a briefing on trends in the markets in which the banks operate and on organisational matters.

Meetings with branches of foreign credit institutions

Finanstilsynet has supervisory responsibility for parts of the activity of branches of foreign credit institutions in Norway. The focus here is on what in EU legislation is termed the 'general good' which essentially comes under the rules governing the relationship between institution and customer. The branches keep Finanstilsynet informed of their activities in Norway, of their interim financial statements and of any changes in group structures. Meetings are also held with the senior management of the largest Norwegian branches of foreign banks.

Supervisory collaboration

The supervision of large individual banks operating in several countries is coordinated through supervisory colleges in which the relevant countries' supervisory authorities are represented. Finanstilsynet is the coordinating authority for the DNB supervisory college. Key tasks for the college in 2014 were the preparation of a joint risk and capital assessment of the DNB Group (SREP). The college reviewed and also commented on the DNB Group's first disaster recovery plan, which is required by the EU's new Crisis Management Directive to be incorporated in Norwegian legislation in due course. A disaster recovery plan shows the consequences of failing capital adequacy and liquidity and points to possible measures to restore the situation.

Finanstilsynet also participates in nine supervisory colleges for foreign banks operating in Norway.

Licensing

Licence applications

Banks

Merchant & Maritime Bank was granted permission to establish operations as a commercial bank in January 2014. Its business concept is to be a niche bank for small and medium companies in the shipping and offshore service segment. The bank did not commence operations in 2014.

In December 2014 Finanstilsynet gave permission for the merger of two savings banks, Klepp Sparebank and Time Sparebank, with Klepp Sparebank as the acquiring party. Concurrently permission was granted for the establishment of the foundation Sparebankstiftelsen Klepp. The merger was effective from 1 January 2015, and the two bank's business is continued under the name «Jæren Sparebank».

Finance and mortgage companies

Finanstilsynet awarded Loomis Norge AS a licence to operate as a finance company, limited to foreign exchange business. Permission was granted to establish a financial group with Loomis Holding Norge AS as the parent and whole owner of Loomis Norge AS.

Entercard Norge AS had its finance company licence changed to that of a mortgage company licence.

Finanstilsynet gave permission for the merger of the two residential mortgage companies, Sør Boligkreditt AS and Pluss Boligkreditt AS, with the latter as the acquiring party. The name of the merged entity is Sør Boligkreditt AS. The merger was a consequence of the amalgamation of Sparebanken Sør and Sparebanken Pluss in 2013.

Electronic money institutions

mCash Norge AS was awarded a licence to operate as an electronic money institution. The company previously held a payment institution licence.

Payment institutions

In 2014 Finanstilsynet received 15 applications for a licence to carry on business as a payment institution. Four of these were applications for an ordinary licence, while eleven sought limited authorisation to engage in money transfers. In 2014 two entities received ordinary licences and one received limited authorisation to engage in money transfers.

In 2014 Finanstilsynet received five applications for renewal of limited licences to engage in money transfers from entities that had received time-limited authorisation in 2012. Finanstilsynet completed its processing of eleven applications for renewal in 2014. Four of these applications were granted, seven were rejected and two are being processed.

Regulatory development

EU crisis management directive

The EU crisis management directive (Bank Recovery and Resolution Directive, BRRD (2014/59/EU)) was adopted in May 2014. The Directive entered into force in the EU in January 2015, and the bail-in tool will become effective in January 2016. The Directive is supplemented by a number of technical standards.

The Bank Law Commission is mandated to draft a proposal for transposition of the Directive into Norwegian law. Under the Directive banks can fail without threat to financial stability since critical functions can be maintained during a crisis and losses will be borne by owners and creditors rather than by recourse to government funds. Crisis management fund resources will be available to cover loss if a systemic crisis threatens. At least 8 per cent of a bank's total assets must be bailed-in before recourse can be had to the crisis management fund. The Directive is described in the report *Risk Outlook 2014*, page 53. Two of the preventive measures – recovery plans and resolution plans – are described in the report *Financial Trends 2014*, pages 38–39 (Norwegian only).

Deposit guarantee scheme

The revised Deposit Guarantee Schemes Directive was adopted on 16 April 2014. Several elements of the Directive are already incorporated in Norwegian legislation.

The revised Directive brings a fully harmonised coverage level of EUR 100,000. The Norwegian coverage level of NOK 2 million can be utilised on a transitional basis up to the end of 2018. The Directive imposes requirements on financing arrangements for the deposit guarantee funds. After ten years the funds must measure at least 0.8 per cent of guaranteed deposits. Contributions to the deposit guarantee funds will be risk based and in proportion to deposits covered and level of risk in the bank. Banks with higher risk will pay larger contributions than banks with lower risk.

All Norwegian savings and commercial banks, including Norwegian subsidiaries of foreign banks, are fully fledged members of the Banks' Guarantee Fund. At the end of 2014 the guarantee fund totalled some NOK 30.7 billion.

New capital adequacy and liquidity requirements – CRD IV / CRR

The EU adopted CRD IV in June 2013. Concurrently detailed provisions were introduced in the form of the Capital Requirements Regulation (CRR). CRD IV and CRR are EEA relevant, but have yet to be incorporated in the EEA Agreement. Norwegian legislation is nonetheless largely in line with CRD IV and CRR.

The overarching capital and buffer requirements of CRD IV were incorporated in Norwegian law in June 2013. In August 2014 amendments were made to several regulations in the capital adequacy area and in regulations on remuneration schemes which implement the more detailed provisions of CRR. The amendments to the Norwegian capital requirements regulations became effective on 1 January 2015.

Law requires institutions to maintain a common equity tier 1 ratio of at least 4.5 per cent, tier 1 capital of 6 per cent and own funds of 8 per cent. Institutions must also maintain a capital conservation buffer of 2.5 per cent and a systemic risk buffer of 3 per cent, bringing the assembled buffer requirement to 5.5 per cent at the end of 2014. There is in addition where relevant a countercyclical buffer and a buffer for institutions deemed systemically important. All buffer requirements must be met by common equity tier 1 capital. Under the Securities Trading Regulations, investment firms are exempt from the buffer requirements until further notice.

Authority to stipulate the buffers rests with the Ministry of Finance. The Ministry has decided to set the level of the countercyclical buffer on a quarterly basis, after receiving advice from Norges Bank in consultation with Finanstilsynet. The Ministry of Finance also designates systemically important institutions on an annual basis, after consulting with Finanstilsynet.

Norges Bank gave its initial advice regarding the countercyclical buffer in December 2013, with Finanstilsynet's endorsement. Based on that advice, the Ministry of Finance decided to introduce a countercyclical buffer requirement of 1 per cent with effect from 30 June 2015. Over the course of 2014 the buffer requirement was reviewed each quarter. The Ministry has decided to retain the buffer unchanged. In the fourth quarter of 2014 Finanstilsynet called for the buffer to be raised to 1.5 per cent with effect from 31 December 2015. It did do in view of the risk posed by the growth in household debt and house prices to financial stability, concurrently with a strong rise in banks' earnings.

Regulations on identification of systemically important institutions were adopted on 12 May 2014, and the Ministry of Finance concurrently decided that DNB ASA, Nordea Bank Norway and Kommunalbanken AS should be deemed systemically important and subject to a special buffer requirement of 1 per cent from 1 July 2015 and 2 per cent from 1 July 2016.

CRD IV also contains new requirements for liquidity and leverage ratio. The Ministry of Finance asked Finanstilsynet to consider how new liquidity requirements should be introduced in Norway, and when and how a leverage ratio requirement should be implemented. This was to be done in the first half of 2015. The Ministry of Finance concurrently asked Finanstilsynet to consider the advisability of publishing Finanstilsynet's Pillar 2 requirements on individual institutions in Norway. See liquidity monitoring on page 32–33 for details of new liquidity requirements under CRD IV.

Amendments to regulations on remuneration schemes

Amendments to the regulations on remuneration schemes at financial groups, banks, finance companies, insurance companies, pension undertakings, investment firms and mutual fund management companies (Regulations on remuneration schemes etc.) implement CRD IV's requirements on remuneration systems. The requirements aim to reduce excessive risk taking and to promote sound and effective risk management at financial institutions.

Amendments adopted by the Ministry of Finance on 22 August 2014 follow new requirements set in CRD IV. Commission Delegated Regulation No 604/2014 establishes quantitative and qualitative rules to be applied to define employees whose functions have a significant bearing on an institution's risk profile. Further, Commission Delegated Regulation No 527/2014 specifies the classes of financial instruments that are appropriate to be used for the purpose of variable remuneration and that adequately reflect the credit quality of an institution as a going concern. It is possible for an institution to attach conditions to such instruments, applying exclusively to instruments allocated to employees for the purpose of variable remuneration and not applying to other investors. As a result of the amendments, Finanstilsynet in circular 15/2014 made it clear that Norwegian institutions are expected to comply with these Regulations even though they are so far not a part of the EEA Agreement.

Changes to the rules on delegation

New rules on financial institutions' delegation of services entered into force on 1 July 2014. The Financial Institutions Act regulates the right of institutions to delegate functions, and the Financial Supervision Act introduces an obligation to notify the delegation of functions. The latter Act also empowers Finanstilsynet to set conditions for delegation and to require the non-implementation or termination of delegation should Finanstilsynet consider the delegation to be taking place on a scale or in a manner not deemed prudent, or that it makes the supervision of the enterprise more difficult.

In order to ensure that the notification obligation is in proportion to supervisory needs, Finanstilsynet in October circulated for comment a proposal concerning exemption from the notification obligation. Finanstilsynet aims to finalise the regulations in the near future.

Supervisory fee for financial foundations

In 2014 Finanstilsynet, together with the Gaming and Foundation Authority, was tasked with responding to a question raised by the Savings Banks Association regarding savings bank foundations' payment of supervisory fees both to the Gaming and Foundation Authority and to Finanstilsynet. In November 2014 Finanstilsynet and the Gaming and Foundation Authority sent a joint reply to the Ministry of Finance explaining the two authorities' differing tasks vis-à-vis financial foundations. The two agencies propose a change to the regulations to reduce the supervisory fee payable to the Gaming and Foundation Authority.

EU-wide stress test and asset quality review

The national supervisory authorities in Europe, the European Banking Authority (EBA) and the European Central Bank conducted a stress test of the largest European banks in 2014 («EU-wide stress test 2014»). They concurrently assessed the quality of the assets of these banks (Asset Quality Review, AQR). The DNB Bank Group attended from Norway. Nordea Bank Norway (subsidiary) was covered by the figures for the Nordea Bank Group, while the Norwegian branches of Danske Bank, Santander Bank and the other three largest Swedish banks (Handelsbanken, SEB and Swedbank) were covered by the figures for their respective banking groups.

The EU-wide stress test assessed the largest European banks' ability to withstand serious shocks and losses. The stress test included inter alia estimation of future loan losses, changes in interest rate revenues and expenses and market risk. The stress test supplements, and does not replace, the supervisory authorities' own stress testing. In the AQR, the national supervisory authorities and the ECB (for the banks in the Euro area) reviewed the banks' loan portfolios to assess whether the banks' write-downs of problem loans as of the 31 December 2013 were adequate.

The stress test and AQR were initiated and coordinated by the EBA and carried out in conjunction with national supervisors, the ECB, the European Systemic Risk Board and the EU Commission. The national supervisors were responsible for ensuring that the banks conducted the stress test in a satisfactory manner, for quality assurance and for the implementation of any supervisory measures needed.

The results of the stress test and the AQR were published on 26 October 2014. For the banks as a whole the stress scenario showed a fall in the common equity tier 1 (CET 1) ratio from 11.1 per cent in 2013 to 8.5 per cent in 2016. There were however wide differences between the banks. The DNB Banking Group was among the banks to show the smallest change in the CET 1 ratio. Based on the AQR, which can be regarded as a supervisory review of the DNB Banking Group's loans, the stress test incorporated a reduction in the DNB Banking Group's CET 1 capital of EUR 45 million, equivalent to NOK 377 million. This measured 0.03 percentage points of the bank's CET 1 capital ratio.

Neither Finanstilsynet nor the DNB Banking Group set in train special measures as a direct consequence of the stress test. Finanstilsynet emphasised that the results of the stress test largely reflected the sound position of Norwegian banks and the Norwegian economy.

Finanstilsynet's role in the AQR in the Nordea Group was that of coordinator of a joint Nordic inspection of the Group's Shipping, Offshore & Oil Service portfolio and, in Norway, to assess the portfolios in the commercial property, small and medium businesses and home mortgage loan areas.

In view of the uncertainty posed by stress testing in general, both as regards underlying assumptions and methodology, Finanstilsynet does not base its assessments of banks' robustness merely on the outcome of one stress test and one scenario. Finanstilsynet's assessment is that Norwegian banks should increase their capital adequacy further by retaining the bulk of their net profit; this will put them in a position to provide loans during a serious economic setback as well as at other times.

See the EBA's, Finanstilsynet's and DNB's websites for more information on the EU-wide stress test and AQR conducted in 2014.

FATF evaluation of Norway – anti-money laundering and counter-terrorist financing measures

The FATF (Financial Action Task Force) sets global standards for measures to combat money laundering and terrorist financing, and evaluates countries against these standards. The private and public sectors in Norway were in 2013–2014 evaluated under the FATF's new standards from February 2012. The evaluation of the public sector covered several government agencies in the justice and financial sector, including Finanstilsynet.

The report is critical of Norwegian follow-up in general as regards legislation, supervisory follow-up and sanctions against law violations. The main conclusions as regards Finanstilsynet are the following:

- Finanstilsynet's supervisory activities are mainly geared to prudential supervision and market conduct, and insufficiently geared to money laundering and terrorist financing risks.
- The scope and intensity of supervisory activities as regards measures to combat money laundering and terrorist financing are inadequate.
- No on-site inspections have been carried out at payment institutions holding a Norwegian licence.
- Inadequate sanctions against breaches of the anti-money laundering legislation.
- Finanstilsynet does little to monitor supervised entities' compliance with the UN's asset freeze obligations as regards terrorist financing, and the financing of proliferation of weapons of mass destruction.

The question of follow-up action on the FATF report is under consideration.

Financial Sector Assessment Programme (FSAP) in Norway in 2014 and 2015

One of the tasks of the International Monetary Fund (IMF) is to assess its member countries' economies and economic policies through Article IV consultations. In addition, a special assessment is made of the financial sector and financial stability through the Financial Sector Assessment Programme (FSAP). While Article IV consultations have been conducted every other year in Norway, it is ten years since Norway was last assessed under the FSAP. The IMF regards Norway as a systemically important country, and systemically important countries will henceforth be assessed through Article IV consultations each year and FSAP once every five years. The FSAP is a wide-ranging process that involves meetings with a number of public authorities, organisations and financial institutions and demands substantial preparation through questionnaires, self-assessments and data reporting. Norges Bank has the main responsibility for coordinating the process in conjunction with Finanstilsynet. The FSAP assessment started in June 2014. The final report is expected to be available in August 2015.

There are two basic aspects of an FSAP assessment. The first is an assessment of factors of significance for financial stability, i.e. risks and vulnerabilities in the financial system, the authorities' work on financial stability and crisis management preparedness. The second aspect is a country's fulfilment of international standards in selected areas. What themes are taken up in an FSAP assessment varies from country to country. Norway is evaluated on the following five main themes:

- Compliance with Basel Core Principles (BCP), which are an international standard for banking supervision
- Macroeconomic analysis and macro policy instruments
- Stress testing
- Payment and settlement systems infrastructure
- Crisis preparedness and crisis management arrangements

INSURANCE AND PENSIONS

Insurance companies and pension funds are key actors in the financial markets due to their substantial investment of capital under management. Market developments thus have a major influence on institutions' performance. Regulation and supervision of the insurance and pension sector are important in safeguarding customers' rights under insurance and pension contracts, and in instilling public confidence in the market. The supervisory regime aims to foster financially solid, risk-aware companies and sound management and control.

Developments

Capital gains on shares and bonds contributed to good results for pension institutions (life insurers and pension funds) in 2014. However, the institutions face major challenges in the years immediately ahead. Low interest rates make it difficult for them to achieve return beyond the guaranteed minimum rate. Although the proportion of unit linked defined contribution schemes is rising rapidly, the bulk of life insurers' liabilities still comprises contracts with a guaranteed annual rate of return.

The new prudential regime, Solvency II, is to be introduced across the EU as from 1 January 2016. Solvency II reflects the risk at life insurers better than the existing solvency framework, and entails significantly higher capital requirements for a number of insurers. These must either reduce risk or raise new capital to meet the new requirements. Insurance liabilities are valued at market value, and the interest rate prevailing at any given time affects the value of insurers' liabilities. In view of the challenges facing many European insurers, the Omnibus II Directive, amending Solvency II, permits some easing, or a more gradual introduction, of the new capital requirements. Finanstilsynet has proposed applying some of these easing measures to Norwegian life insurers, making it simpler for more insurers to adapt to the new capital requirements.

Rising longevity in the population requires pension institutions to increase their provisioning for future pension liabilities. As from 1 January 2014 a new mortality table was adopted that takes account of rising life expectancy. This table entails higher premiums for policyholders and a need to significantly strengthen pension institutions' technical provisions. Much of this need was met in the period 2011–2013, and again in 2014, but provisioning for private occupational pensions nonetheless needs to be significantly increased in the years ahead. Provisioning for public sector occupational pension contracts was largely completed in 2013.

Supervision and monitoring

Monitoring and analyses

Monitoring and analyses of developments in the economy and markets provide the background for Finanstilsynet's assessment of the general state of the financial sector and its supervision of individual institutions.

Quarterly reports are prepared on profitability, financial strength and balance sheet composition at life insurers and non-life insurers, while reports for pension funds are half-yearly. Quarterly press releases summarise these analyses, which are also published in *Report for Financial Institutions* (Norwegian only) on Finanstilsynet's website. Overall assessments of the situation in the financial sector and of various risks faced by Norwegian financial institutions were published in the spring 2014 report *Risk Outlook: The Financial Market in Norway* and the autumn 2014 report *Financial Trends*.

Reporting

The reports filed by institutions are an important basis for analyses and on-site inspections. A complete overview of current requirements on reporting, along with updates on any adjustments to the reporting set-up, is available on Finanstilsynet's website. Finanstilsynet collaborates with Statistics Norway on the quarterly reports filed by insurers through FORT (the Norwegian acronym for 'public financial and supervisory reporting by insurers'), while pension funds report annually via PORT (the Norwegian acronym for 'public financial and supervisory reporting by pension funds').

Insurers report stress test results to Finanstilsynet on a quarterly basis. A purpose of the stress tests is to analyse the impact of the forthcoming prudential regime, Solvency II, on insurers. The stress tests are also a key tool of the ongoing supervision of insurers' risk and financial position. The stress test scenarios cover all aspects of insurers' activity and include market risk, insurance risk, counterparty risk and operational risk.

Since the end of 2012, all pension funds have reported stress tests semi-annually in line with insurers.

Financial strength and profitability of Norwegian insurers and pension funds

Since a large proportion of life insurers' and pension funds' managed assets are invested in securities markets, developments in these markets are of great significance to their profits and financial strength. Life insurers and pension funds are dependent on sufficient return on policyholder assets to secure the annual interest guarantee attached to large portions of their insurance obligations. Oslo Børs climbed 5 per cent in 2014, after wide fluctuations over the year. In the euro area and the US the equity market upturn was 2 and 11 per cent respectively. Long interest rates were substantially reduced in 2014 in Norway, the US and the euro area alike. In Norway the 10-year government bond rate fell from 3 to 1.6 per cent over the course of 2014.

The interest rate fall in the second half of 2014 raised the value of the bond portfolio, thereby strengthening life insurers' buffer capital. Stress tests that measure risk in life insurance companies under Solvency II show nonetheless that a number of life insurers need to reduce risk and/or be supplied with capital in order to meet the capital requirements under the new regulatory regime. This is partly because lower interest rates increase the value of insurance liabilities under Solvency II. In addition, life insurers face challenges related to rising longevity in the population. Life insurers are expected to devote much of any surplus on policyholder funds in 2014 to provisioning for rising life expectancy.

Pension funds have a larger equity component in their balance sheets than life insurers. Over time this has resulted in wide fluctuations in return. The equity market upturn in 2012 to 2014 has brought substantially higher return for pension funds over the past three years than in 2011 when the market trend was negative and pension funds' rate of return low. Again in 2014, the equity market upturn contributed to higher revaluation reserves and strengthened buffer capital. Pension funds are also expected to devote much of any surplus return on policyholder funds achieved in 2014 to provisioning for rising life expectancy.

Non-life insurers performed better in 2014 than in 2013 due to strong premium growth and some increase in financial revenues. Their combined ratio showed improvement on 2013 due to a lower claims ratio. Their cost ratio was approximately unchanged. Non-life insurers in general are generally well capitalised, and appear to be broadly well equipped to meet the capital requirements under Solvency II.

Facts:

At the end of 2014 13 life insurers, 59 non-life insurers (including 15 fire insurers) and 10 marine insurance associations were licensed to operate in Norway. A further 15 branches of Norwegian insurers were operating abroad and 31 branches of foreign insurers in Norway. Moreover, 102 insurance intermediaries, 52 private pension funds and 38 municipal pension funds held a licence at year-end.

On-site inspection

On-site inspections were conducted at three life insurers. At the inspections Finanstilsynet focused in particular on overall management and control, and on implementation of EIOPA's recommendations for preparations for Solvency II.

On-site inspections were conducted at three pension funds. The inspections covered overall management and control, the capital management area and the insurance area. Finanstilsynet also highlighted the importance of ensuring that management boards possess adequate overall competence.

On-site inspections were conducted at three non-life insurers and four fire insurers. The inspections addressed management and control, in particular preparation for the new Solvency II framework.

On-site inspections were conducted at three insurance intermediaries. Risk management and internal control were a key theme in addition to competent and sound customer guidance.

Survey of commission rebates

Finanstilsynet wrote in February 2014 to a selection of Norwegian life insurers and branches in Norway of foreign life insurers to map their receipt of commission rebates from mutual fund management companies. The survey focused on the insurers' selection of securities funds in their unit linked portfolios and on the information given on commission rebates. The aim was to gauge whether life insurers, in their selection of securities funds, including index funds, protect their customers' interests. Finanstilsynet sent in December identically worded letters to the companies with a summary of the survey.

The survey gave no support for the contention that life insurers' choice of a particular securities fund for its unit linked portfolio is directly influenced by the size of commission received. However, Finanstilsynet recommended companies to draw up strategies for selecting securities funds for the unit linked portfolio, which should cover any intra-group agreements with management companies, to ensure that customer interests are protected. The survey showed that several companies fail to inform customers that the companies receive a share of the management company's management fee for the securities funds the customer chooses for his investments, and that none of the companies disclose the size of this commission rebate. Finanstilsynet pointed out in its letter that the companies should disclose any commission rebate received from management companies, and its size. This is necessary in order for the customer to make a well-informed choice.

It was also revealed that in their agreements with agents some companies have made it clear that advice to customers is provided as an independent service and not on behalf of the insurer. Finanstilsynet pointed out in its letter that insurers are not entitled to pass on responsibility for information and advice to their agents, and cited inter alia Finanstilsynet's report «Survey of information and advice when selling individual life insurance products where the customer takes the investment decisions», which was published (in Norwegian only) on Finanstilsynet's website in September 2012.

Survey of measures to combat money laundering

Since autumn 2013 anti-money laundering measures have been a theme in their own right at on-site inspections at insurance companies and insurance intermediaries. In spring 2014 Finanstilsynet surveyed insurers' compliance with the anti-money laundering legislation. The survey showed that few companies had addressed the risk of money laundering and terrorist financing, and in most cases procedures for complying with the anti-money laundering legislation were inadequate or non-existent.

Accounts meetings

Finanstilsynet holds semi-annual meetings with the management teams of the largest insurers. At these meetings the insurers present their latest financial results and developments in key risk factors. In addition, updates are given on the markets in which the insurers operate, on organisational matters and on strategic issues at the individual insurer.

Supervisory cooperation

The supervision of large insurance companies operating in two or more countries through subsidiaries or large branches is coordinated through supervisory colleges in which the various countries' supervisory authorities are represented. Finanstilsynet heads the supervisory college for Gjensidige Forsikring ASA, Storebrand ASA and Assuranseforeningen Gard, and organised meetings of the Gjensidige and Storebrand colleges in February 2014.

Finanstilsynet participates in supervisory colleges for the following foreign non-life insurers operating in Norway: Tryg A/S and Alpha Forsikring A/S, Denmark and If, Sweden.

Implementation of recommendations from EIOPA

Finanstilsynet abides by the recommendations issued by the European Insurance and Occupational Pensions Authority (EIOPA) regarding preparations for Solvency II. The recommendations cover requirements on insurers' risk management and internal control in the form of an «own risk and solvency assessment» (ORSA), the requirement of pre-application for internal models and reporting requirements. Finanstilsynet gave written feedback on insurers' ORSA in 2014.

Licensing

Licence applications

In March 2014 the Ministry of Finance authorised Nordea Liv Norge AS to eliminate the intermediate holding company between the Swedish owner company and the Norwegian life insurer. The decision was in keeping with Finanstilsynet's recommendation.

Nordnet Livsforsikring AS was in May 2014 authorised to establish a life insurer. Nordnet Livsforsikring is a subsidiary of the Swedish Nordnet Pensionsförsäkring AB, which has operated through a branch in Norway. The new company takes over the portfolio of the Norwegian branch, Nordnet Pensjonsforsikring NUF. The company offers savings products with an insurance element.

Akershus fylkeskommunale pensjonskasse (a county administrational pension fund) applied for permission to operate as an intermunicipal pension fund. This was granted in June 2014, and the pension fund concurrently changed name to Akershus interkommunale pensjonskasse.

In August 2014 Finanstilsynet authorised Troms kommunale pensjonskasse to operate as a municipal pension fund, and in September 2014 Nettbuss Pensjonskasse AS was authorised to operate as a municipal pension fund. Towards year-end a further four pension funds were authorised to operate as pension funds. They were Asker kommunale pensjonskasse, Bærum kommunale pensjonskasse, Nordkraft pensjonskasse and Lofotkraft pensjonskasse.

In November 2014 Finanstilsynet authorised Hafslund Offentlige Felles Pensjonskasse and Hafslund Private Felles Pensjonskasse to merge. Hafslund Offentlige Felles Pensjonskasse was the acquiring pension fund, and concurrently changed name to Hafslund og Infratek Pensjonskasse.

In 2014 Finanstilsynet authorised seven pension funds to widen their business to include paid-up policies. Six of these were also authorised to widen their activities to include business continuation insurance.

Maximum guaranteed rate of return in life insurance

Finanstilsynet is required to stipulate the highest interest rate available to life insurers and pension funds when calculating premiums and associated technical provisions in collective annuity and pension insurances. In May 2014 Finanstilsynet circulated for comment a recommendation to lower the maximum permitted rate with a view to strengthening life insurers' financial position. Finanstilsynet decided to lower the maximum rate from 2.5 to 2.0 per cent as from 1 January 2015. Eight of the largest employer and worker organisations along with the industry organisations appealed the decision to the Ministry of Finance. Finanstilsynet's decision was however upheld.

Insurance Complaints Board

Finanstilsynet acts as secretariat to the complaints board for insurance broking activities and reinsurance broking activities. The board handles disputes between principals and brokers. No complaints were received by the board in 2014.

Regulatory development

Solvency II – the new European solvency framework for insurers

The Solvency II framework becomes effective on 1 January 2016. In December 2014 Finanstilsynet sent the Ministry of Finance draft regulations for the implementation of Solvency II in Norwegian law. The Solvency II Directive will be supplemented by implementing provisions and technical standards and recommendations. The European Commission adopted the Regulation with implementing provisions in October 2014, and EIOPA presented a proposal for standards and recommendations for public hearing in 2014. These will be finally ratified in 2015.

Finanstilsynet considered certain issues related to the implementation of Solvency II in Norway in a letter to the Ministry of Finance in June 2014. They relate to capital requirements for credit exposure to municipal and county authorities, possible tax consequences of Solvency II, the treatment of life insurance products at non-life insurance companies and the treatment of the Norwegian National Fund for Natural Damage Assistance and other national funds for solvency measurement purposes.

Impact studies have previously shown that many European life insurers will fail to meet the solvency requirements of Solvency II. The Omnibus II Directive, which amends the Solvency II Directive, establishes several permanent measures and transitional arrangements which primarily address life insurers that issue long-term guarantees. Finanstilsynet sent its assessments of the measures to the Ministry of Finance in September 2014, together with a draft version of regulations to implement Solvency II.

Own risk and solvency assessment (ORSA)

EIOPA has published recommendations for preparations for Solvency II that set the stage for parts of the legislation to be applied from 2014 onwards. EIOPA's recommendations cover inter alia self-assessment of risk and solvency (ORSA). Under the Solvency II Directive an insurer is required as an integrated part of its risk assessment to assess its capital need at least once a year. The assessments must be forward-looking. The company must also review its ability to comply with the solvency capital requirement on an ongoing basis, and consider whether the company's risk profile is adequately captured in the measurement of the capital requirement. The recommendations defer the requirement to make the two latter assessments to 2015. Small and medium companies may in 2015 as previously be exempt from making these assessments. The process and the result must be approved by the company's board of directors, and be taken into account in the company's strategy and decision processes. A report must be filed with the supervisory authority within 14 days of the board's approval of the self-assessment.

In 2014 Finanstilsynet provided feedback to each company in light of the self-assessment received. The feedback is based on EIOPA's recommendations and focused on overarching principles. In the case of companies considered to be in a weak financial position, the capital plan receives special comment.

Reporting under Solvency II

A wide-ranging effort is under way to set up the reporting material required under Solvency II. As part of the preparations it was decided that parts of the required reporting should take place ahead of schedule. Annual data for 2014 and quarterly data for the third quarter of 2015 will accordingly be reported using a sub-set of the 2015 reporting material. To that end Finanstilsynet held an information meeting in 2014 for the reporting entities concerned and for the Solvency II reporting reference group. A dedicated webpage is in place on Finanstilsynet's website containing information on both the early and the ordinary reporting and on the technical solutions.

Pre-application for internal models

Finanstilsynet is to permit insurance companies to use their own models to compute the solvency capital requirement. The companies are recommended to conduct a pre-application dialogue with Finanstilsynet before formally applying to Finanstilsynet for permission to use their own models. The purpose of the pre-application dialogue is to ensure a shared understanding of the requirements, enabling companies to submit an application that is as complete as possible. Finanstilsynet held a pre-application dialogue with three companies in 2014.

Proposal for new occupational pensions directive for pension institutions

In March 2014 the European Commission presented its proposal for changes to the Institutions for Occupational Retirement Provision (IORPs) Directive. The proposal builds on EIOPA's recommended body of rules and envisages full harmonisation. The proposal contains new, expanded requirements on management and control and on publication and reporting (Pillar II and III). It is recommended for entry into force on 1 January 2017. The European Commission recommends not altering the quantitative solvency rules for occupational pensions institutions (Pillar I). The proposed directive is under discussion, and changes have been announced.

EIOPA started work in 2014 on revising the quantitative solvency rules for occupational pension institutions (Pillar I) in the directive.

Accounting rules for the insurance and pensions area

Finanstilsynet is following the work done internationally in the accounting area on insurance contracts.

Finanstilsynet has reviewed the Annual Accounts Regulations for insurers with a view to making them more user-friendly. It inter alia proposed turning the rules governing life insurance companies into a separate set of annual accounts regulations. A consultation document proposing changes was sent to the Ministry of Finance for circulation to relevant parties.

Finanstilsynet is considering the consequences of the Solvency II framework for the accounting legislation, and a consultation document proposing changes will be sent to the Ministry of Finance early in 2015.

K2013 – New mortality tables for life insurers and pension funds

The Insurance Activity Act requires technical provisions to be sufficient to cover existing insurance obligations at all times and action to be taken where provisions are not sufficient. In light of recent years' rise in longevity in the Norwegian population, Finanstilsynet established a new mortality base table (K2013) with effect from 1 January 2014. K2013 expresses a minimum requirement set by Finanstilsynet for insurers' new mortality base.

Finanstilsynet's requirements necessitate an increase of NOK 58–60bn in pension institutions' technical provisions, breaking down to NOK 41–42bn for life insurers and NOK 17–18bn for pension funds. Figures from the companies show that an increase of 9–10 per cent will be needed for private pension schemes offering both retirement and survivor's pension, and about half that figure for the public sector.

As a general rule pension institutions must at all times have technical provisions sufficient to cover future obligations. The introduction of the new mortality tariff requires a substantial increase in technical provisions. Many pension institutions have needed to apply for permission for escalation plans under the derogation clause of the Insurance Activity Act. Such plans will apply as from the start of 2014, and are allowed a duration of up to seven years. Many pension institutions have received approval for their applications for escalation plans.

As a general rule pension institutions are responsible for ensuring that provisions are sufficient at all times. However, the Insurance Activity Act permits all or part of the surplus for the year to be employed for necessary strengthening of provisions. Use of policyholder surplus requires the consent of, or the issue of an order by, Finanstilsynet. Finanstilsynet requires at least 20 per cent of the need for increased technical provisions to be met out of the pension institutions' own funds.

New insurance products

New provisions introduced in the Act on defined benefit pensions that permit paid-up policyholders to manage their paid-up policies on a unit linked basis entered into force on 1 September 2014. The insurer is required to provide information and advice to the paid-up policyholder before a unit linked agreement is signed. A paid-up policy must be fully provisioned under K2013 upon conversion. Further, use of a technical interest rate when calculating pension payments is permitted in cases where this may provide a better payout profile for policyholders. At the end of 2014 two life insurers had begun to offer this product.

The Bank Law Commission's report NOU 2013: 12 *Disability pension in private occupational schemes* was circulated for comment with March 2014 set as the deadline for responses. The report contains a draft version of new law provisions governing disability pension in private occupational pension schemes that are in line with the main principles underlying new disability pension under the National Insurance Fund Scheme. The Ministry of Finance tabled a Bill on the new framework for disability pensions in tax-favoured private occupational pension schemes on 12 December 2014.

THE SECURITIES AREA

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

Supervision of the securities area includes marketplaces and settlement systems, mutual funds and management companies, listed issuers' financial reporting and prospectus control. Supervision covers securities institutions' financial position and operations, and their compliance with business rules and general rules of conduct.

Developments

Stock market

Wide fluctuations were noted in the Norwegian stock market in 2014. At the start of the year the Oslo Børs Benchmark Index, OSEBX, was below 550 points. The year's highest value was 632 points, on 23 June, while in mid-October it was 532 points. At the end of 2014 the benchmark index stood at 576 points.

Oslo Børs prices are heavily influenced by developments on oil and gas markets and other commodity markets. The energy index fell by 19 per cent, and the oil service index by 31 per cent.

After several years of declining volume, turnover at Oslo Børs rose in 2014. As of 31 December equities worth NOK 1,055bn had changed hands, an increase of 28 per cent over 2013 when turnover totalled NOK 822bn.

Chart 3: Oslo Børs Benchmark Index (OSEBX), Jan–Dec 2014

Source: Oslo Børs

Oslo Børs' market share of equities that are also traded on other marketplaces (equities included in the OBX index) was about 65 per cent, up from about 62 per cent in 2013 (source: Fidessa). About 35 per cent of order book trading in OBX equities was done at marketplaces other than Oslo Børs in 2014. About one-third of the year's trades in OBX equities were completed outside the trading systems (OTC trades).

In 2014 equity capital worth NOK 27.5bn was raised on Oslo Børs and Oslo Axess (source: Oslo Børs). In about one-third of the flotations, shareholders' pre-emptive rights were set aside, and some 48 per cent of the equity capital was raised in connection with listings. In all, 19 new entities were admitted to Oslo Børs / Oslo Axess in 2014, up from twelve in 2013.

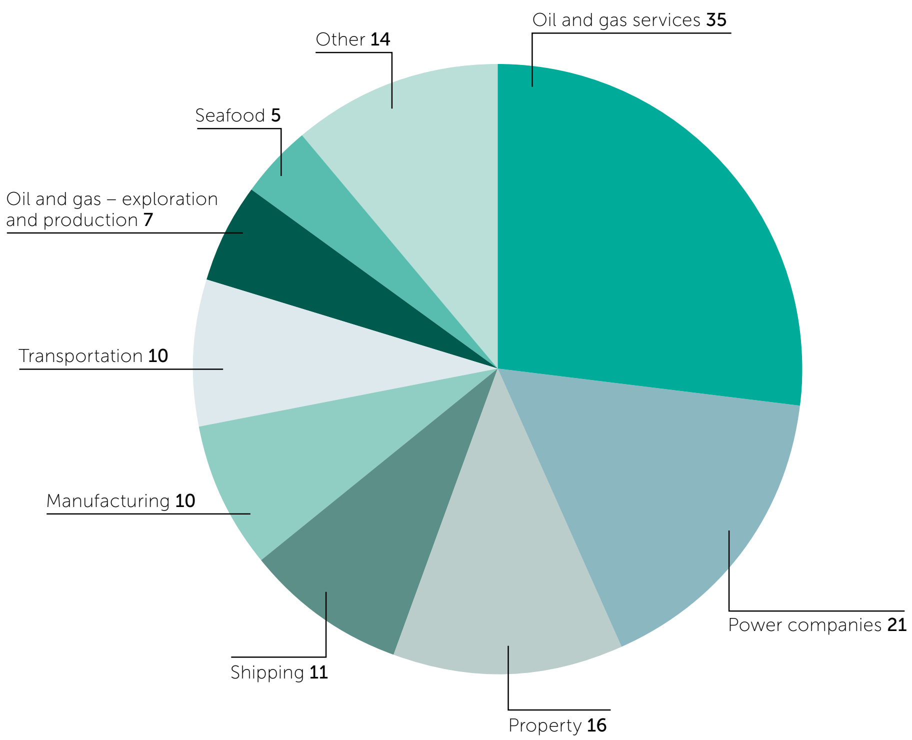
Bond market

Activity in the Norwegian bond market was high in 2014. The market comprises bearer bonds with a Norwegian identity code (ISIN). Over the year bonds for a total of NOK 345bn were issued, with banking and finance accounting for NOK 205bn, corporate bonds for NOK 111bn and local authorities for NOK 30bn. Total outstanding volume in the Norwegian bond market, including government bonds, came to NOK 1,756bn at year-end. Of this, NOK 894bn was issued by banking and finance, NOK 453bn by the central government sector (including the Norwegian State, NOK 343bn) and NOK 408bn by businesses. (Source: Stamdata)

The bulk of the Norwegian bond market is quoted on Oslo Børs or Nordic ABM. The outstanding volume of quoted bonds at year-end was NOK 1,411bn. This broke down to NOK 215bn in corporate bonds and NOK 790bn in other bonds on Oslo Børs, and NOK 60bn in corporate bonds and NOK 346bn in other bonds on Nordic ABM. In 2014 bonds worth NOK 765bn were traded on Oslo Børs, and NOK 326bn on Nordic ABM. Trades on the stock exchange are in principle bilateral, and are notified for publication in the exchange's systems. (Source: Oslo Børs)

Chart 4: Corporate bonds – issued volume 2014 (billions of NOK)

Source: Stamdata.no



The oil price fall in the fourth quarter of 2014 led to increased credit spreads which may in turn heighten the risk of defaults.

The five largest owners of bonds quoted on Oslo Børs and Nordic ABM are life insurance companies and private pension funds, banks, foreign companies and the social security administration.

Mutual fund market

Net subscription in Norwegian mutual funds in 2014 was minus NOK 1.92bn. Total net subscription in 2014 was NOK 101bn compared with NOK 26.4bn in 2013. The increase for the year was largest in fixed income funds. Aggregate total assets for Norwegian mutual funds came to NOK 85bn at the end of 2014. (Source: Norwegian Fund and Asset Management Association)

New regulation in the securities area

Developments in the securities area reflect the fact that virtually all relevant legislation is undergoing change. Changes to the Transparency Directive and a new Market Abuse Directive and Regulation were adopted previously, while the new Investment Services Directive, MiFID II and Regulation were adopted in the first half of 2014. The changes are expected to lead to changes in the market and necessitate revision of the Stock Exchange Act and the Securities Trading Act. In addition to changes to the premises for market participants and the market which is already regulated, a licensing obligation and other rules are introduced for activity which has not been regulated. Implementation of the new directives will entail increased reporting obligations to national supervisors and to ESMA from enterprises and market participants. This could pose challenges to market participants and government authorities alike in the years immediately ahead.

Investment firms

Supervision and monitoring

On-site inspection
Finanstilsynet conducted on-site inspections at ten investment firms in 2014, a decline on the previous year. The decline was due to the extensive work required in order to finalise inspections started in 2014, and work on charting the bond market. One inspection specifically targeted securities firms' ICT solutions. Firms' compliance with the provisions on good business practices was a central theme of the on-site inspections. Finanstilsynet checked that the firms' investment advice was appropriate to the clients and that the information firms had given their clients on risk and costs was balanced, correct and understandable.

Finanstilsynet also addressed investment firms' control function, in particular the organisation of this function and how the control effort was structured and arranged. A central theme of on-site inspections was the steps taken to limit potential interest conflicts. Finanstilsynet also reviewed firms' organisation and procedures in relation to dealing with inside information.

Finanstilsynet held contact meetings with the largest investment firms and with trade organisations. The meetings strengthen the dialogue with the firms and provide better insight into their activity and strategy, and the challenges facing the industry and the firms.

An on-site inspection at Navigea Securities AS in 2013 led to withdrawal of the entity's licence in 2014. Withdrawal was grounded in serious, systematic breaches of the Securities Trading Act's requirement of good business practices.

Thematic inspection of the CFD market
A CFD, or Contract for Difference, is an agreement between two parties to exchange the difference in the value of an underlying financial instrument such as an index, commodity or currency between the date the contract was opened and the date it was closed. CFDs are financial instruments carrying very high risk, targeting non-professional customers. Finanstilsynet conducted on-site inspections at the Norwegian branches of two large international providers of CFDs. Finanstilsynet investigated whether the rules on investor protection and good business practices were complied with. No significant rule breaches were brought to light. The thematic inspection of the CFD market continues in 2015, focusing on Norwegian investment firms that collaborate with providers of CFDs.

Facts:

Finanstilsynet's supervision of investment firms aims to promote an informed attitude to risk among firms and the maintenance of a high level of client protection in the securities market by ensuring that firms comply with the conduct of business rules. Supervision also promotes market integrity. At the end of 2014 there were 150 investment firms in Norway, of which 22 were branches of foreign investment firms.

Thematic inspection of tied agents
Finanstilsynet conducted on-site inspections at three investment firms having tied agents on some scale. The aim was to investigate whether the investment firms check that «good business practices» are observed by the agents. One firm opted to hand in its licence before the inspection was completed. One firm was censured for failing to follow up on agents, while one did not attract significant comments.

Thematic inspection of the NIBOR-fixing system
As part of its review of the system for fixing the NIBOR (Norwegian Interbank Offered Rate), Finanstilsynet carried out on-site inspections at the six panel banks for NIBOR in 2013. Key themes were each bank's organisation of its NIBOR contribution, calculation of the contribution, documentation and storage of the bank's NIBOR contribution, and internal control of the bank's NIBOR contribution and of the bank's sensitivity to NIBOR.

Group inspection
Finanstilsynet conducted on-site inspections at all investment firms in the Pareto Group. This process will end in 2015.

Survey of the bond market
In 2012 and 2014 Finanstilsynet carried out a survey of the Norwegian market for corporate bonds. The survey targeted the 16 banks and investment firms essentially making up the Norwegian bond market. The surveys provided useful statistics on issuers, investors and lead managers in all bond issues managed by one or more of the selected firms in the period January 2010 to September 2014. The surveys illuminate the risk associated with corporate bonds, the degree to which the retail customer market has invested in high yield bonds, how the secondary market for bond trading functions and how investment firms' own control of their bond business is organised.

Market warnings
Finanstilsynet published 22 warnings on its website against firms that had provided financial services in Norway in 2014 without the requisite licence. A further 333 warnings given by foreign supervisory authorities were published. In very many cases the firms in question are engaged in fraud, and individuals who transfer money to such firms must in many cases consider the money lost. Finanstilsynet warns against dealing with such firms, and its website contains information on investment fraud, advising investors on how to protect themselves against fraudsters. Finanstilsynet's market warnings are also available at Finansportalen.no.

Monitoring of firms' financial development
Finanstilsynet monitors investment firms' profitability and financial positions through their periodical reporting. The reporting also provides a picture of trends in income distribution and of the risk associated with the business.

Based on investment firms' and management companies' quarterly returns, Finanstilsynet publishes half-yearly press releases in which trends in these entities' business are presented and commented on. In 2014 the operating revenue of investment firms not integrated in banks rose by 1 per cent. Concurrently operating profit rose by 16 per cent. As in 2013, investment firms' largest revenue source was their corporate finance business. Their next largest revenue source was active portfolio management, as in 2013, although these revenues were 20 per cent down on the 2013 figure. The third largest revenue source was aggregate revenue from investment advice and order reception and transmission, as in 2013.

Finanstilsynet registered and brought to light a total of eight firms at the non-consolidated level and six at the consolidated level that breached capital requirements in 2014. The firms concerned were followed up closely, and warnings of possible licence withdrawal due to capital inadequacy were issued to several of them. The breaches were in the main rectified by cash deposits at the non-consolidated level or by conversion of debt at the consolidated level. At the end of 2014 six investment firms were required to report their capital adequacy position each month (compared with the normal interval of each quarter) due to low capital adequacy, negative profit growth and/or unverifiable reporting.

Finanstilsynet registered and brought to light ten breaches of the rules governing major exposures in each quarter of 2014. The firms in question were closely monitored, and several orders were issued to bring the excesses into line with the rules. The orders were in all cases complied with.

Licensing

Authorisation process
Six new investment firms were licensed to provide investment services in 2014. One already existing firm was granted an expanded licence. Licence applications include those from new firms as well as from existing financial conglomerates. Most new firms are relatively small, have few employees and mainly provide order reception and transmission services and investment advisory services. Two applicants sought permission to engage in lead management.

Five licences were revoked due to restructuring, mergers and corporate acquisitions, and business area reorganisation. One licence was withdrawn due to lack of use.

Fitness and propriety testing
Again in 2014, numerous fit-and-proper tests were carried out of board members and managers at entities in the securities field. Assessments are made of qualifications, job experience and previous conduct. Testing is carried out in connection with licence applications and management and board changes. In most cases where a manager was not considered suitable the decision cited a lack of relevant experience, and the entities came into line with Finanstilsynet's assessments. In some cases individuals were considered unsuitable due to their previous association with firms guilty of serious law violations.

Legislation
Finanstilsynet has recommended the Ministry of Finance to change the legislation to enable investment firms to switch from quarterly to semi-annual reporting to Finanstilsynet.

Finanstilsynet has also prepared a capital adequacy return form and a guide to completing this return for investment firms providing a limited range of services.

Mutual funds and collective investment schemes

Supervision and monitoring

Finanstilsynet conducted three on-site inspections at fund management companies in 2014. The inspections covered governance and control, establishment of customer relationships and associated information requirements as well as actual management of the funds.

Management companies are required to report possible breaches of investment limits set out in the Securities Fund Act and in fund rules. The number of reported breaches in 2014 was on a par with previous years, and Finanstilsynet noted none of a sizeable, serious nature. Depositaries' obligation to inform Finanstilsynet of any management company where rule breaches are brought to light is an important supplement to off-site supervision.

Finanstilsynet monitors management companies' financial situation and their compliance with the rules governing capital adequacy and large exposures on the basis of quarterly reports they file with Finanstilsynet. Finanstilsynet publishes half-yearly press releases on management companies' results where trends in the companies' business are presented and commented on.

In 2014 as previously, Finanstilsynet held contact meetings with the management companies and trade organisations. The meetings strengthen Finanstilsynet's dialogue with the entities and provide a better overview over their activity and strategy, and of the challenges facing the industry and the entities.

The Nordic supervisory authorities established in 2014 a working group for themes related to UCITS and alternative investment funds. The purpose is to establish closer cooperation on the supervision of management companies operating in two or more countries and to discuss common issues connected to fund management.

In 2014 Finanstilsynet signed a Memorandum of Understanding on supervisory cooperation in the mutual funds area with the Swiss financial supervisory authority (FINMA). MoUs were also entered into with non-EEA supervisors covering supervisory cooperation in connection with the management of alternative investment funds.

Facts:

At the end of 2014 30 management companies were licensed to manage securities funds. Twenty-one of these were licensed to carry on "active management of investors' portfolios of financial instruments". The number of securities funds managed by these companies fell from 447 at end-2013 to 411 at end-2014. The securities funds comprised 314 UCITS, 92 domestic funds and five specialised funds.

Net new subscription in Norwegian management companies' securities funds rose from NOK 68bn in 2013 to NOK 146bn in 2014. Of this, bond funds accounted for NOK 114bn and equity funds for NOK 18bn. Total net subscription, combined with a net rise in value over the course of the year, caused total managed assets in Norwegian securities funds to rise by 28 per cent in 2014 to reach NOK 814bn by year-end.

Withdrawal of Warren Capital AS's licences

In June 2014 Finanstilsynet withdrew Warren Capital AS's licences granted under the Securities Funds Act. The decision was not appealed against, and the entity closed down the business. The matter concerned unjustified disposal of client assets in connection with a dispute in a customer relationship. Warren Capital AS had breached the requirements for good business practices by transferring funds from the client's account as security for their own claim. Strict requirements apply to supervised entities' treatment of client assets. Clients of a management company must be certain that funds entrusted to the company are treated in accordance with the agreement in effect between the parties and in accordance with the client's interests.

Thematic inspection of the management of Norwegian equity funds

As a part of its supervision of securities funds in the Norwegian market, Finanstilsynet conducts a sizeable survey of Norwegian equity funds which according to the fund documentation are to be managed on an active management strategy. The object is to ascertain whether funds that are marketed and priced as actively managed funds are in fact managed as such.

The survey utilises data obtained from a database covering more than 1,000 mutual funds marketed to Norwegian investors. Based on the data, a closer analysis is made of some Norwegian mutual funds whose results have for a long time shadowed the benchmark index, and for that reason may appear to be under passive management. Finanstilsynet has requested comments on certain key figures and ratios and an assessment of one of the equity funds of five different management companies. The surveys have yet to reach completion.

Thematic inspections of trustees

In 2013 Finanstilsynet conducted on-site inspections at all five trustees for Norwegian securities funds. The aim was to check the trustees' compliance with their control obligations. Follow-up of the branch of Skandinaviska Enskilda Banken AB was completed in 2014. This entity opted to fall into line with Finanstilsynet's remarks that the branch in Norway should be responsible for large parts of the operative control activity in Norway. Prior to the inspection, much of the control activity was performed in Sweden.

Securities funds' trading on Nordic ABM

Enquiries in 2013 revealed that a number of management companies traded in financial instruments over the Nordic Alternative Bond Market (Nordic ABM), thereby breaching the rules of the securities funds concerned. Several of the companies had wrongly classified Nordic ABM.

Finanstilsynet wrote identically worded letters to all management companies to press home a correct understanding of the rules. No losses for the funds or unit holders have been identified, and action vis-à-vis the respective companies has closed.

Licensing

A new Act and new Regulations on the Management of Alternative Investment Funds (AIFs) entered into force on 1 July 2014, with transitional provisions for existing activity up to 1 January 2015. Finanstilsynet maintains supervision of managers of alternative investment funds and processes applications under the new act. The new legislation significantly widens Finanstilsynet's work related to collective investments.

Finanstilsynet has published guidance on applying for a licence to manage AIFs. Information on rules and supervisory practice is published on an ongoing basis on the Authority's website.

In 2014 Finanstilsynet received 39 applications for licences to manage alternative investment funds and three applications to act as trustee for such funds. Finanstilsynet also received 54 notifications of registration of AIFs.

A number of AIFs established in other EEA states are notified for marketing to professional investors in Norway. This concerns in particular AIFs established in Ireland, the UK or Luxembourg. In addition Finanstilsynet received 66 applications for permission to market 104 AIFs where either the fund or the trustee is established outside the EEA. Twenty-four marketing licences were granted in 2014.

Finanstilsynet received a small number of applications for permission to market foreign AIFs to non-professional investors. Finanstilsynet rejected an application to market two Irish AIFs to non-professional investors in Norway. The rejection refers to the fact that the AIFs, which are categorised as «qualifying investor alternative investment funds» under Irish law, may only be offered to certain categories of non-professional investors. The decision has been appealed against.

In 2014 a new management company was granted a licence to engage in securities fund management. Finanstilsynet granted permission for the establishment of 12 new securities funds (11 UCITS), while 48 securities funds were terminated. Most of the terminations (31) were connected to mergers. In 2014, as previously, several domestic securities funds were converted to UCITS.

Legislation

Finanstilsynet drew up a consultation document containing draft regulations to the new Act on the Management of Alternative Investment Funds, including draft provisions on marketing of AIFs to non-professional investors.

Prompted by the likely introduction of EEA rules corresponding to the EUVECA and EuSEF Regulations, Finanstilsynet drew up a consultation document containing draft provisions to implement the EEA rules in Norwegian law. The EU Regulations regulate certain forms of AIFs that are managed by registered managers. These AIFs can be marketed in the EEA to a broader group than professional clients.

Finanstilsynet also drew up a consultation document containing draft amendments to the Securities Funds Act's investment provisions. The amendments will, if adopted, permit a securities fund to employ different investment options simultaneously vis-à-vis the same issuer, capped at 35 per cent of the fund's assets.

Finanstilsynet has recommended that companies managing securities funds be permitted to switch from quarterly to semi-annual reporting to Finanstilsynet. Similar provisions, addressing AIF managers, are proposed for inclusion in the regulations to the AIF Act. The proposals are under consideration by the Ministry of Finance.

Market infrastructure

Supervision and monitoring

The securities market infrastructure comprises marketplaces operated by Oslo Børs ASA, Fish Pool ASA, Norexeco ASA, Nasdaq OMX Oslo ASA and ICAP Energy AS. Also included is Verdipapirsentralen ASA (Norwegian Central Securities Depository (VPS)) which operates the central securities settlement system in Norway (VPO NOK). The foreign clearing and settlement houses SIX x-clear AG, Nasdaq OMX Clearing AB, European Commodity Clearing AG (ECC) and LCH.Clearnet Ltd are licensed to carry on settlement activity in Norway. They are also important parts of the Norwegian infrastructure. The two first-mentioned settlement houses have a Norwegian branch, while the remainder pursue cross-border activities into Norway.

The foreign settlement houses holding a Norwegian licence are under both home and host country supervision. The home country has the primary supervision of these entities, while Finanstilsynet oversees their business in Norway and compliance with Norwegian rules. Many entities that deliver infrastructure in the securities market carry on cross-border activity. That is why supervisory colleges drawing participants from several national supervisory authorities are an increasingly important supervisory tool. Finanstilsynet participates in the supervisory colleges established for Nasdaq OMX Clearing, EuroCCP and LCH.Clearnet.

Finanstilsynet collaborates on an ongoing basis with the Water Resources and Energy Directorate and the Competition Authority on supervision of the electricity market. In 2014 particular emphasis was given to rule changes in the electricity market and the possible consequences of such changes for this market. Specific cases of market abuse and abuse of market power were also dealt with.

Serious ICT events must be reported immediately to Finanstilsynet. Technical problems at a sub-supplier to Oslo Børs on 16 April 2014 meant that the exchange's marketplaces opened for business almost two hours late. Certain other technical problems affected infrastructure entities. Such events are followed up on by Finanstilsynet on an ongoing basis, and particular emphasis is given to avoiding negative consequences for the market and to ensuring that entities introduce relevant, preventive measures.

Finanstilsynet considered, in conjunction with Norges Bank, Oslo Clearing's and the Norwegian Central Securities Depository's (including VPO) fulfilment of the principles for financial infrastructure entities drawn up by the Committee on Payment and Settlement Systems – International Organization of Securities Commissions (CPSS-IOSCO). These are international recommendations formulated to ensure a well-functioning infrastructure. The conclusion was that the systems of both Oslo Clearing and the Central Securities Depository (including VPO) are well run and robust. The authorities' assessment was published in Norges Bank's report on the financial infrastructure for 2014.

Like most other European markets, the Norwegian securities market switched on 6 October 2014 from a settlement cycle of three days to two days. Finanstilsynet followed the transition closely. The operation was successful and resulted in only a modest, temporary, dip in the VPO's settlement rate.

Nominee registration

Only entities duly authorised by Finanstilsynet may hold nominee accounts with the VPS or be registered in a securities fund's unit holder register or in Norwegian shareholder registers instead of the beneficial owner. In October 2014 Finanstilsynet widened its licence register to include information on approved nominees. In this connection Finanstilsynet reviewed its lists of entities with nominee authorisations, and withdrew the authorisation of entities that no longer fulfil the requirements on nominees.

Evaluation of the supervision of automated trading

In 2014 the European Securities and Market Authority (ESMA) reviewed Finanstilsynet's monitoring of compliance with ESMA's guidelines for automated trading.

The review was conducted by a team drawing representatives from four European national supervisory authorities along with a representative from ESMA. Finanstilsynet's supervision of compliance with the guidelines was considered in the main to be satisfactory, as were its competence and supervisory powers in this area. Finanstilsynet was however recommended to give more emphasis to on-site inspections and spot checks.

Licensing

Incorporation of Oslo Clearing ASA into SIX x-clear AG

Acting on Finanstilsynet's recommendation, the Ministry of Finance authorised the Swiss company SIX Group AG to provide settlement services in Norway through a Norwegian branch subject to certain conditions (the activity of the previous Oslo Clearing). The Ministry of Finance concurrently authorised SIX x-clear to continue the settlement system that Oslo Clearing had established with LCH.Clearnet.

Authorisation granted to Norexeco ASA and to European Commodity Clearing AG

In line with Finanstilsynet's recommendation, the Ministry of Finance authorised Norexeco ASA to operate as a regulated market for commodity derivatives in forestry and paper-related products. Norexeco has entered an agreement with the German clearing house European Commodity Clearing AG (ECC) on the clearing of trades transacted on Norexeco. In September 2014 the Ministry of Finance authorised ECC to engage in clearing activity in Norway. This authorisation was also based on Finanstilsynet's recommendation.

Merger between NOS Clearing ASA and Nasdaq OMX Clearing AB

NOS Clearing ASA merged with Nasdaq OMX Clearing AB. NOS' business continues in a Norwegian branch of Nasdaq OMX Clearing. Finanstilsynet monitored the merger process as supervisory authority for NOS Clearing and for Nasdaq OMX Clearing, and participated in the supervisory college for the latter entity.

Market conduct rules

Supervision and monitoring

The overarching aim of supervision and monitoring of compliance with the market conduct rules is to safeguard the reputation of the Norwegian market and thereby its role as a well-functioning source of capital.

The rules on insider trading, market manipulation and due care in handling inside information are at centre-stage. Finanstilsynet 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 the disclosure of acquisitions of large shareholdings. Hence a wide range of target groups is involved: investors, advisers, issuers of financial instruments and their partners, including investment firms. The object is to bring to light and prosecute unlawful conduct in the securities market and, insofar as the conduct rules are applicable, in the markets for commodity derivatives. The supervisory effort is intended to have both an individual and a general deterrent effect in the market. Finanstilsynet works closely with ØKOKRIM (National Authority for Investigation and Prosecution of Economic and Environmental Crime) and Oslo Børs in this sphere.

Most of the large number of cases investigated by Finanstilsynet in 2014 were reported by investment firms, the media and investors. Many were also referred to it by Oslo Børs or initiated by Finanstilsynet itself in response to market events.

A number of the cases handled by Finanstilsynet were time-consuming, especially insider trading cases requiring investigation abroad. Such investigations often entail enquiring into foreign investors who have traded ahead of market events. The work requires extensive contact with foreign managers and supervisory authorities. Finanstilsynet also assisted foreign supervisory authorities in their investigations on a number of occasions.

In 2014 Finanstilsynet investigated:

- 66 new cases of unlawful insider trading and/or breaches of confidentiality
- 31 new cases of market manipulation/unreasonable business methods
- 46 new cases of securities trading requiring disclosure
- 65 new cases of securities trading requiring notification

Thirty-nine of the above cases were received from investment firms under an obligation to report transactions giving rise to suspicion of insider trading or market manipulation.

Administrative fines

Finanstilsynet is empowered to impose an administrative fine for violation of the Securities Trading Act's provisions requiring notification/disclosure of share acquisitions or disposals. The availability of this sanction makes for effective rule enforcement and its imposition is as a rule an adequate response to rule violations.

Over the course of 2014 Finanstilsynet imposed 15 administrative fines for breaches of the disclosure requirement and two administrative fines for breaches of the notification requirement. Finanstilsynet publishes the fines on its website on the presumption that this has a preventive effect.

Relinquishment of gain

In June 2014 Finanstilsynet ordered two American market participants to relinquish gains totalling NOK 5,752,161. The order was prompted by their violation of the Securities Trading Act section 3-14 when disposing of shares in Northland Resources ASA. Both parties accepted the order and paid the amount due.

Notifications to the prosecuting authority

Finanstilsynet reported five cases of suspected unlawful insider trading and/or breach of the duty of confidentiality to the prosecuting authority in 2014.

Follow-up of reported cases

The collaboration between Finanstilsynet, ØKOKRIM and local police districts on reported cases makes for more effective and efficient combating of crime in the securities market. Finanstilsynet assisted the prosecuting authority at interviews and in analysing share transactions in 2014. Finanstilsynet also gave evidence in a number of court cases.

Surveys in connection with information handling

Finanstilsynet kept a watch on the treatment of market-sensitive information in the public sector. In 2013 Finanstilsynet, ØKOKRIM and Oslo Børs organised a seminar for the public administration on various topics related to information handling. In 2014 Finanstilsynet investigated a case concerning the treatment of inside information in the public administration. As a result of its investigation, Finanstilsynet wrote a public letter to a government agency censuring its treatment of information.

Automation
In 2013 Finanstilsynet gained direct access to structured transaction data and position data from the VPS register. These data have enabled automation of parts of the system for identifying breaches of the rules requiring the disclosure of acquisitions of large shareholdings. In 2014 Finanstilsynet developed a system that checks on a daily basis all quoted securities and all securities accounts to identify instances where a threshold is crossed, triggering a disclosure obligation. Automation has increased the likelihood of discovery, and 21 new cases of non-disclosure were brought to light in 2014.

In 2014 about 120 million transactions were reported to Finanstilsynet, of which 67 per cent were from foreign and 33 per cent from Norwegian investment firms. Reporting must be of high quality, and it must be complete. The large number of transactions makes quality control difficult. Finanstilsynet has therefore developed software to analyse and identify the commonest reporting errors. The software generates a report to investment firms that makes it easier for them to identify problems.

Court rulings

The following court rulings were delivered in 2014 in cases which Finanstilsynet investigated and reported to the prosecuting authority:

- In December 2014 the Appeals Selection Committee of the Supreme Court dismissed an appeal in a case of insider trading and price manipulation. An individual was convicted in the City Court and the Court of Appeal for this and several other offences. The Appeals Selection Committee explicitly stated that the prohibition of price manipulation can also be applied where price manipulation takes the form of a breach of the notification obligation.
- In August 2014 Oslo City Court delivered judgment in a case of breach of the insider listing requirement. A company had omitted to draw up a list of insiders in connection with negotiations that resulted in an agreement of intent. The court's position was that information need not be documentable, exact or complete in order to be regarded as «precise information» in the law's sense, nor does it have to be more likely than not that the event will occur. The court took the view that the issue to hand was whether there was a realistic possibility of the event taking place. The court found that the company should have kept a list of insiders in the negotiation period prior to the signing of the agreement of intent. The company was handed down a fine of NOK 400,000. The judgment is final and unappealable.
- In May 2014 the Appeals Selection Committee of the Supreme Court dismissed an appeal in a case of insider trading. The Court of Appeal convicted three persons of insider trading and/or inducement to such trading. One of the three was employed by the company, and indicted for inducement to insider trading. The other two traded in the company's shares a few hours ahead of a stock exchange notice of the sale of the company. All three were convicted in the Court of Appeal. The Appeals Selection Committee of the Supreme Court found that the appeal had no prospect of success for any of the defendants.
- In May 2014 Oslo City Court delivered judgment in a case of insider trading. Two employee shareholders traded in the company's shares ahead of the disclosure of an acquisition agreement. Prior to trading, the employees had received an e-mail from the company's board of directors. This made no specific reference to the acquisition agreement. Both defendants entered buy orders after receiving the e-mail. Finding that the e-mail contained inside information, the court convicted the defendants of intentional insider trading and sentenced them to 14 days' unconditional imprisonment and 120 days' unconditional imprisonment respectively, and confiscated the proceeds of their criminal acts. The judgment was appealed.
- In May 2014 the Court of Appeal delivered judgment in a civil case concerning relinquishment of NOK 5.5m obtained through violation of the prohibition of unreasonable business methods. Finanstilsynet's claim was based on a relinquishment order imposed on a company responsible for uncovered short selling of shares. The company did not accept the claim, prompting Finanstilsynet to bring civil action for relinquishment of the said gain. The City Court and the Court of Appeal found in favour of Finanstilsynet. The company's appeal to the Supreme Court was dismissed in July 2014. The court gave weight to the fact that the company already knew at the time of sale that the shares could not be delivered on time, and that the transactions were liable to undermine confidence of investors in the securities market and in the settlement systems, and to weaken the market's integrity and efficiency.
- In February 2014 Oslo City Court delivered judgment in a case involving price manipulation. A former group CEO was indicted for giving incorrect and misleading information to the market. A former sales director was indicted for negligently abetting the offence in question. The court found it proven that faulty information had been spread in a consistent and continuous manner, and that this information had a bearing on the price and trading volume of the company's shares. The court noted that the deliberate or negligent disinformation can constitute market manipulation in the sense of the law, even if the intention was not to manipulate. The court also stated that market manipulation of some gravity normally results in unconditional imprisonment of a not insignificant term. On this count, in addition to breaches of the Accounting Act, the group CEO was sentenced to two years' imprisonment, of which one year was suspended, while the sales director was sentenced to a suspended term of 6 months' imprisonment. The judgment was appealed.

Prospectus control – transferable securities

Finanstilsynet is responsible for approving EEA prospectuses in the case of public offers for subscription or purchase of transferable securities worth at least EUR 5,000,000 calculated over a period of 12 months that are directed at 150 or more persons in the Norwegian securities market. The same applies where transferable securities are to be admitted to trading on a Norwegian regulated market, including where a company whose shares are already admitted to trading plans to increase its capital by more than 10 per cent.

Prospectus vetting in 2014

Slightly fewer share prospectuses were approved in 2014 than in previous years, but the number of prospectuses issued in connection with initial public offerings on Oslo Børs or Oslo Axess was higher than in 2013. The number of applications for approval of bond prospectuses was high over the course of the year.

Finanstilsynet vetted prospectuses for several sizeable transactions in 2014. They included, for example, approval of prospectuses for public offering and listing of Aker Solutions, XXL and Entra.

An overview of prospectuses vetted by Finanstilsynet in 2014 is given in table 8.

Table 8: Vetted documents

	2010	2011	2012	2013	2014
Shares (quoted shares in parenthesis)	105 (82)	100 (85)	54 (45)	60 (52)	**53** **(47)**
Bonds	44	110	146	178	**194**
Warrants	9	14	–	–	**0**
Total	158	224	200	238	**247**

Finanstilsynet discontinued four vetting processes after capital raising and/or admissions to listing were cancelled. Further, a large number of documents were notified to and from prospectus authorities within the EU/EEA area. The documents were notifications of passported prospectuses.

Finanstilsynet started vetting of 24 prospectuses related to new admissions. Of these, 19 prospectuses were for IPOs on Oslo Børs or Oslo Axess. A total of 47 prospectuses for listed limited companies were vetted. A further four prospectuses for share issues by unlisted companies were vetted, along with two prospectuses related to unquoted equity instruments.

Administrative fines for breach of the prospectus obligation

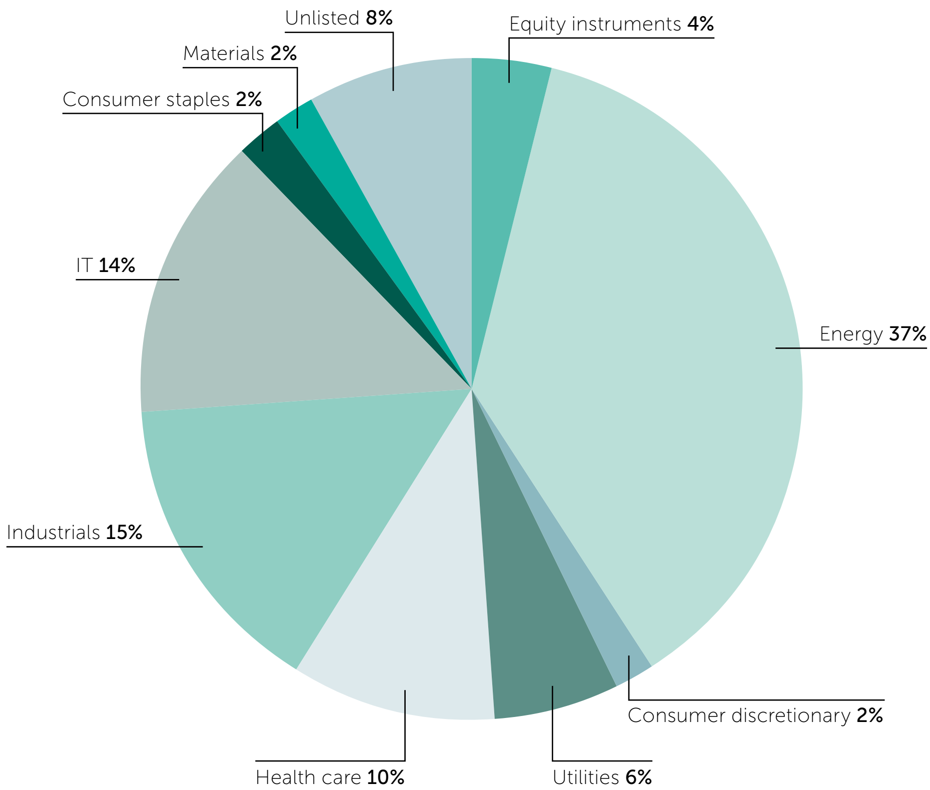
Finanstilsynet imposed for the first time an administrative fine for breach of the prospectus obligation. An entity received a fine of NOK 74,624, equal to half the listing fee. The entity removed information given in an enclosure to an approved prospectus without Finanstilsynet's endorsement.

Requirement for historical financial information in prospectuses – Finanstilsynet's guidance

Finanstilsynet has updated its guidance entitled «Historical financial information and pro forma financial information in share prospectuses» as a result of an amendment to the Securities Trading Regulations, effective as from 1 July 2013.

Chart 5: Prospectuses approved by Finanstilsynet in 2014 – by sector

Source: Finanstilsynet



Financial reporting enforcement – listed companies

All listed companies are required to apply the International Financial Reporting Standards (IFRS) when preparing and presenting consolidated accounts. Finanstilsynet oversees financial reporting by Norwegian-registered enterprises that are listed on a regulated market in Norway or elsewhere in the EEA, as well as certain foreign enterprises that are listed on a regulated market in Norway.

At the end of 2014 263 companies were subject to Finanstilsynet's supervision of financial reporting. Of these, 37 were foreign. Just under 200 were issuers of shares and equity certificates. Several issuers of shares and equity certificates also issued bonds that are quoted on Oslo Børs. In the course of the year 33 new companies were admitted to Oslo Børs, six to Oslo Axess. A total of 23 issuers were delisted, 19 from Oslo Børs and four from Oslo Axess.

Enforcement of financial reporting

Selection

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

Results of the enforcement

In 2014 Finanstilsynet reviewed all or parts of the financial reporting of 70 entities. Particular attention was focused on issuers of shares and equity certificates, and some bond issuers. Finanstilsynet also reviewed the audit reports of all listed companies. Eleven cases were given closer scrutiny, several of which had yet to be finalised at year-end.

No information was received from the entities, their elected officers, senior employees or auditors to indicate that the financial reporting of the issuers failed to provide a true and fair view in conformity with the provisions of the Securities Trading Act.

Three of the cases started in 2013 and completed in 2014 are described below. All public letters are available at Finanstilsynet's website.

Statoil ASA

The review covered central aspects of Statoil's principles for impairment testing, and valuation of assets presumed to be affected by unconventional oil and gas deposits in the US. Finanstilsynet identified three errors in Statoil's financial statements for 2012, which in aggregate were considered material.

The first error related to Statoil's impairment testing of non-financial assets and determination of recoverable amount. Statoil employed an interval around the company's initial value in use («VIU») estimate, which is not permitted by the accounting legislation. The second error concerned Statoil's practice of cash generating unit («CGU») identification for unconventional onshore assets. In Finanstilsynet's view the CGU could be set at a lower level. The review focused on the Marcellus Shale Play in the US, but the issue also has general application for Statoil's other unconventional assets. The third error relates to Statoil's changes in the components included in a CGU. Provisioning for loss contracts for import capacity at the Cove Point terminal in Maryland was done in the first quarter of 2013. In Finanstilsynet's view the CGU should have been redefined, and provision for loss contracts made, in an earlier reporting period. Statoil did not agree with Finanstilsynet's assessments, but none the less revised its accounting practice with regard to the first two issues. Finanstilsynet ordered Statoil to rectify the third issue and to make a loss provision in an earlier period. The order has been appealed to the Ministry of Finance.

Stolt-Nielsen Ltd

This review covered three (business) acquisitions in which gains were recorded on bargain purchases.

Finanstilsynet examined the transactions, and the company was asked in an advance notice of decision to re-evaluate its fixed assets. Stolt-Nielsen reassessed its accounting treatment and reversed income of USD 12.3 million, which was the entire gain made on two of the acquisitions. The gain on the final acquisition was not reversed. The company did not consider the gain on this acquisition to be material, and Finanstilsynet took note of the company's assessment.

Havfisk ASA
This review covered the entity's accounting treatment of fishery licences.

The fishery licences, which at end-2012 accounted for about 45 per cent of balance sheet assets, were distributed on basic quotas (about one-third) and structural quotas (two-thirds).

Fishery licences are intangible assets under IFRS with a finite useful life and must therefore be depreciated. Depreciation would not be required if the fishery licences were considered to have an indefinite useful life.

Havfisk considered all its licences to have an indefinite useful life and therefore not liable to depreciation. Finanstilsynet's conclusion was that structural quotas have a finite useful life and must be depreciated. Havfisk accepted Finanstilsynet's assessment and restated comparatives in the annual accounts for 2013.

Participation in ESMA

Finanstilsynet considers it important to organise financial reporting supervision in accordance with the principles drawn up by ESMA. In 2014 new guidelines for financial reporting supervision in the EU/EEA were established for entry into force in 2015.

European Enforcers Coordination Sessions (EECS), comprising the financial reporting supervisors in Europe, was established to discuss decisions taken by the national supervisors and experience gained in the application of supervisory standards. In 2014 nine meetings were held, and several of Finanstilsynet's supervisory matters in 2014 were presented to the EECS.

ESMA published an extract from the EECS' database of enforcement decisions in 2014. ESMA has also published a report on business combinations.

Administrative fine for late publication of periodic financial reports

Finanstilsynet's enforcement of periodic reporting includes checking that reports are published within deadline. Failure to observe a deadline normally attracts an administrative fine.

An administrative fine was imposed on one issuer for late publication of its annual report for 2013.

Expert Panel on Accountancy

An important complement to Finanstilsynet's resources is the Expert Panel on Accountancy. The panel was appointed by the Ministry of Finance in 2005. Finanstilsynet is secretariat to the panel.

The Expert Panel met six times in 2014. Matters are taken up either for comment or discussion. The panel's statements are enclosed with letters to companies, and the letters are published on Finanstilsynet's website.

The Expert Panel in the period 1 January – 31 December 2014

Stig Enevoldsen
chair

Aase Aa. Lundgaard
deputy chair

Frøystein Gjesdal

Signe Moen

Kjell Magne Baksaas

Nina Rafen

Geir Moen

Karina Vasstveit Hestås
alternate

Roar Inge Hoff
alternate

Reidar Jensen
alternate

AUDITING

Finanstilsynet's oversight of auditors comprises approval or licensing of individuals and firms, registration and supervision of statutory audit work. Finanstilsynet checks that auditors maintain their independence, and that they perform their work in a satisfactory manner and in compliance with law and good audit practices.

Market participants' confidence in financial reporting by business and industry is key to a well-functioning market. This is particularly true for reporting by public interest entities such as banks and other financial institutions, insurers and listed companies. High audit quality contributes to increased confidence. In order to properly perform his/her role as representative of the general public, the auditor must be independent and perform the audit in conformity with the requirements of the Auditors Act.

Trends

There are still a few large audit firms in existence. According to off-site supervision data, the five largest audit firms' market share has risen to 70 per cent in terms of statutory audit fees. The industry features numerous small businesses, despite the 11 per cent reduction in the number with just one statutory auditor in the period 2011–2013. The number of audit firms that audit public interest entities is falling, and was below 20 at year-end. This trend is probably explained by changes in the statutory audit obligation for smaller limited companies and increased requirements on the audit industry and on the execution of engagements. Growth in the number of one-person audit firms is below the rate of loss of such firms.

Supervision and monitoring

Finanstilsynet carries out supervision based on its own risk assessments, reports received and other signals, for example in the media. Matters that come to light in other areas supervised by Finanstilsynet may also prompt scrutiny of the work of an auditor. Moreover, periodical quality assurance reviews of auditors of entities subject to statutory audit is required at least every sixth year, while auditors and audit firms that audit public interest entities are subject to periodical quality assurance review at least every third year.

The periodical quality assurance reviews are coordinated with reviews conducted by The Norwegian Institute of Public Accountants (DnR) of its members. Should the DnR bring to light circumstances that may prompt revocation of an auditor's licence, the matter is referred to Finanstilsynet for further action. The DnR's report for 2014 is presented on page 66. Where public interest entities are concerned, all supervision is carried out by Finanstilsynet. Public interest entities not covered by the major audit firms are savings banks and small insurers.

In 2014 Finanstilsynet received 112 reports of possible audit deficiencies from the DnR, the tax authorities, bankruptcy administrators and other parties. Cases not given priority by Finanstilsynet are likely to conclude with the auditor being asked to assess whether its audit practice should be modified for the future. Such assessments must be documented.

Twenty-seven on-site inspections were conducted in 2014 in addition to other supervisory matters. Some of these matters will be finalised in 2015.

Table 9: Revocation of auditors' licences

	2010	2011	2012	2013	2014
State authorised auditors, licences revoked	10	1	19	0	**0**
Registered auditors, licences revoked	13	2	17	0	**2**
Audit firms, licences revoked	1	0	0	0	**0**

The number of licence revocations is higher in years in which off-site supervision is carried out.

Off-site supervision

In 2014 off-site supervision was conducted through the Altinn internet portal, on this occasion confined to auditors entitled to audit annual financial statements, in addition to the audit firms. One licence revocation in 2014 was due to failure to submit a self-assessment report. Non-compliance with the continuing education requirement will be followed up on in 2015.

Supervision of audit firms

At inspections Finanstilsynet checks firms' compliance with applicable statutory requirements, including that the firm has in place adequate systems for internal quality control of the audit business, policies and procedures with regard to independence, confidentiality and compliance with anti-money laundering requirements. Finanstilsynet conducts spot checks of audit engagements to verify compliance with the audit legislation and with the audit firm's internal policies and procedures.

Thirteen inspections of audit firms were conducted in 2014, eight of which at firms that audit public interest entities. Audit firms eligible to audit companies listed on a US stock exchange are also subject to oversight by the Public Company Accounting Oversight Board (PCAOB) in the US. Joint inspections conducted with the PCAOB are headed by Finanstilsynet. Two inspections were conducted on a joint basis with the PCAOB.

At several inspections of audit firms Finanstilsynet brought to light inadequate policies and procedures with regard to the composition of the audit team, independence and compliance with the anti-money laundering legislation.

At virtually all the inspections Finanstilsynet remarked on the auditor's engagement quality control review, both as regards the policies on assessment and as regards checks on individual engagements and procedures for assessing engagements. The auditor's fulfilment of his/her obligations in this area is key to confidence in the audit institute; this was underlined in Finanstilsynet's 2010 report on thematic inspections of acceptance and continuance assessments.

Checks on individual assignments brought to light weaknesses in auditors' documentation of their understanding of the business to be audited, of audit procedures performed and use of analysis in the planning, performance and completion of the audit. Weaknesses in the audit of significant areas were pointed out at several inspections. Finanstilsynet's assembled report following the thematic inspection of audits of revenue recognition and of auditors' understanding of the business concerned in 2012 highlighted the importance of understanding the business.

Other individual cases

In 2014 Finanstilsynet concluded a case which confirmed deficiencies found in the audit of Troms Kraft, a power grid owner. Particular attention was drawn to the statutory auditor's organisation of the audit, including the auditor's involvement in the review of the audit of the subsidiary. The statutory auditor's insufficient involvement also weakened the basis for assessing the sufficiency of audit evidence for the consolidated accounts.

Again in 2014, Finanstilsynet dealt with cases in which the auditor had for several years included in the audit report a qualified opinion on an item of the accounts and an emphasis of matter paragraph regarding the going concern assumption. In many cases the qualified opinion refers to deferred tax assets related to losses carried forward, the auditors' justification being the entity's inability to substantiate the recognised amount under the accounting rules. If the entity fails to come into line, the auditor must issue an adverse opinion and consider withdrawing from the engagement. In case of material misstatements in the accounts the auditor is also barred from signing the trading statement, even if the taxable profit shown is correct.

Thematic inspections

Each year Finanstilsynet conducts an audit-related thematic inspection. In 2014 the thematic inspection of audit firms' monitoring of their own internal controls was completed and published on the website. In addition to Finanstilsynet's findings from on-site inspections, the report details the background to the Auditors Act's requirements and the importance of audit firms' internal quality control for the quality of the audit carried out by the firm. A quality control system that is shown solely in a document, that is not tailored to the firm's own circumstances and that is not followed up on an active and continuous basis, serves no purpose.

Other supervisory activity

Finanstilsynet focuses particular attention on audit firms that audit public interest entities. In 2014 a need arose to clarify auditors' responsibilities and obligations in cases where Finanstilsynet had examined financial statements and identified errors in the audit client's financial reporting.

A letter was sent to audit firms that audit public interest entities to make it clear that accounts presented in accordance with Finanstilsynet's conclusion provide a «true and fair view».

Finanstilsynet's inspections continue to reveal that many supervised entities subject to the risk management regulations omit to obtain auditor confirmation as required by the regulations. In such cases Finanstilsynet draws the auditor's attention to the obligation to send a numbered letter to the client.

Following the 2013 thematic inspection of the auditing of client funds, Finanstilsynet received several reports relating to estate agents. However, Finanstilsynet continues to bring to light serious offences at supervised entities that the auditor has failed to report. This is especially true of entities subject to solvency requirements. Gross errors in the capital adequacy returns filed by such institutions to Finanstilsynet have also been identified.

Licensing

Finanstilsynet authorises auditors as either registered or state authorised auditors. State authorised auditors are subject to higher education requirements than registered auditors. In addition to statutory minimum education requirements, a practical examination has to be passed to qualify for authorisation. The examination is prepared by an examination board and is held by the University of Agder on behalf of Finanstilsynet. In 2014 196 candidates took, and 187 passed, the examination. When processing applications for an auditor register number, which is needed in order to become a statutory auditor, Finanstilsynet checks that the auditor meets the statutory continuing education requirement and has the required indemnity insurance.

In 2014 Finanstilsynet referred four appeals in the audit area to the Norwegian Board of Appeal for Auditing and Accounting Matters. The appeal board's decisions are in the public domain and available at Lovdata.

Register of Auditors

All authorised auditors and audit firms are registered in the Register of Auditors. The Register of Auditors is part of Finanstilsynet's licence registry which is available at Finanstilsynet's website. Some data in the Register of Auditors are entered by Finanstilsynet; other data are obtained from other public registers. Since 2012 the register also contains data entered by the individual audit firm using the Altinn internet portal. Many audit firms fail to meet the obligation to register and maintain information.

Table 10: Number of approved auditors and audit firms at 31.12.2014

	2010	2011	2012	2013	2014	Licensed in 2014
State authorised auditors	2,984	3,165	3,339	3,544	**3,729**	**174**
Registered auditors	3,226	3,319	3,365	3,429	**3,462**	**74**
Of which: statutory auditors	–	1,891	1,840	1,799	**1,625**	**67**
Audit firms	776	674	600	563	**533**	**20**

International tasks

Beyond the work done under EU Commission auspices, European supervisory authorities have on their own initiative formed a group to develop and harmonise the conduct of supervision – the European Audit Inspection Group (EAIG). The EAIG obtains and coordinates member countries' views on proposals for new audit standards established by the industry. The working group has also established a European database for inspection findings of a more precedent-setting nature. The plan provides for the work of the supervisory colleges established for, respectively, EY (Ernst & Young) and KPMG to be continued under EAIG auspices, and for the establishment of similar colleges for PwC (PricewaterhouseCoopers), Deloitte and BDO.

The global collaboration between audit supervisory authorities takes place through the International Forum of Independent Audit Regulators (IFIAR). Fifty-one countries, including Norway, are represented on the IFIAR.

Regulatory development

New EU rules on auditing, including a Regulation on specific requirements regarding statutory audit of public-interest entities, have been adopted.

Provisions of the Auditors Act on the obligation of auditors and audit clients to give notification where an auditor is replaced have been amended. The obligation to notify Finanstilsynet now only applies to auditors who audit public interest entities.

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Finanstilsynet
Postboks 1187 Sentrum
0107 Oslo

Oslo, 22 January 2015

DnR Quality Assurance Review of Auditors – Annual Report 2014

According to the «Guidelines for periodic quality assurance reviews of auditors and audit firms», The Norwegian Institute of Public Accountants (DnR) is appointed by Finanstilsynet to conduct the periodic quality assurance review of auditors who perform statutory audits of the annual financial statements of entities other than public interest entities. The Board of DnR hereby presents a summary of the quality assurance reviews conducted in 2014.

Organisation of the quality assurance review
The quality assurance review is described in «Details of the quality control programme for statutory auditors 2014» as posted at www.revisorforeningen.no. It is designed to test compliance with the Act on Auditing and Auditors and with good auditing practices, including International Standards on Auditing, in addition to compliance with the provisions of the Act on Auditing and Auditors concerning the auditors' capabilities to fulfil their obligations related to financial status, independence, indemnity insurance and continuing professional education.

The review team comprised 29 state authorised and registered auditors, all with a broad professional background.

Selection of auditors for quality assurance review
In 2014 the quality assurance programme covered 864 statutory auditors. 157 of these were selected for ordinary quality assurance review, including four statutory auditors who had their review in 2013 postponed due to illness or maternity leave. Upon being notified that they had been selected for review, 16 statutory auditors announced that they would wind up their business or retire as statutory auditors in the course of 2014 or the first half of 2015. In addition, six statutory auditors were deselected having recently undergone review by Finanstilsynet.

This left a total of 135 statutory auditors to undergo ordinary reviews in 2014. One of the reviews was deferred to 2015 due to long term illness. In addition to the ordinary reviews, 34 statutory auditors were subject to follow-up reviews, resulting in a total of 168 conducted reviews in 2014.

Results of the quality assurance reviews
It is a continuing goal for the DnR to reduce the number of cases in which follow-up measures are required.

	Number	%
Approved	110	65.5
Audit flaws and/or other shortcomings – action plan and follow-up review	56	33.3
Submitted to Finanstilsynet for further action	2	1.2
Total number of reviews conducted	**168**	**100.0**

Yours sincerely

(sign.)
Nina Rafen
President
The Norwegian Institute of Public Accountants

SUPERVISION OF PAYMENT SYSTEMS

Trends

In 2014 Finanstilsynet noted instances of entities whose business continuity and disaster recovery planning and agreements with providers were deficient. Finanstilsynet also noted examples of disaster recovery plans that were set up in a way that magnified the risk involved in activating them. Requirements on computer hall equipment came into focus through the construction of new computer centres and operational events. Several events in 2014 arose due to changes in systems and/or operations or relocation of the same from one provider to another. One bank switched its core solution from one provider to another, and despite the careful planning of which Finanstilsynet had been informed, customers encountered major problems making payments in the wake of the switch.

Finanstilsynet brought to light in 2014 several instances of inadequate control of access rights. There were also examples where providers or an entity's own staff were tempted to acquire knowledge of customers, other employees or the entity itself. Logging, in particular processing of log data in real time and notification, is an area that needs to be improved and further developed. At the same time logs in themselves constitute a risk by virtue of the information they contain, and must be protected against unauthorised access.

Losses due to customer-targeted attacks against Norwegian payment centres were low in 2014. Phishing[1] continued in new guises, but people are aware of the methods employed, and few give away their payment information. Targeted phishing attacks were used in combination with other methods in 'advanced persistent threat' (APT) attacks against companies. Attempted APT attacks against companies increased in 2014, and the financial sector was one of several exposed sectors.

[1] Phishing: to masquerade as a trustworthy entity in an e-mail in order to steal someone's credentials.

Outsourcing
Developments in 2014 showed that more companies are switching providers and solutions in central parts of their ICT operation. A pertinent example is DNB, which opted for HCL as its new partner to operate a decentral platform from the Green Mountain computer centre and Tata Consulting Services as provider of managing and development services. Evry will continue to operate DNB's core solution. Finanstilsynet continued in 2014 to follow up on Nets both with regard to changes in the organisation of the business of the Nets Group (Nets) and to the sale of Nets. Particular attention focused on the contractual relationship between Finance Norway and Nets. Finanstilsynet is concerned that outsourcing to foreign entities may deplete Norwegian expertise in financial sector IT solutions.

Finanstilsynet has noted that entities making use of providers of cloud services may have agreements that give Finanstilsynet limited right of supervision and access to information, and which therefore are not compliant with section 12-2 of the ICT Regulations. Finanstilsynet will pursue this matter.

Supervision and monitoring

Event reporting

Finanstilsynet received 217 event reports in 2014, roughly on a par with recent years. Seven of these were subject to special follow-up with the provider and/or supervised entity. A procedure was established for notifying Ministry of Finance of especially serious events or events likely to receive wide media coverage, and nine events were notified. The low number of reports from insurance companies may indicate underreporting, and the event seminar in 2014 therefore specifically addressed insurers.

IT inspections

Finanstilsynet conducted 22 on-site IT inspections, several of which were integrated with Finanstilsynet's ordinary inspections of the entities concerned. Finanstilsynet also participated in a joint Nordic IT inspection of Danske Bank. Four of the on-site inspections were in collaboration with the Norwegian Banks' Guarantee Fund, which examined compliance with regulations on requirements on computer systems and reporting to the Norwegian Banks' Guarantee Fund. Not all banks had established solutions for reporting in line with the requirements of the regulations. Moreover, the reported data were of widely varying quality. Forty-one simplified IT inspections were carried out, covering accounting firms along with estate agencies, debt collection agencies and investment firms.

Finanstilsynet collaborates on IT supervision at the Nordic level, EU/EEA level and global level in order to share experience with authorities in other countries. In 2013/2014 Finanstilsynet participated in the EBA project that surveyed IT inspection practices.

Finanstilsynet was on several occasions in 2013/2014 itself evaluated by other authorities. In December 2013 the Office of the Auditor General conducted an inspection of Finanstilsynet's monitoring of payment system security. No anomalies were found under the audit criteria. Supervision of IT and payment services was also among the themes for reviews conducted by ESMA, the FATF and the IMF.

Payment systems

Finanstilsynet received 13 notifications from supervised entities of changed or new payment services in 2014. New payment services are followed closely to identify risk and vulnerability. Several new payment services were presented to Finanstilsynet in 2014, among them various solutions involving use of mobile phones or cards to make small payments by means of Near Field Communication (NFC). Finanstilsynet notes that the new payment services contain elements that provide improved security, while at the same time introducing new risks. Finanstilsynet also followed the development of BankID without Java, with particular focus on IT security. Finanstilsynet participated in 2014 in a working group appointed by the EBA to investigate risk involved in the use of virtual currencies and whether virtual currencies should and can be regulated.

Payment services that are not subject to Norwegian regulation, either because they are regulated in another country or because they are not licensable, may pose a risk to security when preferred instead of regulated facilities. Finanstilsynet will pursue this matter further.

Risk and vulnerability analysis (RAV)

Finanstilsynet's 2013 RAV analysis was presented at a press conference in April 2014. New themes in the report were payment systems and the securities area. In May Finanstilsynet organised, together with Norges Bank, a seminar at which the RAV analysis and Norges Bank's annual report «Financial Infrastructure 2014» was presented to financial industry participants. Together the reports provide an updated picture of the evolution and use of payment systems and of events and losses.

Licensing and legislation

Two amendments to the Financial Institutions Act and the Financial Supervision Act regulating outsourcing took effect on 1 July 2014. As a result of the amendment to the Financial Institutions Act, an amendment was proposed to the ICT Regulations requiring outsourcing to be considered by the entity's board of directors. A further amendment proposed to the ICT Regulations removes the business continuity requirement as a statutory provision in its own right and incorporates this requirement in section 8, Operations. The amendments to the ICT Regulations and proposed new regulations to the Act on Payment Systems imposing requirements on the security of new payment systems will be circulated for comment early in 2015.

Finanstilsynet also followed regulatory developments in the EU/EEA with a bearing on Internet-based payment services, and Finanstilsynet participated in a working group appointed by the EBA. Finanstilsynet emphasises that legislation must promote IT security.

Finanstilsynet's website contains self-evaluation forms available to supervised entities, and used by Finanstilsynet for IT supervision purposes. In 2014 a self-evaluation form was prepared containing control questions on the entities' use of mobile banking apps. Information on new technology, payment solutions, attack scenarios and vulnerabilities can be found under the IT supervision tabs (Norwegian only).

Emergency preparedness

Finanstilsynet is secretariat to, and heads, the Financial Infrastructure Crisis Preparedness Committee (BFI).

The BFI held three meetings and two emergency preparedness exercises in 2014. The BFI also represents the financial sector on the Oslo and Akershus County Emergency Council. Finanstilsynet's website provides information on the BFI's mandate and annual reports (Norwegian only).

Finanstilsynet is preparing an assembled report following a thematic round of inspections, conducted in conjunction with Norges Bank in 2013, of emergency preparedness solutions for domestic payment transfers. The report will review the most important payment systems and the contributors to those systems, summarise the findings of the four inspections and apply a scenario-based approach to assess the electronic payment system's preparedness and the significance of cash.

In 2014 Finanstilsynet completed the work of providing a firm basis for the financial sector to prioritise access to electricity and telecommunications in an emergency situation. After meetings among the prioritised financial market participants and key electricity and telecoms providers, communication among the parties has now been established at a high level to enable electricity and telecoms providers to act on the priorities set by the authorities in a crisis situation.

In 2014 Finanstilsynet participated in the work on a national risk picture under the auspices of the Norwegian Directorate for Civil Protection (DSB) in a scenario analysis entitled «Cyber attack on ecom infrastructure». The report is available (in Norwegian only) on the DSB website. The financial sector is among the sectors that stand to be heavily impacted by such a scenario.

6

INTERNATIONAL COOPERATION

Finanstilsynet and Norway are affected by principles and rules in effect in the EU and across the world. Finanstilsynet also collaborates on supervision in the global and the EEA context. An important aim of cross-border supervisory cooperation is to identify risk factors present in firms and markets in the international financial market at an early stage. The supervisory cooperation also enables coordinated risk management measures to be put in place.

The EEA Agreement provides financial institutions in the EEA area with a uniform market framework in terms of regulation, enforcement and supervisory practices. In most areas overseen by Finanstilsynet, Norwegian legislation largely comprises transposed EU legislation. Regulatory enforcement and supervisory practices are also coordinated across the EEA area.

Supervisory collaboration across the EU/EEA

Finanstilsynet's collaboration with EU financial supervisors

The EU has three supervisory authorities (ESAs) in the financial area:

- EBA – European Banking Authority
- ESMA – European Securities and Markets Authority
- EIOPA – European Insurance and Occupational Pensions Authority

The ESAs' mission is to support effective regulation and effective supervision across the single market. They aim to promote well-functioning markets and a level playing field, prevent supervisory arbitrage and improve consumer protection. The three bodies collaborate in a joint committee on cross-sectoral matters such as anti-money laundering and oversight of financial conglomerates.

Work on introducing rules, including EU rules, based on international initiatives in the wake of the financial crisis, continued in 2014. Parts of this work were delayed due to issues related to Norway's relinquishment of sovereignty to the EU's financial authorities. In October, after protracted negotiations, a political agreement was reached on a solution whereby the power to adopt binding decisions on supervisory authorities and financial institutions in EEA member states will be vested in the EFTA Surveillance Authority. This is subject to the Norwegian Parliament's (Stortinget) approval. Based on this agreement, work has started in the EU and the EEA/EFTA states on the technical clarifications needed in order to incorporate into the EEA Agreement the three Regulations governing the supervisory authorities.

The EU also has a European Systemic Risk Board (ESRB) with overarching responsibility for macroprudential surveillance of the EU's financial system. Its mission is to ensure that risk build-up in the financial system does not pose a threat to financial stability.

Finanstilsynet has since the ESAs were established in 2011 been invited to attend meetings of the Boards of Supervisors of the supervisory authorities (apart from the ESRB) as Norway's observer, and it participates in the work of the board and in subgroups, both as regards regulatory development and supervision of markets and firms. As from 2013 Finanstilsynet has attended meetings of the ESRB's Advisory Technical Committee as observer.

Regulatory development in the EEA

Finanstilsynet participates in a number of working groups under the EU Commission and the supervisory authorities that prepare EU regulatory documents. It does so in order to build up the competence needed to transpose new rules into Norwegian law, to identify and promote Norwegian interests and to play a part in producing sound, relevant legislation.

Once adopted by the EU, rules governing the financial area must be incorporated in the EEA agreement before being transposed into Norwegian law. Finanstilsynet, along with the Ministry of Finance and Norges Bank, participates in EFTA's financial services working group. This group coordinates the EFTA countries' views on the incorporation of legislative acts in the financial area into the EEA agreement.

Topical, concrete EU legislative matters receive further comment in the chapters covering the respective areas of supervision in this annual report.

Supervisory practices

To ensure well-functioning markets, the EU strongly considers that not only the legislation but also its enforcement and supervisory practices must be consistent. The financial supervisory authorities in the EU accordingly issue recommendations on the activity of the national supervisors. Transfer of supervisory responsibility within the European banking union to the European Central Bank (ECB) will likely also promote uniform supervisory practices, at all events in the longer term.

By participating in the Boards of Supervisors and working groups under the EU supervisory authorities' auspices, Finanstilsynet contributes to the development of good supervisory practices. Where supervision of individual conglomerates is concerned, supervisory colleges have been established for conglomerates with cross-border operations. Each college comprises the national supervisor in each country in which the particular conglomerate is established, and the relevant EU supervisory authority. Following the establishment of the European banking union, the ECB also participates in the supervisory colleges.

Cooperation between audit supervisory authorities

In addition to the work done under EU Commission auspices, European audit supervisory authorities have on their own initiative formed a group for the purpose of promoting cooperation and consistency among European audit regulators on inspections, viz. the European Audit Inspection Group (EAIG). The EAIG gathers and coordinates member states' views on proposals for new audit standards to be set by the audit industry.

Nordic and Nordic-Baltic cooperation

The financial market in the Nordic region is well integrated, and a number of financial institutions sell services in other Nordic countries through subsidiaries and branches. The extensive cross-border activity in the region means close cooperation is needed to assure well-functioning markets and financial stability. The cooperation covers supervision of the respective financial institutions, monitoring of risks that pose a threat to financial stability, regulatory development, rule enforcement and development of supervisory practices.

The Nordic countries meet annually at director general level, and hold regular meetings at departmental level for the various areas of supervision.

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

Norway also participates in the Nordic-Baltic Macroprudential Forum (NBMF) and NBMF subgroups. The forum brings together the top management at central banks and financial supervisors and discusses macroprudential surveillance and other supervisory work in the Nordic-Baltic area. Similar Nordic collaboration has been established in the audit area where regulatory development and development of supervisory practices are at centre stage.

Collaboration with other supervisors on the global stage

In the wake of the financial crisis, global institutions, headed up by the G20 countries, took the initiative for, and coordinated, principles for financial market reform. The Financial Stability Board (FSB) oversees the implementation of the reforms. In addition, both the Basel Committee and the International Association of Insurance Supervisors (IAIS) have revised their principles for the supervision of banks and insurers. The International Organization of Securities Commissions (IOSCO) draws up global standards for securities supervision. The global cooperation between supervisory authorities takes place through the International Forum of Independent Audit Regulators (IFIAR). Fifty-one countries, among them Norway, are represented on the IFIAR.

In order to keep abreast of market developments and to play its part in the development of principles and legislation, Finanstilsynet participates in global supervisory organisations covering most of Finanstilsynet's areas of responsibility. An overview of Finanstilsynet's participation in international organisations can be found on page 73.

The International Monetary Fund (IMF) resolved in 2010, as a result of the global financial crisis, that the 25 most significant countries should undergo a mandatory financial review once every five years. In December 2013 the IMF considered its methodology anew, and extended its surveillance to a further four countries. The financial sectors in Poland, Denmark, Finland and Norway are now regarded as systemically important. The IMF conducted an Article IV consultation and launched a Financial Sector Assessment Programme (FSAP) in 2014. See a description of the IMF's FSAP assessment of the Norwegian financial sector in the chapter Banking and finance on page 39.

Table 11: International organisations and EU/EEA related committees in which Finanstilsynet participates or attends as an observer

Cross-sectoral meetings

- EFTA Working Group on Financial Services
- Financial Stability Board (FSB) – Regional Consultative Group Europe
- Integrated Financial Supervisors Conference
- FinCoNet – Financial Consumer Network
- Project Link, the UN's annual macroeconomic meeting
- Nordic supervisory meetings at director general level
- Nordic-Baltic Macroprudential Forum
- Nordic-Baltic Stability Group
- EU Commission Expert Group on Banking, Payments and Insurance (meeting with the Ministry of Finance)
- The Legal Entity Identifier Regulatory Oversight Committee (LEI ROC)

Banking/finance

- Basel Consultative Group
- Macroprudential Supervision Group (Basel Committee)
- International Conference of Banking Supervisors (ICBS) – arranged by the Basel Committee every two years
- OECD's Financial Markets Committee
- European Banking Committee (EBC) – (meeting with the Ministry of Finance)
- European Banking Authority (EBA)
- Nordic meetings on banking supervision
- European Systemic Risk Board – Advisory Technical Committee (ESRB ATC)

Insurance

- International Association of Insurance Supervisors (IAIS)
- International Organisation of Pension Supervisors (IOPS)
- OECD's Working Party on Private Pensions (Task Force on Private Pensions)
- European Insurance and Occupational Pensions Committee (EIOPC)
- European Insurance and Occupational Pensions Authority (EIOPA)
- International Forum of Insurance Guarantee Schemes (IFIGS)
  – Finanstilsynet attends as secretariat for the Guarantee Scheme for Non-Life Insurance
- Nordic supervisory meetings for insurance

Securities and prospectuses

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

Accounting and auditing

- International Forum of Independent Audit Regulators (IFIAR)
- Audit Regulatory Committee (AuRC)
- European Group of Auditors' Oversight Bodies (EGAOB)
- European Audit Inspection Group (EAIG)
- European Securities and Markets Authority (ESMA)
- Nordic collaboration

Money laundering and financing of terrorism

- Financial Action Task Force (FATF) – the international forum for measures against money laundering and the financing of terrorism, with its secretariat in the OECD
- Joint Committee's Subcommittee on Anti-Money Laundering – a collaboration between the EBA, ESMA and EIOPA

ICT supervision

- Information Technology Supervision Group (ITSG)
- Security working group under the International Federation for Information Processing IFIP
- ETSI ESI – groups working on international standardisation in banking and security and on the standardisation of electronic signatures
- Financial Information Sharing and Analysis Center (FI-ISAC) – forum where the banking sector, prosecuting authorities and computer emergency response teams (CERTs) share information on cybercrime in the financial sector
- European Central Bank – SecuRe Pay (mobile payment security)
- Nordic supervisory meetings for IT

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Finanstilsynet's organisation

THE BOARD
Endre Skjørestad
Board Chairman

DIRECTOR GENERAL
Morten Baltzersen

DIRECTOR GENERAL'S STAFF

Eirik Bunæs
Director

Knut Lykke
Head of International Relations (acting)

Rune Grundekjøn
Special Adviser / Controller

Cecilie Ask
General Counsel

Anders N. Kvam
Consumer Coordinator

Anne Kari Østmo
Board Secretary

ADMINISTRATION
Gun Margareth Moy
Deputy Director General

HR
Tone Lise Bjørvik Risan
Head of Section

IT
Kjell Skaug
Head of Section

COMMUNICATIONS
Kjetil Karsrud
Communications Director

Finance and Services
Maj Kristin Sæther
Head of Section

Records Management and Archives
Lone Tudborg Lakhan
Head of Section

BANKING AND INSURANCE SUPERVISION

Emil R. Steffensen
Deputy Director General (leave of absence)

Erik Lind Iversen
Acting Deputy Director General

Licensing and Crisis Management
Ole-Jørgen Karlsen
Head of Section

IT and Payment Systems
Olav Johannessen
Head of Section

Capital Adequacy and Solvency Regulation
Bjørn Andersen
Head of Section

Analysis and Reporting
Gunnar Almklov
Head of Section (acting)

Banking Supervision
Per Jostein Brekke
Head of Section

Macroeconomic Surveillance
Harald Johansen
Head of Section

Insurance Supervision
Runa K. Sæther
Head of Section

CAPITAL MARKETS SUPERVISION
Anne Merethe Bellamy
Deputy Director General

Prospectuses and Financial Reporting
Gaute S. Gravir
Head of Section

Securities Supervision
Geir Holen
Head of Section

Investment Firms and Infrastructure
Marte Voie Opland
Head of Section

Audit and External Accounting
Kjersti Elvestad
Head of Section

Collective Investment Schemes
Britt Hjellegjerde
Head of Section

Estate Agencies and Debt Collection Firms
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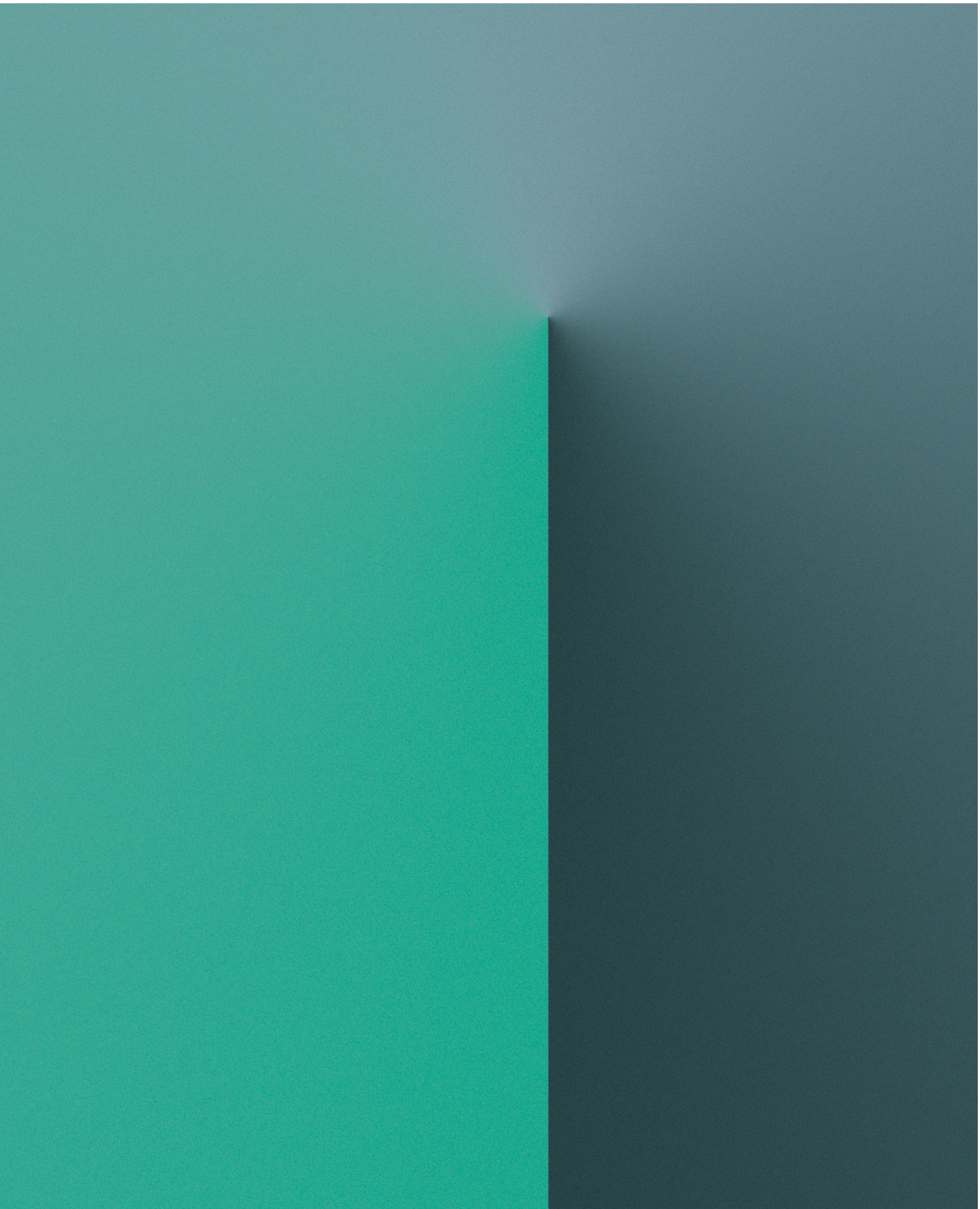

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