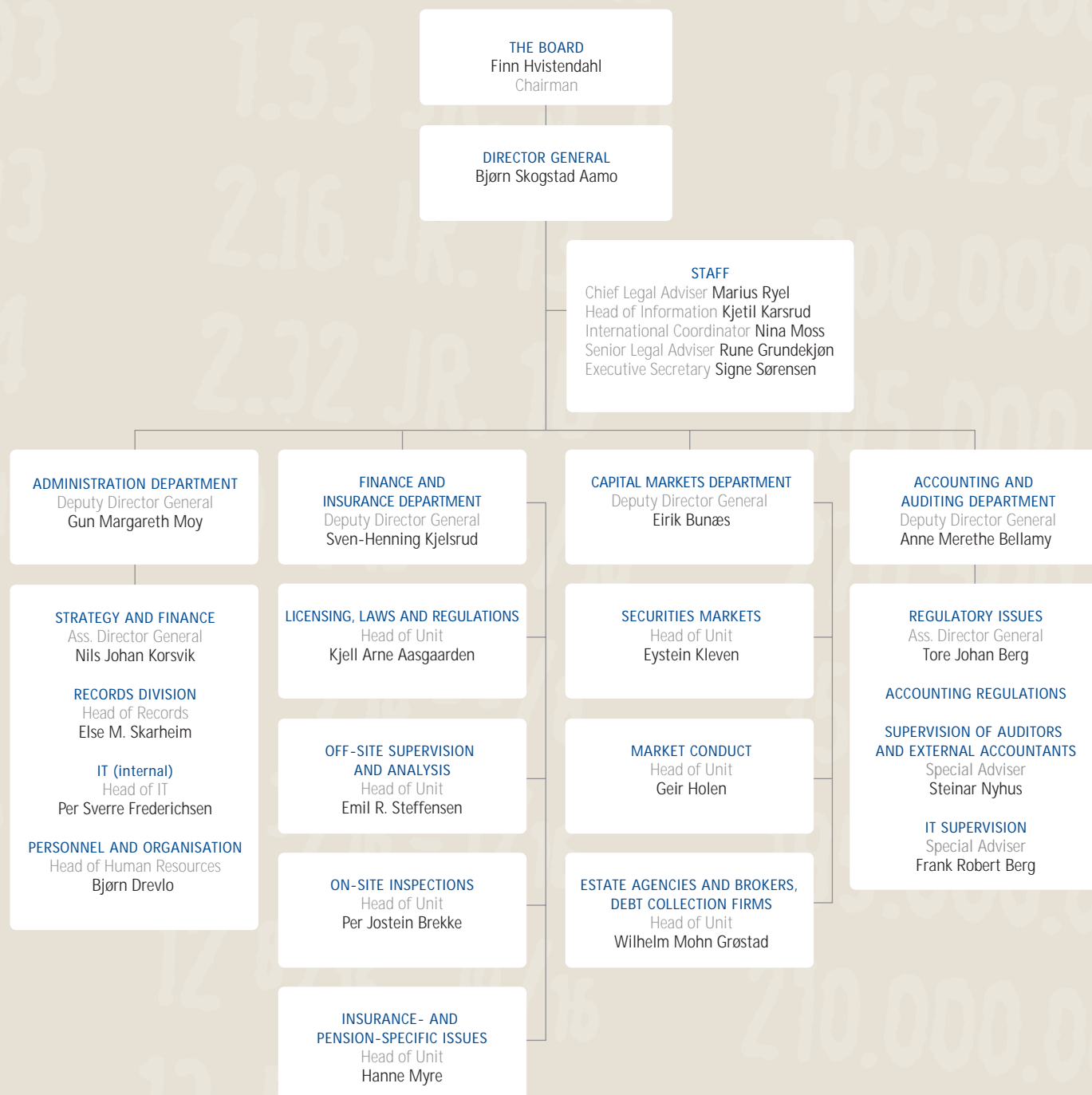




KREDITTILSYNET

Annual Report 2002

Organisation chart





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Kredittilsynet is responsible for the supervision of banks, finance companies, mortgage companies, insurance companies, pension funds, investment firms, securities fund management and market conduct in the securities market, stock exchanges and authorised market places, settlement centres and securities registers, estate agencies, debt collection agencies, external accountants and auditors.

«Kredittilsynet shall ensure that the institutions it supervises operate in an appropriate and proper manner in accordance with law and provisions issued pursuant to law and with the intentions underlying the establishment of the institution, its purpose and articles of association.» (Financial Supervision Act, section 3)

Preface

2002 was the third successive year of falling share values. The fall affected several of Kredittilsynet's areas of supervision, especially life insurance and securities management.

Alongside poor corporate financial profits, the fall is due to waning public confidence in many listed companies, in the first instance in the United States. The boards and management teams of the companies in question had failed to provide correct and complete financial information, and auditors had been insufficiently critical and independent.

Many investors had entered the share market with unrealistic expectations, and the pendulum now seems to have swung in the opposite direction. Properly functioning, confidence-inspiring securities markets are essential for savers, firms and for capital supply and economic growth alike.

It is primarily up to firms and the business sector itself to restore confidence by practising sound principles of corporate governance and management and by ensuring correct and complete information disclosure.

Improving the quality of accounts and ensuring auditors' independence is central to the strategy put forward by the EU to secure confidence in, and to develop, a single European financial market. These goals are also import-

ant to Kredittilsynet's revised strategy that was adopted by its Board in November 2002.

The Accounting Law Commission is due to present recommendations in 2003 on how EU's implementation of international accounting standards should be enforced by Norwegian authorities. The issue of auditors' independence was the starting point for Kredittilsynet's broad-based thematic inspections of the major auditing companies in 2002. The inspections revealed a need to clarify and improve the rules governing the counselling services offered by the investigated auditors. Kredittilsynet will in the spring of 2003 give its recommendation on how this work should be taken forward.

Experience and analysis show that long-term investment in shares can be profitable. This said, ordinary investors need good information about the risks they face if they are to be in a position to make well-informed choices. This was the backdrop to Kredittilsynet's proposal for new information-disclosure requirements for vendors of units in securities funds to the consumer.

The share market slump has had limited direct effects on Norwegian banks. Investment firms and management companies have in general also managed satisfactorily although their revenues are significantly reduced.



Although most Norwegian life insurance companies reduced their shareholdings prior to the slump in September-October, the fall in the share market means they are unable to give their policyholders more than the guaranteed return. Moreover, life insurance companies' buffer capital was very low at the start of 2003. With low shareholdings and low interest rates in the medium term, it will be difficult to build up buffer capital via operations in the years immediately ahead. Hence life insurance companies and their policyholders will benefit little from a market recovery. If life insurance companies are to play an active role in any increase in private pension saving, a critical review of the current rules will be needed. The Banking Law Commission's proposal is a valuable contribution to a new framework for the Norwegian life insurance industry.

Via its inspections and other channels, Kredittilsynet has in recent years warned small and medium-size banks against excessive growth in lending, especially to the commercial sector. Developments have shown that the warnings were well-founded. Many banks are experiencing a marked increase in losses on loans to the commercial sector. Several need to review and improve their credit processes in light of the Finance Credit affair. A number of banks should also improve their liquidity and liquidity-risk management. This said, the great majority of Norwegian banks are now in a sound position. The largest Norwegian banks in particular are well placed in

terms of liquidity, financial strength and the quality of their banking. Hence there is little reason to fear a repeat in 2003 of the generalised banking crisis experienced at the start of the 1990s. A number of banks will, however, need close monitoring by Kredittilsynet in the period ahead.

Kredittilsynet conducted a comprehensive review of its strategy in 2002. The revised strategy gives some emphasis to explaining why regulation and supervision is needed for the financial market to fill its role and contribute to economic growth and development. It also gives added focus to institutions, markets and users of financial services. New tasks will emerge and existing ones will expand in several areas. Kredittilsynet will maintain a transparent and predictable supervisory regime and will act efficiently and soundly in the best interest of the businesses and individuals who are the end users of financial institutions' services.

Oslo, 22 January 2003

Finn Hvistendahl
Chairman of the Board

Bjørn Skogstad Aamo
Director General

Functions and objectives

Kredittilsynet will strive to ensure that financial institutions and markets function securely and efficiently in the best interest of society and users of financial services, and that service providers are afforded an appropriate framework for their operations.

Kredittilsynet is an independent government agency that builds on laws and decisions emanating from the Parliament (Stortinget), the Government and the Ministry of Finance and on international standards for financial supervision and regulation.

Through its supervision of enterprises and markets, Kredittilsynet strives to promote financial stability and

orderly market conditions and to instil confidence that financial contracts will be honoured and services performed as intended. In addition to its preventative work, Kredittilsynet maintains a preparedness for dealing with concrete problems that may arise. Kredittilsynet's premise is that Norwegian enterprises must be afforded competitive conditions which all in all are in line with those enjoyed by institutions in other EEA countries.

Kredittilsynet will apply the following approach to attain its overarching goals:

Institutions

Kredittilsynet's premise is that responsibility for business operations rests with the board and management of the institutions themselves. Kredittilsynet will work to promote satisfactory capital strength, risk awareness, management and control in institutions under its supervision. Through its administration and effective enforcement of the rules, Kredittilsynet will strive to ensure that institutions and other market actors comply with laws, rules and ethical norms. Institutions of major significance for financial stability and for users are given priority for supervision purposes.

Users of financial services

Kredittilsynet will in its dealings with institutions, markets and market places promote the interests of users of financial services. Kredittilsynet will contribute to rules and arrangements that ensure that users receive correct information – in the first instance from the institutions themselves – about the institutions, their products and the associated risks.

Markets and market places

Kredittilsynet will work for efficient and effective competition and price formation in securities markets and other markets under its supervision. Settlement and payment systems and the financial infrastructure in general must function in an appropriate and satisfactory manner. Markets and market places need to be open and transparent, and market practitioners must exhibit good conduct.

Kredittilsynet's performance of its activity

Kredittilsynet intends to be an effective, flexible and independent body featuring high competence and good service. It will emphasise transparency and predictability in its activities, good communication with supervised institutions and the general public, and good collaboration with other authorities and industry associations.

(Excerpts from Kredittilsynet's revised strategy, adopted by the Board on 21 November 2002.)

Important events in 2002

Structural changes and licensing

Gjensidige NOR Group converts to public limited company status

Upon Kredittilsynet's recommendation, the Ministry of Finance authorised the conversion of Union Bank of Norway and the life insurance company Gjensidige NOR Spareforsikring into public limited liability companies. All shares in the two companies are owned by a new holding company, Gjensidige NOR ASA. After the conversion the non-life insurance company was linked to the Gjensidige NOR Group via a strategic cooperation agreement.

Vesta Forsikring sold off by Nordea Group

Vesta Forsikring AS was a non-life insurance company and the parent company in the Norwegian Vesta Group which in turn was a part of the Nordea Group. Nordea applied for permission to split its insurance business into two subgroups, one for non-life insurance and one for life insurance, with a view to selling off the non-life insurance business. Kredittilsynet advised the Ministry of Finance to grant the application, and the sale and reorganisation went ahead.

DnB Holding acquires Skandia Asset Management

Upon Kredittilsynet's recommendation, the Ministry of Finance gave DnB Holding ASA the go-ahead to acquire all shares in Skandia Financial Holding's Aktiebolag along with the latter's subsidiaries. Kredittilsynet has approved the organisation of asset management business in the DnB Group. The acquisition made DnB the fourth largest asset manager in the Nordic area.

Norwegian Central Securities Depository converted from private foundation to limited liability company

The new Securities Registry Act required the Central Securities Depository to convert from a private foundation to a public limited liability company and to apply for a licence under the provisions of the act. Kredittilsynet advised the Ministry of Finance in the autumn of 2002 to grant the institution a licence under the new legislation.

Steep increase in property transactions – greater concentration

The banks have acquired steadily growing prominence in the estate agency industry over the past ten years, and are at the forefront of the chain formation process that is a marked feature of the industry. The banks' share of the total market has now passed the 40 per cent mark in terms of transaction numbers.

Regulatory framework

Kredittilsynet proposes clarification on counselling services provided by auditors' collaborating enterprises

Kredittilsynet proposed closer definition of counselling services that can be provided to audit clients by institutions with whom the auditor has established a cooperation agreement. The Ministry of Finance issued pertinent regulations in line with Kredittilsynet's recommendation.

Study of the impact on banks of proposed new capital requirements

On 1 October 2002 the Basel Committee presented a Quantitative Impact Study to gauge the impact that the proposed new capital standards will have on banks. More than 200 banks from over 40 countries are participating in the study including from Norway – Den norske Bank, Nordea Bank Norway, Union Bank of Norway and Fokus Bank.

Savings banks can be converted to limited liability companies

In 2002 the Parliament (Stortinget) passed amendments to the Financial Institutions Act that enable savings banks to convert to private limited companies or public limited companies. Savings banks will now be freer to choose the organisation form best suited to bringing in fresh capital. The act has come into force.

New act on securities registers – VPS monopoly removed

The new Act on Registration of Financial Instruments (the Securities Registry Act), passed in July 2002, went into force on 1 January 2003. Under the act, responsibility for assessing rules and commercial conditions for securities registers rests with Kredittilsynet. The Norwegian Central Securities Depository's (VPS) statutory monopoly on operating a rights register for financial instruments was removed and replaced by a general licensing requirement which opens the way for competing businesses.

Complaints board established for debt collection cases

As a result of a law amendment in December 2002, a complaints board for debt collection cases will be established on 1 April 2003 by agreement between the Norwegian Association of Debt Collectors and the Consumer Council. The board will deal with consumer complaints against debt collection agencies that operate on the basis of a licence from Kredittilsynet. Kredittilsynet will have access to the board's decisions and be empowered to order agencies to join the scheme.

New regulations proposed on ownership restriction and owner control in financial institutions

Kredittilsynet supports the main features of the model for new regulations on ownership restriction and owner control that were proposed by the Selvig Committee in January 2002. The committee recommends a Norwegian system that builds on the same principles as pertinent EU directives. Kredittilsynet views the committee's recommendation as a good basis for a new set of rules. Kredittilsynet asked the Ministry of Finance to contemplate further delegation to Kredittilsynet in this area.

Internal audit requirement for financial industry passed

Amendments to Kredittilsynet's internal control regulations were passed entailing that internal auditing will be required at all institutions with assets under management for own and clients' account in excess of NOK 10 billion. The same applies to market places, settlement houses and securities registers. The amendments are designed to further strengthen institutions' internal control.

Kredittilsynet proposes amendments to Securities Funds Act

After changes were made to Council Directive 85/611 EEC (UCITS), Kredittilsynet recommended amendments to the Securities Funds Act. One such change will enable management companies to offer individual portfolio management services in addition to managing their own funds, and to offer investment counselling and safekeeping and management of fund units. Rules on "simplified prospectuses" are also proposed, requiring management companies to prepare a simplified version of the full prospectus. In addition changes are proposed to the Securities Funds Act in respect of the products offered.

Proposal to extend information requirement

Kredittilsynet drafted regulations on management companies' information requirement when marketing units in securities funds and subsequent reporting. The regulations are principally designed to make it easy for unit holders to compare the merits of saving in securities funds with the merits of other savings mediums, and to ensure that purchasers of securities fund units are informed of the risk that saving in funds entails compared with other saving options.

Kredittilsynet recommends simplifications in connection with the action plan for "A simpler Norway"

Kredittilsynet suggested several simplifications for inclusion in the Government's action plan "A simpler Norway". Among them are simplified procedures for approving and amending articles of association in the banking, financial and insurance sphere, removal of the reporting requirement for employees' own trading in securities and simplified reporting of security lodged for estate agents, debt collection agencies and auditors.

Supervision and administration

Kredittilsynet follows up EDB Business Partner ASA

Since the critical shutdown at EDB Fellesdata and EDB Teamco in August 2001 and Kredittilsynet's subsequent comments, EDB Business Partner ASA have taken a number of steps to improve operating quality. Even so, several shutdowns occurred in 2002 that affected banks, above all associated with major systems upgrading in the spring and autumn of 2002. Kredittilsynet inspected EDB Fellesdata's operating units several times via client banks, and will intensify this effort ahead.

Finance Credit collapse causes heavy bank losses

Prompted by media coverage, Kredittilsynet asked banks in October for updated information on and an assessment of their exposure to the Finance Credit system. When the system collapsed and the top managers were arrested in November, the banks' exposure totalled NOK 1.4 billion, most of which will have to be written off.

No losses expected for ordinary debt collection clients as a result of the Finance Credit affair

The company's involvement in ordinary debt collection activity was minimal. Hence any loss of client assets traceable to monetary claims collected by Finance Credit Norge AS on behalf of creditors will probably be covered by the statutory security that the company had furnished in order to carry on its business.

Nordlandsbanken in trouble

In consequence of the problems faced by Nordlandsbanken after losses on loans to the Finance Credit system, DnB, at the invitation of the management board of Nordlandsbanken, made an offer to buy all the shares in the bank. DnB aims to create North Norway's largest bank by merging Nordlandsbanken's and Den norske Bank's operations in the northernmost counties. A local move to retain the bank's North Norwegian ownership failed. By 16 January 2003 DnB had received acceptances which, together with the shares DnB already owned, added up to 90.32 per cent of Nordlandsbanken's total shares. DnB applied for a licence on this basis.

Strong criticism levelled at Nettet Sparebank

In its comments after inspecting Nettet Sparebank, Kredittilsynet criticised the bank's management board and administration for the way they dealt with a loan to Norsk Trelastimport AS, and for repeated breaches of the rules governing large exposures. The supervisory board was asked to consider the management board's position. The management board stepped down shortly after Kredittilsynet's comments were forwarded, and a new board was appointed on 23 October.

Samspar Norge's licence withdrawn

In 1995 Samspar Norge was exempted from the Financial Institutions Act's licensing requirements on the basis that it would receive deposits exclusively from members of the

Pentecostal church. In the autumn of 2002, upon Kredittilsynet's advice, the Ministry of Finance withdrew Samspar Norge's exemption from the general rules of the Financial Institutions Act. The background to the ministry's decision was that Samspar Norge operated in conflict with the terms of the exemption. Samspar Norge is now being wound up.

Thematic inspection of liquidity risk

In the autumn of 2002 a liquidity survey was conducted in the eleven largest banks. The survey showed that compliance with international standards for management and control varies from bank to bank. The largest banks have improved their liquidity risk management in recent years. Management and control are now increasingly based on a framework designed to ensure a diversified funding structure. Kredittilsynet's calculations showed a substantial spread in liquidity risk among the eleven largest banks.

Liquidity survey December 2002

In December 2002 Kredittilsynet conducted a liquidity survey among a selection of banks. The survey revealed that some banks had substantial liquidity problems. The majority nonetheless reported that they would not be facing liquidity problems in the short and medium term. The survey shows that the banks need to improve their management of liquidity risk since the market now appears to a greater degree to differentiate between strong and weak banks.

Kredittilsynet establishes cooperation agreement with the Norwegian Institute of Public Accountants

Kredittilsynet established cooperation with the Norwegian Institute of Public Accountants on quality control of accountants. The cooperation entails that all practising accountants will be quality controlled at least once every five years. This meets EU recommendations on public oversight of accountants.

Thematic inspections of the largest auditing companies

Kredittilsynet conducted thematic inspections of the largest auditing companies. Inspections focused on auditors' counselling services – and collaborating companies' counselling – provided to audit clients. Inspections revealed a need to clarify and improve the rules governing counselling activity that can be offered by the auditors in question. In the spring of 2003 Kredittilsynet will recommend how this work should move forward.

Insurance companies show poor results

As previously, life insurance companies' were affected by a negative stock market trend. Due to their impaired risk-bearing capacity the companies continued to reduce their shareholdings. Bondholdings rose in 2002, in the first instance bonds held to maturity.

Life insurance companies exempt from Insurance Activity Act

KLP Insurance was exempted from the Insurance Activity Act to allow it to practise premium equalisation with a view to achieving gender and age neutrality. In the autumn of 2002 the Ministry of Finance granted Storebrand Livsforsikring AS, Vital Forsikring ASA and Gjensidige NOR Spareforsikring ASA temporary exemption from the above act subject to specific conditions. Pension products based on this exemption were held by the social partners to be counter to the main agreement between the worker and employer unions. After approaches from Kredittilsynet, Storebrand adjusted a product to bring it into line with the terms of the exemption given by the Ministry.

Investment funds closely monitored

The market situation over the year, featuring falling activity levels, substantially affected investment fund results. Supervision of these institutions focused to a greater extent than normal on financial circumstances, especially capital adequacy and liquidity. Institutions were in general quick to reduce costs in order to compensate for revenue shortfalls. Capital strength was, with some exceptions, satisfactory.

International cooperation

Kredittilsynet attends more than 100 meetings in EU/EEA bodies

The EU continues work on its ambitious plan to develop a single European financial market that will include Norway and the other EEA EFTA countries. Work on preparing and overseeing the common body of rules, especially in the securities field, is gathering pace. Kredittilsynet attended 103 meetings under EU/EEA auspices in 2002 compared with 69 in 2001.

EU supervisory agencies reorganised

With a view to accelerating the introduction of common rules, the EU has introduced a supervisory model for the securities area based on the Lamfalussy Report. Starting out from directives adopted by the European Council and the European Parliament, the Commission in conjunction with the European Securities Committee will adopt supplementary rules to the directives. The Committee of European Securities Regulators (CESR) is to prepare detailed guidelines and standards for practising and monitoring compliance with the rules. The European Council has decided to introduce a similar model in the banking and insurance fields.

Nordic cooperation still expanding

Both the desire to promote uniform enforcement of rules and the need for strong supervision of Nordic financial conglomerates have spurred growing collaboration between the Nordic regulatory authorities. The number of Nordic meetings rose from 16 in 2000 to 38 in 2001 and to 45 in 2002. Kredittilsynet hosted the annual Nordic meeting of financial supervisors held in Bergen in June 2002.

Organisational set-up and resource use

Kredittilsynet is headed by a board of five members. Members and alternates are appointed by the King for a period of four years. The current period started on 1 March 2002 and a new board chairman, three new board members and new alternates were appointed. The preceding period started on 30 January 1998.

Board of Directors

Kredittilsynet's Board was as follows up to 1 March 2002:

Mr Erling Selvig, professor and dr. juris, chairman

Mr Asbjørn Rødseth, professor, deputy chair

Ms Eli Aas, advocate, board member

Mr Kolbjørn Almid, divisional director, board member

Ms Hilde Myrberg, advocate, board member

Ms Lisbet Hjort, director, first alternate

Mr Lasse Ekeberg, divisional director, second alternate

As from 1 March 2002 Kredittilsynet's Board has been as follows:

Mr Finn Hvistendahl, chartered engineer, chairman

Mr Endre Skjørestad, advocate, deputy chair

Ms Eli Aas, advocate, board member

Mr Erling Steigum, professor, board member

Ms Nina Mår Tapper, court-of-appeals judge, board member

Ms Marianne Berg, district court judge, first alternate

Mr Lasse Ekeberg, divisional director, second alternate

Mr Henning Strand, director at Norges Bank, has attended as observer. **Mr Thorvald Grung Moe**, special adviser, has been his alternate.

Two members elected by and from among the employees supplement the board when administrative matters are dealt with. In 2002 the employee representatives were:

Ms Kjersti T. Trøbråten, special adviser

Ms Ellen Jakobsen, adviser

Alternates: **Mr Johan Arnt Mettevoll**, special adviser, and **Mr Stein Tore Næprud**, adviser

Mr Johan Arnt Mettevoll, special adviser, took over as employee representative from **Ms Kjersti T.**

Trøbråten, special adviser, as from 18 August 2002. **Mr Jon Reiersen**, senior adviser, took over as employee representative from **Mr Johan Arnt Mettevoll**, special adviser, on the same date.

Ms Liv Karin Methi, adviser, took over as alternate for **Mr Stein Tore Næprud**, adviser, as from 1 November 2002.

Eleven ordinary board meetings were held in 2002. The board dealt with 63 administrative matters and 69 matters related to institutional supervision. The board received a further 91 matters of an informational nature.





Kredittilsynet's management team

Back row from the left: Sven-Henning Kjelsrud (director, Finance and Insurance Dept.), Marius Ryel (chief legal adviser), Eirik Bunæs (director, Capital Markets Dept.), Kjetil Karsrud (Head of Information).

Front row from the left: Anne Merethe Bellamy (director, Accounting and Auditing Dept.), Bjørn Skogstad Aamo (Director General, Kredittilsynet), Gun Margareth Moy (director, Administration Dept.)

Kredittilsynet's Board

Back row from the left: Endre Skjørestad (deputy chair), Johan Arnt Mettevoll (employee representative), Marianne Berg (first alternate), Ellen Jakobsen (employee representative).

Front row from the left: Erling Steigum (board member), Eli Aas (board member), Finn Hvistendahl (chairman), Nina Mår Tapper (board member), Thorvald Grung Moe (alternate for Henning Strand, observer from Norges Bank).

Henning Strand and Lasse Ekeberg (second alternate) were absent when the photograph was taken.

Prioritised tasks in 2002

Kredittilsynet's supervisory activities are based on statutory tasks, signals given by the Ministry of Finance (including the annual letter of allocation) and Kredittilsynet's strategy document. Kredittilsynet's prioritised tasks in 2002 were:

- Credit risk and financial strength
- Supervision of market risk and buffer capital
- Supervision of Norwegian and Nordic financial conglomerates
- Supervision of stock exchanges, authorised market places and other securities market infrastructure
- Monitoring standards of conduct in the securities market
- Good administration – simplifying regulations
- Reform of life and pensions insurance
- Risk and vulnerability in the ICT field
- Anti-money laundering measures, and uncovering financial crime
- Prudential safeguards and preparedness
- Development of risk-based supervision
- Strategy and organisation development

Administration, staff and organisation development

Kredittilsynet's Director General is appointed by the King in council for a six-year term. **Mr Bjørn Skogstad Aamo** was appointed for a new six-year term in February 1999 with effect from April 1999.

As from 1 October 2002 the Director General's salary was NOK 875,000 per annum, and the Chairman of the Board's fee in 2002 was NOK 150,000.

Seventeen vacancies were advertised in 2002 compared with 35 in 2001. Five of the advertised positions were

internal compared with eight in 2001. Applicants totalled 314 compared with 449 in 2001.

At the end of 2002 Kredittilsynet had 176 permanent staff compared with 165 at the end of 2001. The staff increase is partly due to a substantially slower turnover rate, 5.6 per cent compared with 11 per cent in 2001, and partly to recruitment of additional financial expertise in the areas of on-site inspection and mathematical modelling. Forty-seven per cent of the permanent staff are female. Eighty-two per cent hold a university degree or the equivalent.

Since 1995 Kredittilsynet has systematically sought to attract staff with specialised competence and solid experience from financial markets, to retain staff with high competence and long supervisory experience, and to attract, retain and develop recent graduates. To this end managerial/specialist positions have been set up for staff with specialised competence; a wage policy has been introduced to permit the recruitment of staff from industries with pay levels appreciably higher than government institutions are normally able to offer; and systems have been developed to provide recent graduates with a predictable salary trend in the initial years after joining Kredittilsynet. A flexible personnel policy enabling staff to combine professional and family responsibilities is of key significance.

Kredittilsynet has very largely succeeded in this endeavour. Whereas in 1995 24 staff members had solid experience from industries under supervision, by the end of 2002 the figure had reached 42. The fact that staff recruited from high-salary sectors are willing to accept a lower salary to join Kredittilsynet, and to stay there for some time, implies recognition of a high-quality environ-

ment offering jobs that spur personal development. Moreover, Kredittilsynet is now more successful than just a few years ago at retaining staff who have gained long supervisory experience and high expertise during their career with Kredittilsynet. A far greater number of recent graduates stay on and develop their skills with Kredittilsynet than was the case prior to 1995. These factors are all essential to Kredittilsynet's ability to perform a high-quality supervisory role.

Chart 1:
STAFF EDUCATIONAL BACKGROUND AS OF 31 DECEMBER 2002

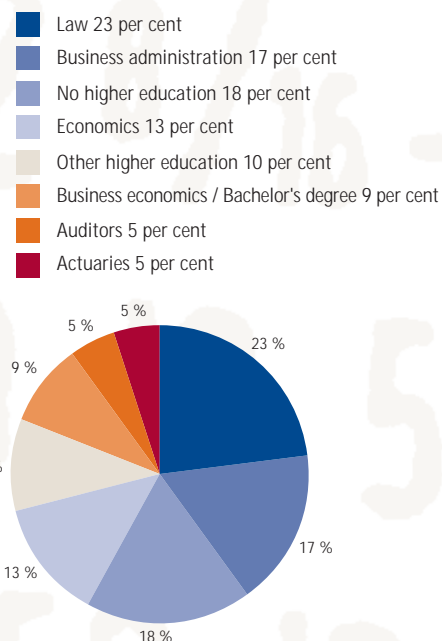


Table 1: CASE DOCUMENTS HANDLED BY KREDITILSYNET 1993–2002

Sector	1993	1995	1997	1999	2000	2001	2002
Administration/support staff	834	556	480	594	686	1116	850
Finance and insurance	7,187	7,020	8,141	6,497	7,098	6,696	6,947
Securities	1,872	2,920	3,850	3,798	4,908	6,833	7,911
Estate agency and debt collection	2,744	4,188	3,910	3,489	4,625	5,347	6,285
Accounting and auditing*	3,360	4,981	4,356	11,101	10,346	9,482	9,567
Total	15,997	19,665	20,737	25,479	27,663	29,474	31,560

* The increase as of 1999 is due to Kredittilsynet taking over the supervision of external accountants.

(It should be noted that documents in the financial and securities area are of substantially greater complexity and scope than in the other areas.)

Finances Expenditure

Kredittilsynet's budget forms part of the government budget and is established by the Parliament (Stortinget). The budget for 2002 totalled NOK 125.3 million including funds of NOK 2.1 million carried forward from 2001. Kredittilsynet

received an additional NOK 2.2 million in refunds of maternity and sickness benefits. Aggregate disposable revenues accordingly came to NOK 127.5 million. The agency's expenditure totalled NOK 123.6 million, an increase of 10.9 per cent from 2001.

Table 2: KREDITILSYNET'S EXPENDITURE 2000–2002

Type of expenditure	2000	2001	2002
Salaries bill	64,975	73,774	85,604
Of which:			
Salaries and social costs (full-time and temporary positions)	63,060	71,727	83,037
Stand-ins / Substitutes	1,207	1,436	1,899
Other emoluments (directors, consultants etc. / other fees))	708	611	668
Goods and services	40,572	37,657	37,976
Of which:			
Operating expenses	21,298	15,846	15,960
Information	2,718	4,081	2,256
Service travel and meetings	3,398	3,712	3,989
Inspections and other supervision	3,868	3,679	3,520
Organisation development, leadership and competence development	3,134	4,258	4,127
IT expenditure	6,156	6,081	8,124
Total expenses	105,547	111,431	123,580

Figures in whole thousands of kroner

(Preliminary accounts for 2002)

Revenues

Under section 9 of the Financial Supervision Act, Kredittilsynet's expenses are covered by the institutions under its supervision at the start of the financial year. The Parliament (Stortinget) therefore adopts a revenue appropriation equal to the expenditure appropriation. The act requires the expenses to be apportioned among the various institutional groups based on the extent

of the supervision, and the expenses are therefore payable in arrears. The total amount levied for 2000 was NOK 108.05 million. The amount levied was smaller than actual expenses because the levy is based on the budget appropriation, any amount carried forward from the previous year is deducted and part of the expenses are covered by the National Insurance Fund through refunds of maternity and sickpay

outlays. The levy proposed by Kredittilsynet was approved by the Ministry of Finance on 16 May 2001, which was earlier than in previous years. Supervised entities liable to pay the amount levied for 2001 number 8,952 compared with 8,402 in 2000. The apportionment of the levy among the various categories of supervised entities is shown in Table 3.

Table 3: TOTAL LEVY DISTRIBUTED ON SUPERVISED GROUPS

Supervised group	Percentage of total levy in 2000	Percentage of total levy in 2001
Banks	27.13	27.43
Insurance	25.71	25.54
Pension funds	4.80	4.30
Finance companies / Mortgage companies	3.71	3.79
Auditing firms / Auditors	5.04	4.98
External accountants	6.87	6.78
Securities market	15.98	16.62
Estate agencies	4.67	4.48
Debt collection	2.00	2.09
Holding companies	2.98	2.87
Miscellaneous	1.11	1.12
Total	100.00	100.00

Table 4: DISTRIBUTION OF EXPENDITURE 1997–2001 – IN PER CENT OF TOTAL

Supervised category	Calculation base	Per cent of calculation base		
		1997	2000	2001
Credit institutions	Total assets	0.0030	0.0024	0.0022
Insurance	Premium income	0.0324	0.0432	0.0421
Investment firms	Income from investment and ancillary services	0.1563	0.1551	0.1787
Management companies for securities funds	Total assets	0.0027	0.0028	0.0034
Estate agencies	Commission earnings	0.2477	0.1736	0.1547
Debt collection	Debt collection income	0.2121	0.1674	0.1551
Auditors	Turnover	0.1923	0.2147	0.1873

Table 4 shows the size of the levy in per cent of the calculation base for various groups of supervised entities for the years 1997, 2000 and 2001. The burden represented by the levy is

insignificant, and shows a falling tendency in terms of the calculation base. This applies even though Kredittilsynet's expenses have increased substantially. The nominal

increase in expenses from 1997 to 2000 was 34.4 per cent, and from 1997 to 2001 41.9 per cent.

Information and communication

Kredittilsynet views information and communication as a strategic instrument of supervision, especially with a view to preventing breaches of rules and standards. The information effort is directed in the first instance at the institutions and sectors under supervision, and is based on the principles guiding the central government information policy. Kredittilsynet attaches importance to contact with sectors under supervision, and holds regular meetings with industry associations. Similar meetings are held with collaborating public authorities. Regular contact meetings are held with the Office of the Consumer Ombudsman and the Consumer Council.

Information and communication is an aspect of Kredittilsynet's strategy. In 2002 a new communication strategy was drawn up and adopted.

The second generation website and intranet solution that were launched

in 2001 were further developed in 2002. A steadily increasing share of Kredittilsynet's documents is published on its web pages. In 2002 a basis was laid for English language pages on the website.

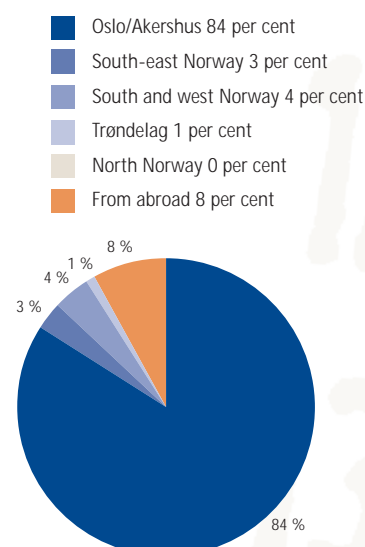
Steps were taken to ensure that Kredittilsynet adheres to the guidelines for use of both official forms of Norwegian. In the second half of 2002 five out of six circulars and 28 per cent of press releases were in the nynorsk form.

Twenty circulars were issued in 2002 compared with 35 in 2001, and 41 press releases compared with 36 in 2001. One press conference was held.

Kredittilsynet has wide-ranging contacts. Each year Kredittilsynet's management and other staff meet with a large number of representatives of supervised institutions, industry associations, collaborating autho-

rities etc. All visits to Kredittilsynet in 2002 were recorded. Eighty-seven per cent of visitors were from Oslo/Akershus and south-east Norway as a whole. Visitors totalled 1,635 persons, with the following geographical breakdown: 1,382 from Oslo/Akershus, 42 from elsewhere in south-east Norway, 61 from south and west Norway, 21 from Trøndelag, 5 from North Norway and 124 from abroad. Although institutions visited by Kredittilsynet's officers in connection with on-site inspections are dispersed across the entire country, most of them are located in the Oslo and south-eastern region. Kredittilsynet therefore notes with satisfaction the Government's wish to retain the supervisory authority in Oslo where the bulk of the country's financial institutions are located. This is of major significance for Kredittilsynet's ability to carry out efficient and effective supervision in contact with the institutions' users.

Chart 2:
VISITORS TO KREDITILSYNET



Key figures and data on supervisory activities

Table 5: PRINCIPAL SUPERVISED ENTITIES AS AT 31 DECEMBER 1997–2002

	1997	1998	1999	2000	2001	2002
Banks and financial institutions						
Savings banks	133	133	131	130	129	129
Commercial banks	13	13	13	13	15	16
Postbanken	1	1	–	–	–	–
Foreign branches of Norwegian banks	12	12	12	12	10	10
Norwegian branches of foreign banks	6	6	8	9	8	8
Finance companies	38	34	35	35	35	33
Foreign branches of Norwegian finance companies	–	–	–	–	2	2
Norwegian branches of foreign finance companies	11	12	13	18	21	21
Mortgage companies	8	9	9	11	10	10
Norwegian branches of foreign mortgage companies	0	0	1	1	1	1
Insurance						
Life insurance companies	10	10	9	8	8	7
Unit Linked companies	6	6	6	6	8	6
Non-life insurance companies	53	52	51	52	53	52
Local marine insurance associations	18	15	15	14	14	14
Local fire insurance associations	39	38	22	21	20	20
EEA branches and foreign companies' general agents	13	17	21	29	29	29
Insurance brokers	40	41	41	44	49	50
Private pension funds	136	144	132	130	122	120
Municipal pension funds	104	96	84	80	70	65
Pension schemes	29	28	26	30	29	29
Holding companies						
Holding companies	11	11	12	13	12	13
Securities market						
Investment firms	55	70	88	93	93	92
Management companies for securities funds	23	26	27	29	28	24
Clearing houses	1	1	1	1	1	2
The Norwegian Central Securities Depository	1	1	1	1	1	1
Stock exchanges	–	–	–	–	1	2
Authorised market places	–	–	–	–	–	2
Estate agency						
Estate agencies	381	407	428	479	507	528
Lawyers' practices incl. estate agencies	944	898	928	961	1,016	1,018
Cooperative building associations	–	–	–	77	67	55
Debt collection						
Debt collection agencies	123	122	117	115	113	113
Debt purchase businesses	–	–	–	–	–	8
Auditors						
Auditors	4,058	4,303	4,454	4,640	4,824	5,006
Auditing firms	468	493	489	507	514	507
External accounting services						
External accountants	–	–	6,961	5,544	5,856	6,201
External accounting firms	–	–	2,325	2,138	2,377	2,415

The Banks' Payment and Central Clearing House (BBS AS) and EDB Business Partner ASA are not under direct supervision of Kredittilsynet, but are relevant for Kredittilsynet's supervisory activity as providers of technical solutions to Norwegian financial institutions.

Table 6: NUMBER OF ON-SITE INSPECTIONS BY TYPE OF INSTITUTION 1997–2002

	1997	1998	1999	2000	2001	2002
Banks/finance ¹	40	47	43	42	51	55 ²
Holding companies ¹	0	0	0	0	2	2
Insurance ¹	14	17	12	17	12	16 ²
Insurance brokers	2	2	4	3	6	4
Pension funds	8	7	13	12	5	8
Investment firms ¹	19	25	23	25	20	20
Other institutions in the securities market (incl. management companies for securities funds) ¹	11	12	14	2	10	9
Estate agencies	23	27	68	62	60	71
Debt collection agencies	10	14	7	6	5	6
Auditors	123	82	128	80	73	32
Data processing centres	2	1	3	0	1	2
External accountants / External accounting firms ³	–	–	47	147	62	41

Table 7: CASES HANDLED AFTER THE DELEGATION FROM THE MINISTRY OF FINANCE 1997–2002

	1997	1998	1999	2000	2001	2002
Cases pursuant to Savings Banks Act (No. 1 of 24 May 1961)	38	45	45	48	28	50
Cases pursuant to Commercial Banks Act (No. 2 of 24 May 1961)	30	28	45	29	13	12
Cases pursuant to Financial Institutions Act (No. 40 of 10 June 1988)	46	94	81	69	64	59
Cases pursuant to Insurance Activity Act (No. 39 of 10 June 1988)	113	95	74	37	37	36
Cases pursuant to Tax Act, delegated by Ministry of Health and Social Affairs, under rules on occupational pensions	–	3	3	19	1	–
Cases pursuant to the Guarantee Schemes Act (Act No. 75 of 6 December 1996)	–	–	–	2	0	–

¹ IT supervision in banks, insurance and the securities market are included under the categories Banks/finance (4), Holding companies (2), Insurance (2), Investment firms and Other institutions in the securities market (6).

² Of which three on-site inspections in banks and one in insurance were conducted by the Swedish supervisory authority (Finansinspektionen), with participants from Kredittilsynet.

³ Kredittilsynet took over the authorisation scheme for external accounting services in January 1999.

Securities market

The overarching aim of regulation and supervision is to ensure that the securities market functions well as a source of capital for business and industry and for investment operations. Alongside licensed institutions, supervision also covers compliance with general regulations of market conduct.

Supervision encompasses companies authorised to carry on activity under the Securities Trading Act, Securities Funds Act, Central Securities Depository Act and Stock Exchange Act. Important areas of supervision are market players' financial position and operations and their compliance with regulations governing their activities.

Kredittilsynet is also assigned consultative and administrative tasks, including information tasks.

Investment firms

Supervision

The market situation over the year, featuring falling activity levels, had a substantial impact on institutions' results. Supervision consequently focused on financial aspects to a greater degree than normal, especially capital adequacy and liquidity. Institutions were generally quick to reduce costs to make up for some of the revenue shortfall. Capital ratios were, with some exceptions, satisfactory.

Kredittilsynet conducted 20 on-site inspections of investment firms in 2002. As in previous years the focus was on whether investment firms had prepared and put in place sufficient systems and routines to carry out proper internal control. Alongside the regular on-site inspections, a number of ad hoc investigations were carried out to check institutions' compliance with good business practice and with requirements as to the organisation of their busi-

ness. Cases were brought to light where deficient control systems had resulted in unfair consideration of the interests of some clients at the expense of others. Attention was drawn to these circumstances, and in one case an order to rectify the circumstance was issued.

At the end of 2002, 92 investment firms were licensed to provide one or more investment services. Investment firms vary widely in size

and organisational set-up. They are monitored largely on the basis of data contained in capital adequacy reports and quarterly returns submitted to Kredittilsynet. The data are processed and systematised in Kredittilsynet's in-house reports which are an important tool for selecting and prioritising firms for

inspection and for analyses of the securities market.

Due to impaired results among investment firms, priority was given to monitoring their financial strength (net capital base) in 2002. In some cases, including small firms whose earning capacity weakened

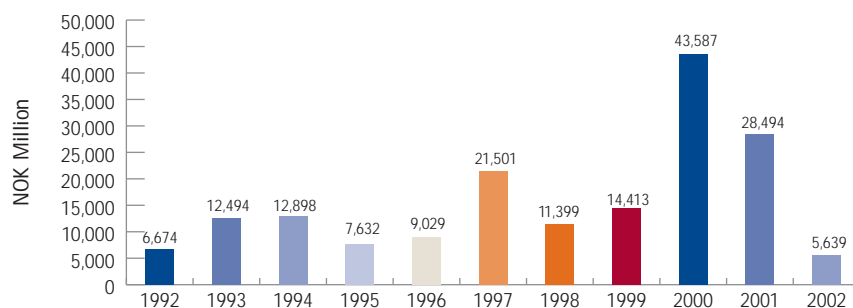
substantially over the year, it proved necessary to impose an extraordinary reporting requirement.

Coordinated supervision was carried out at one sizeable investment firm in 2002 with a focus on IT-related issues.

Table 8: INVESTMENTS FIRMS

	2000	2001	2002
Licensed firms	93	93	92
New licences	20	15	5
Handed-in licences	14	14	6
Revoked licences	1	1	0
Firms licensed only to market financial instruments	18	13	13
Firms licensed only for asset management	6	9	9
Firms licensed both for asset management and marketing of financial instruments	18	18	19
Firms licensed for all investment services listed in the Securities Trading Act section 1-2	6	12	9

Chart 3:
SHARE ISSUES (VOLUME) AT OSLO BØRS



Source: Oslo Børs

Legislation and administration

Calls have been made for investment firms' discretionary asset management operations to be organised in such a way as to ensure more rational and flexible use of expertise in the field of investment decisions, especially in conglomerates. Responding to these calls, Kredittilsynet drafted in 2002 a regulation on outsourcing by investment firms. The regulation is essentially based on a similar regulation for management companies for securities funds.

Kredittilsynet also drafted a regulation on issuing requirements in connection with investment firms' trading in quoted warrants that does not involve a clearing house.

In 2002 Kredittilsynet drafted an amendment to the Securities Trading Act Chapter 2a on employees' own-account trading in financial instruments. The amendment was prompted by the outcome of a major case dealt with by the prosecuting authority in 2001. Based on that case,

Kredittilsynet believes it is fundamentally detrimental for requirements imposed on persons with responsibility for the management of, and for dealing in, securities to be less than those imposed on other staff.

Kredittilsynet also proposed the abolition of provisions requiring employees' own-account trading to be reported to Kredittilsynet. The main rationale was that it would be more in line with the principles underlying internal control for institutions to monitor their employees' own-account trading. It would also simplify institutions' task of reporting to Kredittilsynet.

210.000.000

Management companies for securities funds

Supervision

At the end of 2002 24 management companies were in operation, a marginal reduction on the 2001 figure. The number of securities funds rose from about 390 to 419 in the same period.

Seven on-site inspections were performed at management companies for securities funds in 2002.

One institution was revealed to have systematically placed orders in illiquid shares with the result that the price used to compute the value of the share portfolio was higher than it would otherwise have been. Based on an overall assessment, Kredittilsynet concluded that there was no reasonable grounds to suspect that the provision on dishonest price manipulation had been violated. The management company was however ordered to rectify its order-placing routines.

In light of highly volatile share markets in the second half of 2001 and the financial crisis at Kværner the same autumn, Kredittilsynet continued its effort to ensure that management companies are adequately prepared to tackle a suspension of pricing and redemption of units in securities funds in situations in which it is difficult to calculate prices.

Management companies submit returns to Kredittilsynet on a quarterly basis. Off-site supervision specifically focuses on management companies' compliance with the investment limits contained in the Securities Funds Act. In Kredittilsynet's experience the limits are adhered to, although reporting reveals that some companies are in breach. Kredittilsynet will give continued priority to this work ahead.

Coordinated supervision was carried out at one sizeable management

company in 2002 with a focus on IT-related issues.

Legislation and administration

Alongside its ongoing administrative tasks, Kredittilsynet worked on the following regulatory amendments in 2001:

Members of management boards

The amendment to the Securities Funds Act that was passed in June 2001 imposed new requirements both on management companies and mutual funds. Under special transitional provisions, management companies were given until 1 March 2002 to meet requirements on management boards. Kredittilsynet tested the fitness and propriety of board members as required by the new provisions.

New articles of association for mutual funds

Kredittilsynet prepared new standardised articles of association for securities funds following the introduction of new requirements for the articles of such funds. Management companies were given until 1 August 2002 to meet the new requirements. New articles of association for some 400 securities funds, drawn up by management companies on the basis of the standardised articles, were approved by Kredittilsynet.

Outsourcing

A regulation on outsourcing by management companies for securities funds went into force on 8 July 2002. The regulation, based on Kredittilsynet's proposal, regulates management companies' right to outsource specific tasks, among them asset management, to another institution, assuming that the latter institution has the requisite authorisations. Outsourcing presupposes that Kredittilsynet is notified of any outsourcing agreement with another

institution. Regulatory amendments of this nature will help to ensure concentration and more effective utilisation of investment expertise.

Marketing of foreign securities funds

A regulation on marketing of foreign securities funds went into force on 8 July 2002. Kredittilsynet drafted the regulations as early as end-2001. UCITS funds, i.e. funds approved for marketing in the EEA, can continue to be marketed in Norway subject to notification to Kredittilsynet and registration of the fund in question. Registration is also required for marketing via investment funds. Under the new regulations, other funds can only be marketed subject to special authorisation.

Derivatives regulations

On 8 July 2002 the Ministry of Finance established new regulations on securities funds' trading in derivatives. The regulations, which are based on a proposal drafted by Kredittilsynet, widen securities funds' right to invest in derivatives, and lay a basis for trading in unlisted derivatives provided they are cleared by a clearing house or transacted with a qualified counterparty. The regulation also entitles securities funds to hedge foreign exchange risk by means of derivatives.

Information disclosure

Kredittilsynet drafted a proposal for regulation on management companies' information requirement in connection with the sale of mutual fund units and the reporting of such sales. The main aim of the regulation is to make it simple for unit holders to compare saving in a securities fund with saving in other instruments, and to ensure that they receive the information they need on the risk involved in saving in mutual funds compared with other saving options.



Capital requirements

The Securities Funds Act requires management companies to maintain a capital base equivalent to at least EUR 125,000. Kredittilsynet drafted a regulation on the calculation of, and requirements for, start-up capital and capital base. The draft is intended to conform the requirements for start-up capital and capital base to the latest amendments to relevant EU directives.

Nominee registration

Concurrent with the passage of the new act on registration of financial instruments (Securities Registry Act) in July 2002, the Securities Funds Act was amended to permit the registration of nominees in management companies' unit holder registers.

Kredittilsynet has drafted a regulation on the registration of nominees in management companies' unit holder registers.

Differentiated management fees and loans

The Securities Funds Act was amended in 2001 to allow management companies to differentiate management fees. The amendment entails that management commission charged on investments in one and the same fund can vary based on the size of the investment. Moreover, securities funds can, subject to furnishing satisfactory security, engage in the lending of financial instruments. This will enable funds revenues to be increased by charging a fee for loans of financial instruments. Regulations drafted by Kredittilsynet as a result of these amendments were adopted by the Ministry of Finance on 6 January 2003.

Based on amendments to Council Directive 89/611/EEC (UCITS), Kredittilsynet prepared two submissions proposing changes to the Securities Funds Act. One opens the way for management companies to

offer individual portfolio management services in addition to managing their own funds, and for management companies to offer investment counselling along with custody and management of fund units. The other proposes rules on "simplified prospectuses" requiring management companies to prepare a simplified version of the complete prospectus, and proposes amendments to the Securities Funds Act in respect of the products offered.

Securities market infrastructure

Kredittilsynet supervises the Central Securities Depository (VPS), Oslo Børs, NOS Clearing ASA (formerly the Norwegian Futures and Options Clearing House), Nord Pool ASA (formerly the Nordic Electric Clearing House ASA) and IMAREX (International Maritime Exchange AS). Kredittilsynet conducted on-site inspections at Nord Pool ASA and Oslo Børs in 2002.

The Parliament (Stortinget) passed an act on the registration of financial instruments in July 2002. In force as from 1 January 2003, the new act removes the Norwegian Central Securities Depository's (VPS) legal monopoly on registering financial instruments. It requires Kredittilsynet to assess rules and commercial terms for securities registries. Partly in conjunction with the Central Securities Depository, Kredittilsynet drafted regulations to the Securities Registry Act which were duly forwarded to the Ministry of Finance. Kredittilsynet is empowered to lay down regulations pursuant to some of the provisions of the above act. These regulations have been drawn up and are expected to be ready in time for the commencement of the act.

The Securities Registry Act also requires the Central Securities Depository to convert from a "self-owned" institution into a public limited company and to apply for a licence under the provisions of the act. Kredittilsynet recommended the Ministry of Finance to approve the registry's licence application.

The market for securities and other financial instruments is subject to continual technological and structural change. Development of rules, products and systems is therefore a process of mutual adjustment. Dependence on a robust infrastructure is growing steadily. Shutdowns or faults at crucial infrastructural institutions can have grave consequences. In its capacity as financial regulator, Kredittilsynet wishes to see the risk of serious problems reduced to a minimum.

Kredittilsynet's priority in 2002 was to supervise institutions' use of information technology, with the focus on security and vulnerability. IT inspections were conducted at the six key institutions in the securities market infrastructure.

The electricity market was affected by high prices towards the end of 2002. This was due to an unusually dry summer and autumn combined with low temperatures in the Nordic area towards year-end. Electricity derivatives contracts with delivery in January-April 2003 were traded on the Nordic power exchange, Nord Pool ASA, at historically very high prices. This is assumed to be related primarily to low reservoir levels in the Nordic hydroelectricity system, resulting in a significant reduction in the system's energy content in the winter of 2002-2003.

Prices in the electricity derivatives market were also highly volatile towards the end of 2002, resulting in substantial value transfers between the clearing members of Nord Pool Clearing ASA. Given Kredittilsynet's responsibility for supervision of Nord Pool ASA and Nord Pool Clearing ASA, Kredittilsynet needed to keep a close watch on developments in the electricity market.

Supervision of compliance with the general rules of conduct in the Securities Trading Act

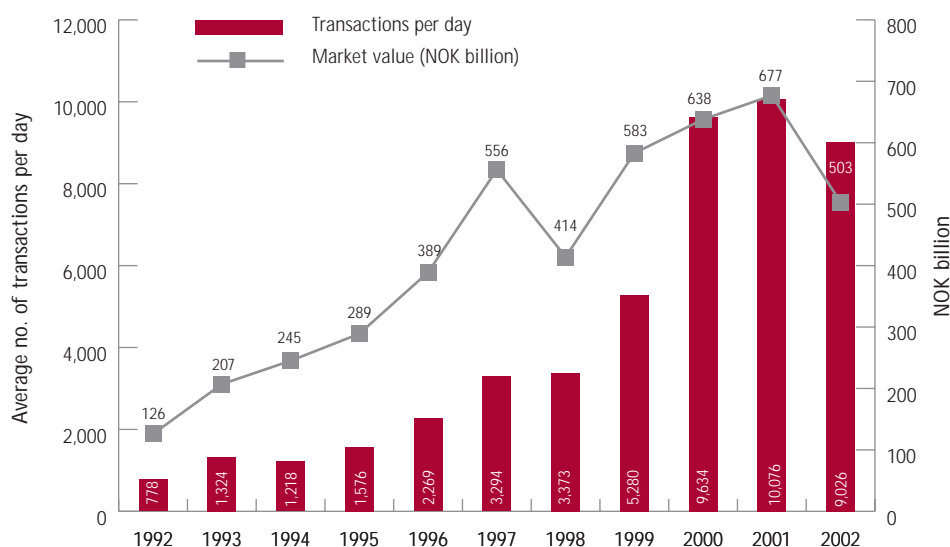
Supervision in this field is designed to ensure enforcement of the general rules of conduct contained in the Securities Trading Act. At centre-stage are the rules on unlawful insider trading and price manipulation. Kredittilsynet also oversees compliance with provisions on confidentiality and prohibition of counselling

along with special notification rules for primary insiders and rules requiring disclosure of sizeable share acquisitions. Hence a wide circle of supervised entities is involved: investors, issuers and their partners, including investment firms. The object is to bring to light and prosecute unlawful conduct in the securities market and,

insofar as the conduct provisions are applicable, in the markets for freight and power derivatives. Kredittilsynet aims to show potential lawbreakers that contravention incurs risk. Other measures that are presumed to have a preventive effect in relation to criminal acts will also be applied.

Supervisory tasks and resources

Chart 4:
TURNOVER AND NUMBER OF TRADES
AT OSLO BØRS



Source: Oslo Børs

The majority of cases dealt with in 2002 were referred to Kredittilsynet by Oslo Børs. According to the agreement between Oslo Børs and Kredittilsynet, only a low level of suspicion is required to justify referral to Kredittilsynet. In 2002 Kredittilsynet investigated a number of cases where breaches of the insider trading provisions were suspected. It is important to ascertain who are behind the transactions in question. In the case of heavily traded securities, a large number of transactions are investigated, which is time-consuming. In addition, steps must be taken to ascertain what information was held by the persons involved at the time they carried out the transactions. One case that Kredittilsynet referred to ØKOKRIM⁴ involved a broker who, in Kredittilsynet's view, passed price-sensitive information to a client. The broker in question is also suspected of inciting clients to trade in the same securities, i.e. without passing the above information to these clients.

Kredittilsynet investigated several cases of suspected price manipulation. It is crucial in such cases to prove whether or not parties have colluded, or whether a person's conduct was motivated by a desire to influence the price of a security. One case referred to ØKOKRIM involved an investment firm broker who, in Kredittilsynet's view, sought dishonestly to influence the price of a warrant by placing orders in underlying shares. This was done in such a way as to influence the price quoted by the warrant's market-maker. By this means the investment firm's clients acquired the warrant at a lower price, or sold it at a higher price than would otherwise have been possible.

Kredittilsynet noted several instances where the Internet was used to spread misleading or incorrect information of significance for securities prices. Kredittilsynet takes a serious view of such behaviour, which could be highly damaging for the issuing companies involved and for confid-

ence in the market. Also worrying is the fact that this is an area where the risk of discovery is perceived to be slight. Kredittilsynet proposed changes to the Securities Trading Act that empower the agency to compel websites to hand over IP addresses. Kredittilsynet also provided input to a new act on electronic communication in regard to storing and logging communicated data.

Following Kredittilsynet's approach to Nord Pool ASA on possible manipulation of the power market around Easter time in 2002, a major investigation was initiated, conducted primarily by Nord Pool ASA. The investigation was prompted by indications that someone had sought to influence the price of electricity in the financial market by dishonestly influencing spot market prices. Although the investigation brought no irregularities to light, its thoroughness provided valuable experience in studying and reporting on the power derivatives market. It also revealed, among other things, formal barriers

⁴ National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway

to the submission of relevant data from the Finnish system operator. Since Finnish players are an important segment of the market, the issue will be discussed further with the Finnish authorities.

Where Kredittilsynet finds reasonable ground to suspect a breach of the rules of conduct contained in the Securities Trading Act, the matter is normally referred to the prosecuting authority for further action.

In 2002 three cases of suspected unlawful insider dealing and/or breaches of confidentiality, and two cases of price manipulation, were referred to ØKOKRIM. Twenty-seven breaches of the securities trading notification requirement were reported to the police over the year. A total of 326 notification cases were forwarded by Oslo Børs compared with 536 in 2001. The decline from 2001 was essentially due to a reduction in the number of incoming cases. Despite this, Kredittilsynet dealt with more cases in 2002 than in preceding

years since a number of cases that were backlogged at the start of 2002 also had to be dealt with. Kredittilsynet noted that some cases received from Oslo Børs were not of a serious nature, or did not involve breaches of the notification requirement. Fourteen cases against issuing companies and individuals resulted in fines. Two cases were decided by court judgment, both resulting in acquittal. One has been appealed by ØKOKRIM.

In 2002 ØKOKRIM brought charges in three cases of unlawful insider trading and market manipulation that were referred to it by Kredittilsynet. One conviction and one fine were handed down for price manipulation.

Over the year Kredittilsynet investigated several cases of breaches of the disclosure requirements in respect of large share holdings. Based on the legislative history of the existing Securities Trading Act, and on a Supreme Court judgment of

2002, Kredittilsynet will confine referrals to the prosecuting authority to repeated or gross breaches. Kredittilsynet referred one case to the prosecuting authority in 2002.

In 2002, as previously, work progressed on further developing the collaboration between Kredittilsynet, Oslo Børs and ØKOKRIM. Joint seminars were organised for staff of the three institutions to this end. Kredittilsynet also collaborated fruitfully with Nord Pool in the period. The aim of the collaborations is to improve the overall efficiency of market surveillance. Topics discussed included routines, priorities and legal issues.

Banking, finance and insurance

Supervision of banking, finance and insurance is intended to ensure satisfactory financial strength, risk awareness, management and control of institutions. It comprises on-site and off-site supervision, in addition to which Kredittilsynet is assigned administrative and consultative tasks as well as responsibility for drafting regulations.

Off-site supervision and analysis

Off-site supervision and analysis entails overseeing financial institutions' compliance with statutory requirements – including those related to capital adequacy, liquidity and large commitments. In conjunction with Statistics Norway and Norges Bank, Kredittilsynet allocates substantial resources on maintaining and refining systems used by credit institutions and insurance companies to report data to the three authorities.

Off-site supervision of credit institutions and insurance companies involves overseeing and analysing their profitability, financial strength and risk. Analyses of topical problems are prepared on both a regular and ad hoc basis. Quarterly reports on

financial institutions' results and financial strength are published on Kredittilsynet's website, and quarterly press releases illuminate the main trends. In its macroeconomic surveillance Kredittilsynet monitors developments in the Norwegian and international economy that may affect stability in the financial markets. Confidential biannual reports are communicated to the Ministry of Finance and Norges Bank. As from 2003 Kredittilsynet will each year publish a summary of the state of the Norwegian financial industry. The reader is referred to the report entitled *The Financial Market in Norway 2002: Risk Outlook*.

The banks reported poorer results in

2002 than in 2001. The impairment is partly due to lower earnings as a result of the stock market trend, but also to higher loan losses. Several small banks recorded accounting shortfalls. Overall core capital adequacy remained stable compared with 2001, partly thanks to reduced lending growth at many banks. Loss provisions rose markedly in 2002. Even so, Norwegian banks' aggregate loss provisions remained low in terms of outstanding loans.

Results in the insurance field were weak, as in 2001, mainly as a result of the decline in equity markets. Life insurance companies' buffer capital was further reduced from the level at the start of the year. Both life and

non-life insurance companies substantially reduced their shareholdings to bring risk exposure into line with their risk-bearing capacity. Several years of weak technical results in the non-life insurance business led to sizeable premium increases as from 2000. The premium increases have helped to improve technical results in recent years, and the improvement in technical accounts continued in 2002. Even so, weak financial revenues brought poor profit performances for non-life insurance companies as a whole.

In 2002, as in 2001, off-site supervision of banks and other credit institutions focused on the trend in defaults, losses and financial strength. A number of small and medium-size banks have incurred rising credit risk after several years of substantial lending growth, at the

same time as activity levels in parts of the Norwegian economy have fallen. 2002 saw a marked increase in loan defaults and loan losses. Both defaults and loan losses nonetheless remained at a low level in relation to the total loan volume for the banks as a whole. Off-site analysis of the trend in profitability, liquidity and financial strength in individual institutions provides important input for selecting institutions for on-site inspection.

Off-site supervision included a number of investigations of banks' credit risk. In the home loan survey, banks were asked to report on various aspects of loans secured on housing property, including loan-to-value ratios and collateral security. Banks were also asked to give an account of their credit practices and the extent of their lending with securiti-

es as collateral. Although this type of lending is relatively limited in Norway, it is a fairly significant item for some banks. As in 2001, Kredittilsynet investigated banks' exposure to, and their assessments of risk associated with loans to, selected sectors. Loans to commercial properties were included. The results of these surveys are described in the report entitled *The Financial Market in Norway 2002: Risk Outlook*. Off-site supervision in 2002 also prioritised large exposures and changes in banks' funding and liquidity. To this end, improved reporting of maturities on banks' funding and investments was introduced. An analysis of banks' counterparty exposures, including their exposures in foreign exchange transactions, was carried out in conjunction with Norges Bank.

Considerable attention was given to monitoring insurance companies. On several occasions life insurance companies were asked to submit special reports on their risk exposure and buffer capital. Stress tests were employed on a continual basis to assess their vulnerability to further share market falls, and to possible falls in the fixed income market. The stress test results were then employed in on-site inspections or were discussed at other meetings with the companies involved. Weak share markets also affected the performance of mixed financial groups which dominate the Norwegian financial market. Their financial situation was monitored via a combination of off-site supervision and on-site inspections.

Kredittilsynet's macroeconomic surveillance in 2002 focused on the consequences for the Norwegian

financial industry of the international economic downturn and the weak share markets. Continued attention was given to the disparate trends in various sections of the Norwegian economy and the significance of this for banks' credit risk. Activity in the competitively exposed sector weakened appreciably, while growth in credit to households, including home loans and consumer loans, continued to grow strongly. Macroeconomic surveillance pays special attention to the credit market, housing market and the market for commercial properties.

International seminar on the Nordic banking crises

On 11 and 12 September 2002 Kredittilsynet hosted an international seminar on financial crises. The background to the seminar was the far-reaching banking crises in Norway, Sweden and Finland in the early 1990s (Denmark and Iceland averted problems on a similar scale). The past 15–20 years have seen financial crises in a number of countries.

Finn Hvistendahl, Chairman of the Board of Kredittilsynet, opened the seminar and outlined its background and purpose. He pointed out that the social costs of financial crises are difficult to compute and are often too high to put a figure on. In his presentation entitled *The Nordic Banking Crises from an International Perspective*, Stefan Ingves from the IMF gave an overview of international experiences with crises, while representatives appointed by the Nordic supervisors described experiences from the respective Nordic countries. Professor Erling Steigum of the Norwegian School of Management BI analysed the Norwegian crisis in a presentation entitled *The*

Norwegian Boom-Bust Cycle and Banking Crisis Revisited, while Lars Jonung of the European Commission analysed banking and currency crises in the Nordic countries in a historical perspective.

Claes Norgren, Director General at Finansinspektionen, the Swedish Financial Supervisory Authority, assessed possible consequences for financial stability of the new capital standards currently in preparation. Carl-Johan Granvik at Nordea compared banks' risk management and control around 1990 and today, while Ernest Napier from Standard & Poor's in New York gave an assessment of new financial products and techniques in his presentation entitled *Trends in Credit Risk Management: Can Systemic Banking Crises Be Avoided?* The seminar concluded with a panel debate and closing remarks by Kredittilsynet's Director General, Bjørn Skogstad Aamo. He recalled the importance of keeping the collective memory fresh, and of recognising that any new crisis will not necessarily be a repeat of the last one. Visit Kredittilsynet's website at www.kredittilsynet.no to see the presentations and a summary of the seminar.

On-site inspection

A main aim of on-site inspections in the financial industry is to see to it that institutions have the requisite financial strength, and that their management and control systems ensure satisfactory risk management and internal control.

Eighty-five inspections were carried out in 2001 at banks, finance companies, life and non-life insurance companies, pension funds and insurance brokers. Kredittilsynet was closely involved in the Nordic supervisory collaboration on Nordea and If Skadeförsäkring, and participated in four inspections under the auspices of Sweden's Finansinspektionen.

Banking

Forty-seven inspections were carried out at commercial and savings banks in 2002.

Banks' credit risk

The three largest banks' systems for measuring credit risk show that portfolio quality deteriorated somewhat over the year. As a step in monitoring credit risk, some medium-size banks' corporate portfolios were tested against Norges Bank's new model for analysing loss likelihood. The analyses indicate that most of the tested banks have assumed a somewhat higher risk profile than the average for the private sector at the national and local level. Moreover, they appear unable to apply sufficiently differentiated risk pricing. In addition to their gradually increasing credit risk, some banks incurred further losses in the wake of the collapse of the Finance Credit system in November 2002.

Inspections in 2002 confirmed that a number of small savings banks have increased their credit risk recently due to a heavier focus on the corporate segment. The higher level of risk may represent a substantive threat to some banks' independence. However, increased losses are also

due to bad banking in combination with a weaker economic climate. Small savings banks' credit expertise on the corporate client front is a critical area.

As part of the ongoing supervisory collaboration on banks' credit operations, the largest banks' use of credit risk models was surveyed in the spring of 2002. EDB Fellesdata AS, a data processing centre, was also assessed since its risk classification system is employed by the majority of smaller banks. Although credit risk management models used by the three largest banks are relatively advanced, they are still being developed on a continual basis. The medium-size banks are also actively working to improve their internal classification models. In general, however, there appears to be room for improvement among the majority of smaller and medium-size banks when it comes to making active use of risk classification systems as a tool for lending, pricing and portfolio monitoring.

Banks' liquidity risk

In the autumn of 2002 a liquidity survey was carried out which included the eleven largest banks in Norway. The object was to obtain a more systematic overview of the banks' practice as regards management and control of liquidity risk, and an overview of the trend in the banks' actual level of risk. The survey formed part of the ongoing supervision of the banking sector, and will provide a platform for the introduction of risk-based supervision. While the survey shows variations in the extent to which the banks meet international standards of management and control, the largest Norwegian banks have improved their management of liquidity risk in recent years. Management and control are now increasingly based on parameters designed to ensure a diversified funding structure. This is

exemplified by the increasing use made of stress tests. Kredittilsynet's calculations confirm a substantial spread of liquidity risk among the eleven largest banks.

December 2002 saw a new liquidity survey of 19 banks which either had large outstanding commitments with the Finance Credit system or had reported negative results in the course of the year. The survey shows that several banks' liquidity risk at end-2002 was by no means insubstantial. This calls for close attention from the management boards involved and rigorous monitoring by Kredittilsynet.

Banks' market risk

Only a minority of banks have invested more than 3 per cent of their total assets in shares, and none has exceeded the maximum limit of 4 per cent. The declining share market in the second and third quarter of 2002 nonetheless contributed heavily to the negative results recorded by a number of banks in some quarters. Moreover, in some cases poor follow-up of loans secured on shares necessitated substantial loss provisioning.

Individual cases

Based on initiatives from its control committee and media coverage, Nettet Sparebank was inspected at the end of July 2002. Kredittilsynet's ensuing comments were highly critical of the bank's management board and administration for the way they handled a loan to Norsk Trelastimport AS and for repeated instances of non-compliance with the rules governing large exposures. The savings bank's supervisory board was accordingly asked to consider replacing the management board or members of it.

Shortly after Kredittilsynet communicated its comments the management board stepped down and was replaced by a new board appointed on 23 October 2002.

Enebakk Sparebank incurred serious liquidity problems in December 2002, and the bank's management board acknowledged that the best option was to collaborate with Lillestrøm Sparebank to bring about an orderly liquidation. In compliance with the Savings Bank Act, Kredittilsynet appointed a liquidation committee.

Based on the information available to Kredittilsynet at the end of 2002, substantial losses are expected at banks exposed to the Finance Credit system. The latter's owners were reported to ØKOKRIM on 15 November. The involved banks' overall exposure totalled NOK 1.4 billion. Prompted by media coverage, Kredittilsynet had as early as in October asked for up-to-date details from banks that were known to be exposed to the Finance Credit system. Commitments with companies in the Finance Credit system had been called into question beforehand during ordinary inspections at Nordlandsbanken ASA, Bank 1 Oslo and Sparebanken Øst. Following the arrest of the company's owners on 16 November 2002, the banks in question were asked to give an account of their internal routines and procedures. They are being closely monitored by Kredittilsynet (See also page 51.)

After the collapse of the Finance Credit system Nordlandsbanken indicated that it would incur a loss of NOK 300 million on its commitment. As a result of this loss the bank soon had difficulty renewing its CDs and term deposits. In order to strengthen its financial position the bank's management board decided to issue new share capital worth NOK 300 million. However, a number of large shareholders indicated to the bank ahead of the extraordinary general meeting that it should seek a structural solution rather than issue new share capital. Scrutiny of the

Nordlandsbanken's largest loan commitments by Den norske Bank (DnB) and an independent audit company revealed a need for substantially higher loss provisioning, and consequently a greater need to strengthen the bank's equity capital. On 20 December, in response to an invitation from Nordlandsbanken's board, DnB ASA offered to take over the bank. DnB wishes to create North-Norway's largest bank by uniting the two banks' operations in the northernmost counties. A local initiative to retain Nordlandsbanken as an independent bank failed. (See also page 32.)

Finance companies and mortgage companies

Four inspections at finance companies and mortgage companies in 2002 called into question their credit risk assessment and loss provisioning practices, and their accounting for residual value guarantees in connection with leasing. Moreover, criticism was levelled at the companies' cooperation agreements with agents and suppliers.

Non-life insurance companies

Nine non-life insurance companies were inspected in 2002. In the case of non-marine insurance the general impression was that technical results had improved partly due to very large premium increases over the past couple of years. However, the improvement is offset by reduced financial returns due to share market developments. The companies made substantial cuts in their share portfolios, and took losses.

The picture was more nuanced in the case of marine insurance. Prices are fixed in an international competitive market, and although the trend has been on the upgrade for two years, premiums were in general not at a profitable level. This, combined with a shortfall in financial earnings, has brought relatively large losses for Norwegian players in recent years.

Reinsurance

The price of reinsurance was expected to rise in the wake of the terrorist attacks on 11 September 2001. This did not happen immediately, but became increasingly apparent in the course of 2002. Some Norwegian companies have thus far been shielded against premium increases by long-term contracts and special agreements, although instances have occurred where companies have been compelled to accept a significant increase in own-account exposure. Since this automatically entails higher provisions, it may have consequences for their capital adequacy.

Life insurance companies and pension funds

Five life insurance companies and eight pension funds were inspected in 2002. On-site inspection at life insurance companies and pension funds focuses on their compliance with the asset management regulations. Amended asset management regulations effective from 1 October 2001 impose stricter requirements on institutions' management boards in terms of managing and monitoring market risk, including an obligation to conduct stress tests and to assess the ability to withstand value falls.

Life insurance companies and pension funds have outsourced much of their asset management business to investment firms engaged in discretionary management. As in 2001, ensuring that companies operate under an updated management agreement which clearly describes the management mandate and reporting requirements was an important concern. A further key concern was to assess whether sufficient expertise remained in the company after outsourcing for the management board to properly discharge its asset management responsibilities.

Life insurance companies' failure to make the changes needed in the technical basis for premiums and

provisioning until ordered to do so by Kredittilsynet appears to be a general problem.

A number of pension funds fail to prepare estimates for underwriting provisions on a quarterly or biannual basis. As a result any need for fresh equity capital only becomes clear at year-end.

Many pension funds have had poor internal control routines, both in relation to compliance with laws and regulations and in terms of managing and monitoring their own risk exposures. The internal control regulation was made applicable to pension funds as from 1 October 2001. It is expected to prove an important tool for improving pension funds' management and control systems in due course.

Insurance brokers

Four insurance brokerages were inspected in 2002. The inspections brought to light weak financial positions and failure to bring security furnished up to date in relation to the number of brokers. One insurance brokerage's registration was deleted in 2002, partly for non-compliance with an order issued after an earlier inspection. A further brokerage was warned of possible supervisory sanctions after breaching sections 9 and 10 of the brokerage regulations by mediating private insurances to an insurer outside the European Economic Area. However, after further consideration Kredittilsynet concluded that deleting this brokerage's registration was an excessive response to the breach committed.

IT supervision

Banking and insurance

Operational risk associated with the use and operation of IT systems represents a substantial risk factor for Norwegian financial institutions. As a step in refining the supervisory effort, it was decided in 2002 to employ CobiT – an international standard for control and audit of IT business – as the platform for Kredittilsynet's IT supervision. It was also decided to try out a standardised electronic solution designed to make better use of data on events and problems as a basis for methodology development and risk and vulnerability analyses.

Nine ICT inspections were carried out in 2002. The inspections covered institutions' own IT activities and outsourced segments. They included an overall IT inspection of the Internet bank solution at Nordea banks in conjunction with the other Nordic supervisory authorities.

Based on its monitoring and investigations in the field of card security, Kredittilsynet formally took up this matter with the banking industry represented by the Savings Banks Association and the Norwegian Financial Services Association. Meetings were held with these associations and other interested parties. The associations wish to continue their dialogue with the banks in order to arrive at relevant measures for reducing risk in this field.

February 2002 saw the publication of a risk and vulnerability analysis of the financial IT structure and use of Internet bank services in Norway. The report was presented to several institutions and interest organisations to increase awareness of risk associated with areas identified as vulnerable. The report is available at Kredittilsynet's website at www.kredittilsynet.no.

Data processing institutions

One IT inspection was carried out at the Banks' Payment and Central Clearing House in 2002. In its comments Kredittilsynet pointed to the absence of an integrated change management system and expected this to be installed as soon as practicable.

Kredittilsynet's comments from its IT inspection of EDB Fellesdata AS and EDB Teamco AS in 2001 were published in 2002. The key features of these comments were contained in a letter to 114 savings and commercial banks that were affected by a shutdown in August 2001. Similarly, steps were taken in 2002 to check compliance with orders issued via Gjensidige NOR Bank AS. Moreover, separate follow-up meetings related to Internet bank operating problems were held in April and May 2002. The agreed measures will be followed up in 2003.

On 31 October the Norwegian Competition Authority announced a possible intervention against an agreement between the Norwegian Financial Services Association, the Savings Banks Association and the Banks' Payment and Central Clearing House which commits the banks to utilising the latter institution for collection of card transactions from the retail sector. In the view of the Norwegian Competition Authority the agreement restricts market competition. Organisation, technical solutions and operation related to the EFTPOS system in Norway have a bearing on vulnerability and operational risk. Kredittilsynet regards the solutions established in this area as satisfactory, and does not want to see standardisation and risk aspects affected in the event of changes in established solutions. In its submission regarding the Norwegian Competition Authority's intervention

warning, Kredittilsynet asked for emphasis to be given to the risk aspect in the further treatment of the case.

Payments Systems Act – collaboration with Norges Bank

The Payments Systems Act (No. 95 of 17 December 1999) assigns Norges Bank responsibility for licensing and supervision of interbank systems, and Kredittilsynet responsibility for supervision of systems for money transfer services and securities clearing systems. These systems interlock, requiring clarification of responsibilities and work sharing between Norges Bank and Kredittilsynet. To this end the two institutions have formalised an agreement defining system limits and a regime for cooperation and task sharing. The agreement also describes relevant warning and information routines in the event of insolvencies or suspension of system participants.

In 2003 a formal collaboration will be established on IT inspections at supervised institutions that are also licensed by Norges Bank as clearing banks. Monitoring these institutions' compliance with the obligation under the Payment Systems Act to notify Norges Bank will be integrated into IT supervision and coordinated with the ongoing supervisory effort in the course of 2003.

Nordic supervisory collaboration

Nordea

Since 2000 the Nordic supervisory authorities have operated a cooperation agreement on supervision of the Nordea Group. The regime comprises a coordinating supervisory team plus subteams for assessment of total risk, capital allocation, insurance and accounts. A team to assess the Group's liquidity management was set up in 2002. In the spring of 2002 the risk team presented to the supervisory team a document reviewing overall risk evaluation practice within the Nordea Group. The document was thereafter considered by the heads of the four Nordic supervisory bodies at the meeting of Nordic supervisors in Bergen in June 2002, and by Nordea's Group management later the same month. Nordea gave its comments to the document in a letter of 25 August 2002.

Three group-wide inspections were conducted in 2002 in the fields of credit risk, management and control, and liquidity management. Kredittilsynet was present at the inspections. Altogether the supervisory team and the risk team met 11 times, the liquidity team four times.

If Skadeförsäkring Holding Group

The agreement between Finansinspektionen (the Swedish Financial Supervisory Authority) and Kredittilsynet on supervision of If Skadeförsäkring Holding AB was revised in March 2002, and also signed by Försäkringsinspektionen (the Finnish Insurance Supervisory Authority) after Sampo's former non-life insurance business was taken over by If Holding as from 1 January 2002. The agreement entitles Kredittilsynet to attend important meetings that Finansinspektionen holds with If and to take part in on-site inspections.

Kredittilsynet assisted Finansinspektionen's preparation of a "Total Risk Assessment" of If, which took into account the Sampo transaction. The risk assessment was published in January 2002, and Kredittilsynet, together with Försäkringsinspektionen, also carried out an updated risk assessment of the If Group for the first half of 2002. Moreover, Kredittilsynet participated, under Finansinspektionen's auspices, in an inspection of If Skadeförsäkring AB's premium-setting, discounts and monitoring of claims payments. Kredittilsynet also attended two meetings with If on annual and interim financial statements.

Licensing and regulatory compliance

Banking/finance

Changes in the structure of the Nordea Group, including the Vesta Group

In its submission to the Ministry of Finance, Kredittilsynet advised the ministry to approve the Nordea Group's application for permission to reorganise its insurance business. Vesta Forsikring AS, a non-life insurance company, was the parent company in the Norwegian Vesta Group, which is in turn part of the Nordea Group. Permission was sought to organise the insurance business in two sub-groups, one for non-life and one for life insurance, ahead of the planned sale of the non-life arm. The reorganisation went ahead, and the two insurance groups established a comprehensive set of cooperation agreements.

Nordea Bank Norway was also comprehensively reorganised. Kredittilsynet approved the sale of the bank's subsidiaries, Nordea Management ASA and Nordea Fondene AS, to the Swedish company Nordea Asset Management AB, and the spinoff and sale of the bank's securities business to the Swedish company Nordea Securities AB. All the companies remain wholly-owned subsidiaries within the Nordea Group.

Gjensidige NOR Group – conversion to public limited companies

Upon Kredittilsynet's advice, the Ministry of Finance authorised Union Bank of Norway and the life insurance company Gjensidige NOR Spareforsikring to convert to public limited companies. All shares in both companies are owned by the new holding company Gjensidige NOR ASA. Prior to the conversion the savings bank and the life insurance company, together with the non-life insurance company Gjensidige NOR Forsikring, created a group with a common management board. Since

the conversion the non-life insurance company has been linked to the Gjensidige NOR Group by a strategic cooperation agreement. The former Union Bank of Norway is now a public limited company regulated by the Commercial Banks Act. The bank is nonetheless entitled to use the term "sparebank" (savings bank) in its name, and is a member of the Savings Banks' Guarantee Fund. This will remain the case so long as the savings bank foundation (Stiftelsen Gjensidige NOR Sparebank) owns 10 per cent or more of Gjensidige NOR ASA's share capital.

Den norske Bank's takeover of Nordlandsbanken ASA

In response to an invitation from the Board of Nordlandsbanken ASA, Den norske Bank (DnB) offered to take over the bank. By 16 January 2003 DnB had received acceptances which, together with the shares already held by DnB, came to 90.32 per cent of the bank's shares. On this basis DnB applied on 21 January 2003 to the Ministry of Finance for a licence to purchase Nordlandsbanken's shares. (See also page 28.)

Verdibanken ASA

The Ministry of Finance authorised Verdibanken ASA to carry on banking operations in the segments stated in the bank's application. The authorisation was in line with Kredittilsynet's recommendation. Payment of share capital of NOK 50 million was required, along with a share subscription premium bringing total equity to NOK 85 million. Due to the bank's risk profile, Kredittilsynet will consider imposing a capital adequacy requirement above the statutory minimum.

UPS Capital Nordic AS

Kredittilsynet authorised UPS Capital Nordic AS to establish a finance company and to carry on financing operations. The company will offer financial factoring, stock financing

and documentary credits financing, mainly to clients of United Parcel Service Inc. (UPS) and Fritz Companies Norway AS. The company is also planning to expand its business to other Nordic countries in the longer term.

Application to merge Finansbanken ASA and Storebrand Bank AS

Since 1999, when Storebrand ASA was granted a licence to acquire the shares of Finansbanken ASA, the company has been provisionally authorised to retain Storebrand Bank AS and Finansbanken within the same group. In November 2002 Kredittilsynet received an application to merge the two companies, and in January 2003 Kredittilsynet advised the Ministry of Finance to approve the merger.

DnB Holding ASA – acquisition of Skandia's discretionary asset management business

Upon Kredittilsynet's advice, the Ministry of Finance authorised DnB Holding ASA to acquire all shares of Skandia Financial Holdings Aktiebolag and its subsidiaries. The companies provide discretionary asset management services under the name "Skandia Asset Management". As required for authorisation, Kredittilsynet approved the organisation of discretionary asset management business in the DnB Group. The approval covers the merger of Skandia's asset management business in Norway with equivalent business in the Norwegian section of the DnB Group.

Capital Merchant Bank ASA

Kredittilsynet advised the Ministry of Finance to turn down Capital Partners' application for authorisation to act as a commercial bank for Capital Merchant Bank ASA. Although in some doubt, Kredittilsynet recommended rejecting the

application on the basis that the intended business did not qualify as commercial banking. Kredittilsynet's alternative recommendation was to grant the application on specific conditions, including a capital ratio of 16 per cent based on assessments of the bank's risk profile.

Financial and operational leasing

In connection with a specific exemption, Kredittilsynet considered the definition of what is to be regarded as leasing business subject to a licensing requirement under the Financial Institutions Act (No. 40 of 10 June 1988). The issue involved "car administration with financing" which has clear-cut features in common with ordinary car-hire. After reviewing international definitions of operational and financial leasing, Kredittilsynet concluded that the type of car financing operated by the company did not qualify as business subject to licensing. The Ministry of Finance agreed with Kredittilsynet, and the company handed in its licence.

Samspar Norge – withdrawal of exemption by Ministry of Finance

In 1995 Samspar Norge was exempted from the financial institutions act's licensing requirements on the basis that it would receive deposits exclusively from members of the Pentecostal church. In the autumn of 2002 the Ministry of Finance withdrew Samspar Norge's exemption upon Kredittilsynet's recommendation.

At the end of 2000 Samspar had a negative equity capital of NOK 3.3 million. By the end of 2001 the figure was a negative NOK 23.2 million. A major reason for the large deficit in 2001 was that the association had placed a substantial portion of its capital in equity funds, which led to heavy losses for the contributors.

The background to the ministry's decision was that Samspar Norge operated in conflict with the terms of the exemption. The Ministry stressed that the contributors had not been informed that their contributions were not secured; that the association received contributions from persons who were not members of the Pentecostal church; and that it had failed to comply with its own statutes. Withdrawal of the licence was also based on a desire to protect contributors against risk of further loss. Samspar is now being wound up.



Insurance

Pension Funds' financial strength

Due to the developments in the securities market, a number of pension funds fell short of the Insurance Activity Act's capital requirements in the third quarter of 2002. The majority of pension funds sought permission to raise capital in the form of core capital and subordinated debt. Kredittilsynet also received applications for temporary exemption from the capital requirements. So far only short-term exemptions – lasting up to three months – have been granted. Since the pension fund regulations confine exemption to special cases, a condition for exemption was that the sponsoring undertaking inject the requisite capital in the near future. Exemption was also granted to pension funds that presented a plan to sell shares or to reclassify the portfolio by other means in order to meet the capital adequacy requirement.

Articles of association

Kredittilsynet revised the standard articles of association for private pension funds and municipal pension funds in 2001. The background for the revision was the addition of notification rules to the pension fund regulations, new pension legislation for the private sector and changes in the collective bargaining agreement in the municipal sector. All pension funds were instructed to submit revised articles in 2002. Under the notification rules, pension funds only receive a response from Kredittilsynet if their articles of association are not accepted.

Problems for life insurance companies as a result of falling securities prices

Some Norwegian life insurance companies faced problems in meeting the minimum capital and solvency margin requirements in the summer and autumn of 2002 due to the weak securities market. Both traditional life insurance companies and companies offering unit-linked life insurance were affected. Upon the advice of Kredittilsynet, the Ministry of Finance granted three life insurance companies exemption from the solvency and capital adequacy requirements.

Occupational injury insurance

Recent years' large premium increases in the occupational injury insurance sector are now starting to bear fruit for non-life insurance companies. Figures for the six largest companies offering occupational injury insurance show an aggregate technical result for own account of NOK 18 million in 2001 compared with an accumulated technical deficit of about NOK 1.3 billion in the period 1997–2000. For the six companies combined, the gross claims ratio for 2001 was estimated at 120 per cent, in other words just over half the 1998–1999 level. In 2001 the six largest companies' share of the occupational injury insurance market was 94 per cent in terms of gross premium.

The above figures are taken from a report on a sectoral account for occupational injury insurance as of end-2001 which was prepared by Kredittilsynet with assistance from the technical calculating committee for non-life insurance. The report was published by Kredittilsynet in September 2002.

Guarantee schemes in the insurance sector

Kredittilsynet acts as secretariat to the Non-Life Insurance Companies' Guarantee Scheme and the Credit Insurance Companies' Guarantee Scheme. The latter scheme was inactive in 2002. The Non-Life Insurance Companies' Guarantee Scheme met twice in the course of the year to consider claims on the scheme from policyholders in Star Forsikring AS which had been placed under public administration. In a ruling delivered on 20 March 2002 the Supreme Court established that interest claims accruing after a claim against an insurer falls due also have priority under the earlier Insurance Activity Act, Section 11–5. In light of this ruling the policyholder in question claimed payment of interest from the scheme. The issue of payment by the scheme was not addressed by the court. The guarantee scheme has itself previously covered the actual damage and interest up to the due date, but resolved not to cover the remaining interest segment of the claim against the insurer. The guarantee scheme's decision has been appealed to the Ministry of Finance.

Bluewater Insurance ASA / Zürich Holding Norge AS

Kredittilsynet authorised Bluewater Insurance ASA to acquire 100 per cent of Zürich Holding Norge AS's shares ahead of a merger of the two companies. It also authorised a reduction of Zürich Holding Norge AS's share capital and a merger of Zürich Protector Forsikring AS with Zürich Holding Norge AS prior to the acquisition.

ForbrukerForsikring AS

In line with Kredittilsynet's recommendation, the Ministry of Finance issued a licence to ForbrukerForsikring AS to carry on insurance. The company will offer legal aid insurance to purchasers of goods priced at NOK 2,000 and upwards. This type of insurance is uncommon in Norway. Kredittilsynet recommended imposing a condition requiring the company upon start-up to have capital exceeding the minimum requirement contained in the Insurance Activity Act Section 7-3. The company has yet to commence operations.

Corporate fine imposed on Halden Kommunale Pensjonskasse by ØKOKRIM

An inspection at Halden Kommunale Pensjonskasse (a municipal pension fund) in June 2001 brought to light large losses on the share portfolio and deficit for 2000 of almost NOK 80 million. Central provisions of the rules governing pension funds had been breached; for example its assets had not been invested in an appropriate and satisfactory manner. The board of directors was asked to consider its position, and thereafter stepped down. The matter was referred to ØKOKRIM which on 20 December 2002 handed down a corporate fine of NOK 100,000.



Regulatory amendments

Banking/finance

New rules proposed for calculating capital adequacy

The Basel Committee on Banking Supervision has drafted new guidelines for computing banks' capital adequacy. Since 1999 the committee has completed two rounds of consultation in which Kredittilsynet and Norges Bank have issued joint comments. A third and final consultation document is expected in the spring/summer of 2003 ahead of the adoption of the new Basel Capital Accord by the Basel Committee at the end of 2003. The new guidelines for computing capital adequacy will take effect at the end of 2006.

On 1 October 2002 the Basel Committee presented a scheme for ascertaining the impact of the new guidelines on capital requirements. The study, known as the third Quantitative Impact Study, or QIS3, highlights the minimum requirements proposed under Pillar I of the revised Capital Accord. More than 200 banks from over 40 countries are participating in the study including, from Norway, Den norske Bank, Nordea Bank Norway, Gjensidige NOR and Fokus Bank.

Kredittilsynet's impression is that the larger Norwegian banks are well prepared for the introduction of the new Basel rules, but view the study as an important instrument for confirming that this is actually the case: in-house statistics and management systems, for example, will have to meet stringent requirements if internal models are to be used as a basis for measuring capital adequacy.

In parallel with the Basel Committee, the European Commission is revising its capital adequacy rules for credit institutions and investment firms. The Commission's revision is based on the Basel Committee's proposals, but gives special emphasis to issues

of importance in the EU context. Like the new Basel Accord, the new capital adequacy directive will take effect at the end of 2006.

On 18 November 2002 the European Commission published a working document on revision of the current capital adequacy rules for credit institutions and investment firms. The document, which is based on the European Commission's draft new capital adequacy directive and reflects the Commission's current thinking, was circulated for comment.

The current round of consultation was initiated by the European Commission in order to obtain an early assessment of the draft capital adequacy directive ahead of publication of the third and final consultation document in the spring/summer of 2003. The working document identifies issues specific to the EU which the European Commission considers should be taken into account in the new capital adequacy rules. Kredittilsynet has invited affected industry associations to take part in the consultation round.

In 2003 Kredittilsynet will complete its work on QIS3 and the European Commission's "structured dialogue". Kredittilsynet will also, in conjunction with Norges Bank, forward a joint statement on the third set of consultation documents to the Basel Committee and the European Commission.

A draft regulation on accounting treatment of loans

In March 2002 Kredittilsynet forwarded a draft regulation on accounting treatment of loans and guarantees (the "loss regulations") to the Ministry of Finance. The proposal is intended to replace the current regulation (of 14 November 1991) on

valuation of losses on loans, guarantees etc. It brings Norwegian rules into line with international accounting standards (IAS 39) and clarifies the concept of loss on an individual basis and on a group basis. It also brings terminology into line with general accounting legislation and IAS 39. The proposed regulation was circulated for comment in July 2002, with a deadline for comments set at 2 October 2002, and is currently being considered by the Ministry of Finance. Kredittilsynet advised the Ministry of Finance not to implement the loss regulation until 1 January 2004.

Act on e-money institutions

With a view to implementation in Norway of Directive 2000/46/EC on electronic money institutions (the e-money directive), Kredittilsynet forwarded a submission to the Ministry of Finance containing a proposal for an act concerning issuers of electronic money. The Ministry thereafter tabled an e-money bill (Ot. prp. No. 92 (2001–2002)), which was passed into law by the Parliament (Stortinget) on 13 November 2002 as Act No. 74 of 13 December 2002. The act regulates the taking up and pursuit of the business of issuing electronic money and the supervision of institutions carrying on such business.

The question of strengthening the position of primary capital certificates (PCCs)

Following an approach from the Ministry of Finance, Kredittilsynet considered a proposal from the Savings Banks Association to the effect that the supervisory board of savings banks should have a freer hand in deciding the distribution of the net profit of PCC banks than what follows from the "PCC holder fraction". Kredittilsynet did not consider there was a basis for extending preferential treatment to PCC holders at the expense of other capital,

but pointed to some minor steps that could be taken to strengthen the position of the PCC.

Circular on new "standard articles of association"

Kredittilsynet's guideline articles of association for commercial banks, finance and mortgage companies and non-life insurance companies were reviewed and amended. The amendments are essentially designed to bring the guideline articles into line with new legislation.

Directive on supervision of financial conglomerates

Kredittilsynet participated in a working group appointed by the European Commission to prepare a directive on supervision of mixed financial conglomerates. The directive, now in force, contains rules for reporting intra-group transactions and measuring financial strength on a consolidated basis. The directive calls for close collaboration between supervisory authorities in Europe, and enlarges the right for the supervisory authorities of one country to take part in on-site inspections in other countries within the EEA.

Circular on the minutes of control committee meetings and on the law-trained member of control committees

Kredittilsynet decided to alter the routines for authorising control committees' minutes and for approving the law-trained member of control committees. The financial legislation requires the control committee of savings and commercial banks to keep minutes, duly authorised by Kredittilsynet, of its proceedings. Minutes will now be regarded as authorised without being sent to Kredittilsynet.

The law-trained member appointed to the control committee must be approved by Kredittilsynet. Thus far, institutions that replace the law-

trained member of their control committee have submitted an application to Kredittilsynet accompanied by information confirming that the person in question has taken their final law examinations and applied for authorisation from Kredittilsynet. Henceforth the law-trained member appointed to the control committee will be regarded as duly authorised on condition that the institutions themselves verify that the individual meets the requirements in question.

NOU 2002: 3 Ownership restriction and owner control at financial institutions

Kredittilsynet's submission supports the main features of the model for new rules on ownership restriction and owner control proposed in the NOU study. The committee recommends a Norwegian system based on the principles underlying the EU directives. According to the proposal an acquirer will have to seek prior permission to acquire holdings of 10, 15, 20, 25, 67 and 90 per cent in a financial institution. To obtain permission to acquire any holding in excess of 25 per cent, the acquirer will have to make a takeover offer to all shareholders and acquire an overall holding of at least two-thirds of the target institution's shares. In its submission, Kredittilsynet expressed the view that the committee's proposal provides a sound basis for a new body of rules, but recommended fewer thresholds requiring the acquirer to obtain permission from Kredittilsynet. Kredittilsynet also asked the Ministry of Finance to consider whether further delegation to Kredittilsynet could result in simpler and quicker procedures than provided for by the proposal.

Financial institutions' business II – Report No. 8 from the Banking Law Commission
The Banking Law Commission's eighth report addressed issues rela-

ted to financial institutions' organisation and business. These included dividends and group contributions, financial institutions' ownership of shares, ownership interests and real estate, finance and mortgage companies' right to own banks of insurance companies, dispute resolution arrangements and national and supranational supervisory authorities. Kredittilsynet's submission largely supported the commission's recommendations and assessments.

Mortgage bonds and securitisation – regulatory amendments

In connection with the proposed law on mortgage bonds and securitisation, Kredittilsynet drafted in March 2002 amendments to the associated legislation. It proposed assigning mortgage bonds a risk weight of 10 per cent for calculating capital adequacy requirements and large commitments. Concurrently Kredittilsynet reviewed the capital adequacy treatment of securitisation transactions, recommending that bonds issued by special-purpose institutions and secured on a mortgage loan portfolio should on certain conditions qualify for a 50 per cent risk weighting for the purpose of calculating capital adequacy requirements. The Ministry of Finance circulated the recommendations for comment on 5 July 2002. For mortgage bonds a change in the discretionary management regulations was proposed enabling companies to hold up to 20 per cent of their technical provisions in a bond loan secured on a mortgage portfolio. Furthermore, an amendment was proposed to the Securities Funds Act enabling securities funds to invest up to 25 per cent of their assets in a bond loan secured on a mortgage portfolio.

Insurance

New pension legislation – changes and need for clarification

The Act on Defined Benefit Occupational Pension Schemes and the Act on Defined Contribution Occupational Pension Schemes were amended in 2002 to permit combined pension schemes. The amendments will become effective once regulations are established on the design of combined pension schemes, probably in the spring of 2003.

Amendments to the acts above introduce an obligation for institutions with defined contribution schemes to impose higher contributions or contribution premiums for women than for men if this is necessary to ensure that the annual pension will not depend of the member's gender.

A number of interpretative problems and issues related to the pension laws were dealt with by Kredittilsynet, several of which were referred to the Ministry of Finance for comment or assessment, including assessment of any need for law changes.

Life insurance companies' temporary exemption from the Insurance Activity Act

In the autumn of 2002 Storebrand Livsforsikring AS, Gjensidige NOR Spareforsikring ASA and Vital Forsikring ASA applied to the Ministry of Finance for exemption from the Insurance Activity Act. The applications were prompted by the Labour Court's ruling of 8 October 2002 which established that only Kommunal Landspensjonskasse (KLP, a nationwide pension fund for the municipal sector) had a funding system for group pension insurances that was in line with the requirements of the main collective bargaining agreement for the municipal sector. The agreement required a gender- and age-neutral funding system. KLP is exempt from the provisions of

the Insurance Activity Act and practises premium equalisation between policyholders to achieve gender- and age-neutrality. This system contrasts with the individual system enshrined in the Insurance Activity Act.

The Labour Court gave the 11 municipalities that were subject to legal action until 1 July 2003 to bring their pension schemes' funding system into line with the court's understanding of the municipal collective bargaining agreement. It meant that the municipal pension schemes in question would have to transfer back to KLP by the above date, and that no policyholder could transfer his or her pension schemes from KLP to one of the three life insurance companies unless the latter were exempted from, or amendments were made to, the act. Subject to considerable doubt, Kredittilsynet concluded that the three life insurance companies should be granted exemption from Sections 7-5 and 7-6 of the Insurance Activity Act. The Ministry of Finance agreed, and granted exemption subject to specified conditions. The exemption was in some respects not consistent with Kredittilsynet's recommendation. The three companies thereafter submitted product descriptions as required by the conditions set. Their pension products were however deemed to be counter to the requirements of the main collective bargaining agreement, but in line with the parties' view of this agreement. Kredittilsynet asked Storebrand to adjust its product to the conditions set by the ministry for exemption. Failure to do so would result in a daily recurring fine of NOK 100,000. Storebrand thereafter submitted a new product description which met the conditions for exemption.

A total of four municipalities had notified switching from KLP to private life insurance companies as of 1 January 2003. The Norwegian

Confederation of Trade Unions, in the shape of the Norwegian Union of Municipal Employees, brought action against these municipalities on 21 January 2003 for breach of the main collective bargaining agreement.

Responsibility for sanctions assigned to Kredittilsynet – Fourth EU motor insurance Directive

EU Directive 2000/26/EC on the approximation of the laws of the Member States relating to liability insurance in respect of the use of motor vehicles (Fourth motor insurance Directive) of 16 May 2000 was implemented in Norwegian law. The directive is designed to make it easier for EEA residents to pursue an insurance claim if they have a motor accident in an EEA State other than their state of residence or in a state that participates in the "green card" (an international insurance certificate) arrangement, and the accident was caused by a motor vehicle insured in, and whose home state is, an EEA state. Under the new rules the Norwegian Motor Insurers' Bureau is recognised as an information centre and compensation agency.

The Ministry of Transport and Communications and the Ministry of Justice, with the approval of the Ministry of Finance, advocated that responsibility for imposing sanctions against violations of Norwegian rules corresponding to the provisions of the Fourth motor insurance Directive should be assigned to Kredittilsynet.

New directive on insurance mediation

On 30 September 2002 the European Parliament adopted a new Insurance Intermediaries Directive which Kredittilsynet expects to be incorporated in the EEA agreement. Article 16 of the directive requires member states to implement the directive in national law not later than two years after entry into force

of the directive. The directive applies to all intermediaries, including agents and advisers. No requirements are attached to such business at present. The directive aims for a minimum level of harmonisation.

Regulations on workers stationed abroad

In December 2002 Kredittilsynet forwarded to the Ministry of Finance draft regulations on membership of a company pension scheme and/or a defined contribution scheme for workers temporarily stationed abroad. The proposal will be circulated for comment in the course of 2003.

Stricter solvency requirements proposed for insurance brokers

Kredittilsynet recommended to the Ministry of Finance that stricter solvency requirements be applied to insurance brokers. The proposal entails requiring brokers to be in a position to meet their commitments

on a continual basis and to maintain a positive equity capital position. The new provisions are in line with requirements applied at estate agencies and debt collection agencies. A requirement for positive equity capital will in Kredittilsynet's opinion help to prevent financial dishonesty, for example in dealing with client assets.

Work on new solvency margin rules

New EU directives on solvency margin requirements for insurance companies were established in March 2002.

Work on implementing the directives in Norwegian rules started in the autumn of 2002. The new provisions are expected to result in somewhat higher solvency margin requirements for non-life insurance companies.

Where life insurance companies are concerned, the new rules will bring only marginal adjustments to the solvency requirements.

Risk-based supervision

The process of introducing a more risk-based supervisory regime along international lines in compliance with the requirements of the new Basel Accord continued in 2002. Now that it is clear that introduction of Basel II will be postponed to 2006, more time can be spent on introducing the new methods. The project preparing for risk-based supervision was reorganised in 2002, with greater emphasis being given to building on current supervisory practice and a gradual introduction of new methodology to ease the transition to new methods in purely organisational terms. The modules for credit risk, market risk and liquidity risk will be tested in a selection of institutions in the first half of 2003. The modules for operational risk and insurance risk will be ready for testing in the same period. After the trial period the scheme will be evaluated and any adjustments needed will be made. Kredittilsynet will be in a position to make an overall risk assessment both of individual institutions and groups in the second half of 2003.

Work is also under way on a study of the overall consequences for supervision of the introduction of Pillar II of the new Basel Accord. Pillar II imposes new requirements on institutions in terms of risk management and on supervisory authorities in terms of methodology. The introduction of risk-based supervision will result in more systematic supervision. On-site inspection will be more resource-demanding than at present. Steps must be taken to clarify what aspects of the present on-site regime need to be carried forward under the new regime, for example monitoring of the individual institution's compliance with laws and regulations. Moreover, the need for periodic reporting of data will probably change in keeping with the change in emphasis in the supervisory regime. The question of whether staff increases and further specialisation will require a reorganisation within Kredittilsynet itself will also be addressed.

Auditing

Kredittilsynet's tasks in relation to auditors comprise approval or licensing of individuals and firms in accordance with the legal requirements applying to this profession as well as registration and supervision. Supervision encompasses entities listed in the register of auditors, and includes checking that they maintain their independence, and that their activity complies with law and regulations and is conducted in a satisfactory manner.

The auditing industry features a bipartite structure: a small number of international auditing companies that audit the majority of listed companies and other institutions of public interest, and a large number of smaller auditing companies whose main function is to audit small and medium-size companies. After the acquisition of Arthur Andersen & Co AS by Ernst & Young AS in 2002, only four large auditing companies remain, which narrows the choice of auditors available to multinational companies. This is likely to occasion further structural change in the industry both at the national and international level.

Authorisation of individuals and undertakings

Under the Auditors Act, auditor authorisation requires approved theoretical training and three years of varied experience. Practising auditors are required to furnish security of NOK 5 million and to meet requirements as to post-qualifying training.

To achieve authorisation, auditing firms need to be more than 50 per cent owned by state authorised auditors, and the majority of the members of firms' boards of directors must be state authorised auditors. Requirements laid down in articles of association and requirements as to financial probity also apply.

Following off-site examination, Kredittilsynet warned 144 authorised auditing companies that their licences would be withdrawn due to non-compliance with the requirements of company law. The great majority opted to meet the requirements within the deadline set, while four companies lost their licences.

Administrative activity in 2002

Among Kredittilsynet's key responsibilities in relation to the Auditors Act is authorisation of auditors. The number of authorised auditors and auditing firms in 2002 is shown in table 9.

Table 9: NUMBER OF APPROVED AUDITORS

Auditors	31.12.2000	31.12.2001	31.12.2002	Approved in 2002
State authorised	1,902	1,998	2,107	114
Registered	2,738	2,826	2,899	136
Auditing firms	507	514	507	27

Regulations

Kredittilsynet proposed that statutory constraints on auditor counselling of audit clients should also apply in respect of institutions with whom the auditor has a cooperation agreement, and which perform counselling or other services. The proposal was forwarded to the Ministry of Finance in June 2002 and ratified by the Ministry on 19 December 2002 for entry into force on 1 April 2003.

Early in December 2001 Kredittilsynet proposed amendments to the Ministry of Finance designed to simplify the Auditors Act and associated regulations. This involved removing the requirement that Kredittilsynet approve courses for post-qualifying training and introducing simpler requirements in relation to provision of security and the content of the register of auditors. The Ministry of Finance circulated the amending bill for comment on 21 December 2001 with a deadline for submissions set

at 22 March 2002. The proposal to remove the course-approval scheme was adopted by means of a regulatory amendment of 19 December 2002. The Ministry did not, however, act on the proposal to simplify routines in relation to provision of security. Kredittilsynet will now lay a basis for electronic routines and reporting of security furnished. The amendments proposed to the Auditors Act are still under consideration by the Ministry.

Supervisory activity in 2002

Supervisory cases handled in 2002 totalled 118, of which 32 were on the basis of on-site inspections. These were to a large extent follow-up inspections of auditors who had previously been criticised by Kredittilsynet, and of auditors reported to Kredittilsynet, mainly by the tax authorities and liquidators. Thirty-eight complaints against auditors were received in 2002 compared with 31 and 32 in 2000 and 2001 respectively.

Supervision entails checking compliance with laws and regulations and with generally accepted auditing standards. This requires a thorough assessment of the appropriateness of auditing methods, whether the scope of audit procedures is sufficient, whether the auditor's assessments and conclusions accord with the result of the audit procedures and whether satisfactory supporting documentation for the audit is available.

In 2001 supervision focused on audits of larger conglomerates. All the major auditing firms were involved. Supervision was confined to predefined themes, with special

attention given to auditing of entities within the particular conglomerate. This process reached completion in 2002 with a largely successful outcome. In the few cases where the inspections brought to light unsatisfactory circumstances, Kredittilsynet issued comments both to auditing companies and the auditors responsible that were proportional to the gravity of the circumstance in question. In one case Kredittilsynet reacted because the auditor had relied excessively on the conglomerate's internal audit.

In 2002 one thematic inspection was carried out with the focus on "auditors' counselling of audit clients". It involved the five largest auditing companies and any collaborating companies that delivered counselling or other services and was designed to investigate compliance with the Auditors Act's provisions on independence and objectivity. Counselling services delivered to 50 major audit clients were examined. The final conclusions will be made known in the first half of 2003. Inspections showed very wide variation both in the nature and scope of auditors' counselling of their audit clients. It is clear that the scope of auditors'

counselling is substantial, and that regulations in this area need to be clarified.

Kredittilsynet investigated some auditors who had been appointed to auditing companies attached to the Finance Credit system. The investigations are designed to bring to light any censurable conduct on their part.

Based on the "Commission Recommendation of 15 November on quality assurance for the statutory audit in the European Union: minimum requirements", Kredittilsynet formalised an agreement with the Norwegian Institute of Public Accountants, effective as from 2003, on guidelines for coordinating control of auditors. The guidelines entail that all accountants with audit responsibility are to be checked on five-year cycles. This agreement ensures that Norway broadly meets all EU requirements for quality control of auditors.

Table 10: AUDITOR'S LICENCE WITHDRAWN

	1996	1997	1998	1999	2000	2001	2002
State authorised auditors	0	0	0	1	4	0	1
Registered auditors	3	9	8	10	5	7	5
Approved auditing firms	-	-	-	-	-	2	8
Total	3	9	8	11	9	9	14



1/16 - 15/16
4/16 - 3/8
3/16 - 1/16
8/16 - 10/16
JR. 5.5
JR. 28
JR. 17
JR. 5.8
JR. 9

270.500.00
350.500.00
195.000.00
210.000.000
700.800.000
240.000.000
335.000.000
565.250.000
200.000.000

External accounting services

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

Authorisation of individuals and firms

The Authorisation of External Accountants Act regulates firms that provide accounting services for others on a commercial basis.

Licensed external accountants need a higher qualification in economics equivalent to at least two years' full-time higher education and the equivalent of two years' relevant experience. Running the authorisation

scheme is a major administrative task. As of 31 December 2002 the register of external accountants comprised 6,201 entities, of which 2,415 were individuals and 2,388 were firms.

Table 11.1: POSITION – EXTERNAL ACCOUNTANTS

	31.12.2000	31.12.2001	31.12.2002	Authorised 2002
Authorised external accountants	5,544	5,856	6,201	464
Authorised external accounting firms	2,138	2,377	2,415	208

In addition are registered external accountants with exemption or extended transitional period (298 in 2000, 38 in 2001 and 24 in 2002), and registered accounting firms with exemption or extended transitional period (35 in 2000, 11 in 2001 and 8 in 2002).

Table 11.2: NET INCREASE IN THE NUMBER OF NEW AUTHORISATIONS

	2000	2001	2002
Authorised external accountants	545	312	345
Authorised external accounting firms	309	239	38

There was a net increase in the number of authorised external accountants and authorised external accounting firms in 2002, showing that the profession continues to attract a fairly large number of new entrants. While the industry still features a large number of small firms, amalgamations and chains have emerged. This could explain the low net increase in the number of authorised external accounting firms in 2002.

Regulations

Kredittilsynet reviewed the External Accountants Act in 2001. Kredittilsynet recommended terminating the entire authorisation scheme, or transferring it to a public agency other than Kredittilsynet. As an alternative Kredittilsynet recommended simplifying its administrative tasks in relation to accountants. Kredittilsynet also recommended terminating the process of renewing authorisation every fifth year, which will reduce the number of cases by about 1,500 per year. The amendment proposal was circulated for comment with the closing date for submissions set at 15 January 2002, and is under consideration by the Ministry of Finance.

Unlawful external accounting activity

Kredittilsynet has noted that an appreciable number of accountants

are engaged in external accounting activity without mandatory authorisation as accountants. Kredittilsynet requires such accountants to submit an account of their activities. Where unlawful accounting activity is brought to light, Kredittilsynet orders its termination. In light of the recommendation to abolish the scheme for authorisation of external accountants, Kredittilsynet has been cautious in reporting unlawful external accounting activity to the police, although such action is considered in serious cases. One such case was referred to ØKOKRIM in 2002. This involved long-lasting unlawful activity in which the person concerned had evaded investigation by Kredittilsynet. Unlawful external accounting activity is brought to light by reports to Kredittilsynet, through processing licence applications from individuals and through other investigations carried out by Kredittilsynet. Reports to Kredittilsynet of unlawful activity numbered 39 in 2002. Most of these reports came from the tax authorities.

Supervisory activity in 2002

Seventy-one licensed external accountants were examined in 2002, 41 on the basis of on-site inspections. In most cases it was a matter of following up external accountants who had previously been criticised by Kredittilsynet or had been reported to Kredittilsynet by the tax au-

thorities and other public agencies. Thirty-eight reports concerning external accountants were received in 2002 compared with 28 in 2001. Inspections based on geographical selection were also carried out.

The primary aim of supervision is to ensure that providers of external accounting services observe a minimum standard in relation to professional conduct. Where law and regulations are not complied with, or professional conduct is regarded as unsatisfactory in other respects, Kredittilsynet may revoke an external accountant's licence. At on-site inspections Kredittilsynet examined how accountants organise their activity in relation to Kredittilsynet's guideline circular no. 12/2000, and whether licensed accountants operate in conformity with central aspects of the accounting legislation and the tax legislation in general. Based on the inspections carried out, Kredittilsynet's main impression is that external accountants' operations vary widely in quality, and that in some areas material flaws seem to be a common feature of the profession.

Table 12: NUMBER OF SANCTIONS – AUTHORISED EXTERNAL ACCOUNTANTS

	2000	2001	2002
Withdrawal of licence	2	6	10
Warning	11	14	7
Withdrawal of licence – firms	–	–	1



Estate agency

Supervision of estate agents encompasses the activities of firms licensed to practise estate agency and lawyers who have put up security for estate agency, as well as housing cooperatives that are licensed to provide estate agency services and ordinary housing cooperatives' brokerage of cooperative flats. Firms, lawyers and housing cooperatives are checked for compliance with the requirements of law and regulations, including observance of generally accepted estate agency standards. Supervision of estate agents takes the form of on-site inspection and off-site supervision. Kredittilsynet is also assigned administrative and consultative tasks, and responsibility for framing regulations.

High activity, but weaker earnings, in 2002

In the first half of 2002 the housing market still featured high turnover and high prices, especially in the largest towns. Despite this, 164 estate agencies reported negative operating results at mid-year. This is presumed to be due to the longer average time taken to sell properties and to keener competition for clients resulting from over-establishment in some areas. In the autumn of 2002 the market slowed appreciably, especially for commercial properties and higher-priced residential segments, but also in the case of ordinary dwellings.

There were 528 licensed estate agency firms at the end of 2002. Seventy-nine new licences were issued over the year, while 72 firms ceased their estate agency activity. Moreover, 55 housing cooperatives provided estate agency services at year-end, and 1,018 lawyers had furnished security to engage in estate agency.

Chains strengthen their position

Recent years have seen the establishment of an increasing number of chains with centralised functions, and estate agency chains now account for two-thirds, or about 67 per cent, of all property sales. Banks predominate in the estate agency context, and accounted for about 40 per cent of total transactions in 2002. There is reason to believe that banks will seek, within the limits set by legislation, to expand their sales of banking and securities services through their estate agency operations.

On-site inspection

Kredittilsynet carried out 71 on-site inspections of estate agency firms, lawyers engaged in estate agency and housing cooperatives. Unlawful and highly censurable circumstances were brought to light at two agencies. One, which had broken the rules governing treatment of client funds and employed negligent routines, lost its right to carry on estate agency business, and its manager lost his licence. In the other case the management failed in its duty to monitor the broker in charge of the assignment in question. Warned by Kredittilsynet that its right to carry on estate agency would be withdrawn, the firm handed in its licence of its own accord. A further firm was warned that its licence would be withdrawn if the manager continued his negligent supervision of client funds. Several firms continue to attract censure due to unsatisfactory routines for documenting treatment of client funds.

Equity capital situation

The tendency for declining earnings in the trade in 2002 necessitated closer monitoring of estate agencies' financial strength via extraordinary reporting of accounting data. Sixty agencies that were running an operating deficit and whose equity capital was below NOK 100,000 at mid-year were instructed to file such reports as of 1 October to document continued compliance with the law's requirement as to positive equity capital. More than 40 per cent of these agencies were still running an operating deficit on the reporting date, and several had to strengthen their equity capital position by increasing their share capital in order to lawfully continue their estate agency business.

The estate agency industry's repute

Public interest in the estate agency industry appears to have risen in step with the industry's expansion.

Media coverage and comments from the consumer authorities were at times highly critical, and signals from the general public also indicate that the trade is viewed with some scepticism. In 2002, as in 2001, the media highlighted a number of instances of allegedly censurable circumstances at estate agencies, casting doubt on the industry's integrity. For Kredittilsynet it is important to do its utmost to examine the more serious allegations that come to light via the media and other channels. In this way Kredittilsynet can help to ensure that property buyers receive correct information, which is important for public confidence in the industry.

To Kredittilsynet's knowledge, bad experiences with the estate agency industry are rarely due to gross negligence on the part of the agencies. Errors are, however, committed in the marketing of properties in the form of incomplete or misleading

property descriptions. Equally, agents are not always sufficiently precise in their verbal communication with clients; information and statements may not be as objective, precise or judicious as they should in light of the importance that buying or selling property has for the individual. The result may be difficulties and irritation during the sale process, which can affect the industry's repute.

Law amendments

In 2000 and 2001 Kredittilsynet recommended the following law amendments to the Ministry of Finance:

- That properties located abroad should, with certain exceptions, be exempt from the provisions of the Estate Agency Act
- That fitness and propriety requirements should be introduced for owners of estate agency firms
- That the ban on engaging in other business activity contained in

section 2–6 of the act should be extended to all employees of estate agency firms

- That the act should empower Kredittilsynet to issue regulations on the bidding process and on the manager's duties and responsibilities
- That the rules governing the duty of the agency and its employees to furnish information to Kredittilsynet should be amended or more clearly defined
- That Kredittilsynet's power to oversee firms that have had their estate agency licence withdrawn should be extended to persons holding an estate agency licence. Parties that have handed in their licence voluntarily should also be subject to control and supervision.

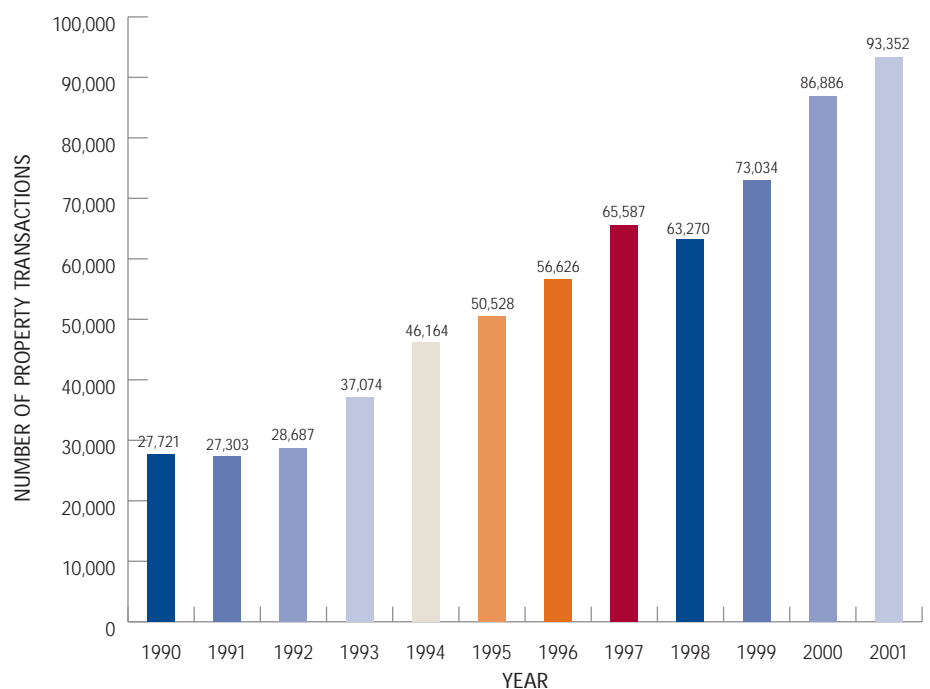
Based on the above recommendations, the Ministry of Finance tabled a Bill that was dealt with by the Parliament (Stortinget) in the autumn of 2002. The Bill did not

address the recommendations regarding brokerage of properties abroad or the prohibition of other business activity for all estate agency employees. The Parliament (Stortinget) passed all the recommended amendments. The following amendments, not proposed by Kredittilsynet, were also passed:

- The title "estate agent" was explicitly protected, along with the title "state authorised estate agent".
- Estate agents, lawyers who carry on estate agency, employees of estate agency firms and owners and members of a firm's governing bodies who normally participate in the day-to-day business of the firm without being employed there, were absolutely prohibited from buying or selling properties through their own estate agency firm.

Where Kredittilsynet's recommendations regarding estate agency activity abroad and the prohibition of other business activity are concerned, the Ministry considers it appropriate for these matters to be dealt with in conjunction with a broad-based revision of the Estate Agency Act. The Ministry of Finance has announced that a law commission will be appointed to this end.

Chart 5:
NUMBER OF PROPERTY TRANSACTIONS – ESTATE AGENCY



Source: Kredittilsynet



Debt collection

Supervision of the debt collection industry encompasses agencies' financial position and their treatment of client funds. It encompasses agencies that collect overdue debt on behalf of other businesses and organisations as well as agencies that purchase debt and collect it themselves. Collection of own claims and lawyers' debt collection activities lie outside the scope of Kredittilsynet's supervision. At on-site inspections Kredittilsynet checks that agencies operate in accordance with the requirements of law and regulations, including requirements as to correct treatment of recovered funds and, as far as possible, that agencies are run in accordance with generally accepted debt collection standards.

New licensing system – scope of Debt Collection Act widened

As from 1 January 2002 the previous arrangement whereby ordinary debt collection activity could be started on the basis of a personal licence was replaced by an arrangement requiring the agency as such to apply for a licence. Since the law now regards businesses that purchase overdue debt for collection as debt collection agencies under the Debt Collection Act, debt purchase businesses also need to apply for a debt collection licence as from 1 January 2002. Whereas ordinary debt

collection business has to be headed by someone with a personal licence, the act specifically requires persons effectively in charge of collecting purchased overdue debt to be of good character. Moreover, as previously, regular debt collection agencies must maintain a positive equity capital position and put up a guarantee for their business. Agencies operating at the start of the year were given until year-end to apply for an agency licence. Kredittilsynet is of the view that introducing fitness and propriety requirements for board members, general manager and owners of debt collection agen-

cies is an appropriate way of ensuring that such business is run in accordance with law and fair debt collection practices. The requisite law amendment was dealt with by Kredittilsynet and forwarded the Ministry of Justice by letter of 14 January 2003.

At the end of 2002 there were 113 ordinary debt collection agencies, seven of which were housing cooperatives. Nine were new, while twelve agencies closed down during the year. Eight debt purchase businesses were registered at year-end. Forty-seven personal licences were issued.

On-site inspection

Eight on-site inspections were carried out at debt collection agencies in 2002. Kredittilsynet aims to inspect all debt purchase businesses on-site in 2003 to obtain an overview of and insight into their activities, and will organise the supervision of this aspect of the industry on the basis of the experience gained.

Two personal debt collection licences were revoked in light of irregularities covered via reporting and inspection. In one case a licence holder at the agency in question had failed to ensure that client funds were handled according to regulations: payments from principals were used to cover the agency's operating outlays. In the other, the licence was revoked because the holder had been barred from managing a business in the aftermath of bankruptcy, and was therefore viewed as unfit to carry on debt collection.

Finance Credit Norge AS's debt collection licence was revoked in the wake of the collapse of the Finance Credit system. The company was unable to produce documentation to prove that its responsibility for client funds was consistent with the balance on the client fund account. Finance Credit Norge AS also purchased debt for collection without having applied for the requisite licence, cf. transitional provisions applying until the end of 2002, referred to above. Since the company had carried on virtually no regular debt collection activity, any loss of client funds traceable to debts that Finance Credit Norge AS had collected on behalf of creditors will probably be covered by the mandatory security put up by the company in order to carry on such business. (See also p. 28)

Product development

Product development needs close attention if profitability in the industry is to be maintained. The industry's perception is that if debt collection agencies are to compete successfully in the longer term, they must be able to offer a fairly wide range of additional services over and above debt collection proper. They have largely become claims administrators in the broad sense, and the business sector and parts of the public sector appear increasingly to outsource to collection agencies tasks related to invoicing, ledger management and collection of overdue accounts. Factoring with or without a credit element is relevant in this context. Some conglomerates establish companies to operate all the above activities to the maximum extent permitted by law. Another crucial factor for success in the debt collection industry is electronic case-handling systems with the capacity to process large quantities of data. The accuracy and efficiency of these systems is presumed to be of key significance both for profitability and for correct action vis-à-vis debtors.

Reduced fees

On 1 March 2002 the Government lowered the basic debt collection fee from NOK 670 to NOK 520. Debt collection fees will no longer be tied to the court fee. Instead the new collection fee of NOK 520 will be pegged to the consumer price index. At the same time the debt category subject to the lowest collection fee was extended from a maximum of NOK 1,000 to a maximum of NOK 1,250. This entails a substantial revenue fall for the industry, and it is unclear at present how it will affect the current industry structure. A medium-term consequence could be attrition in the form of closures and takeovers, bringing further concentration in the debt collection industry.

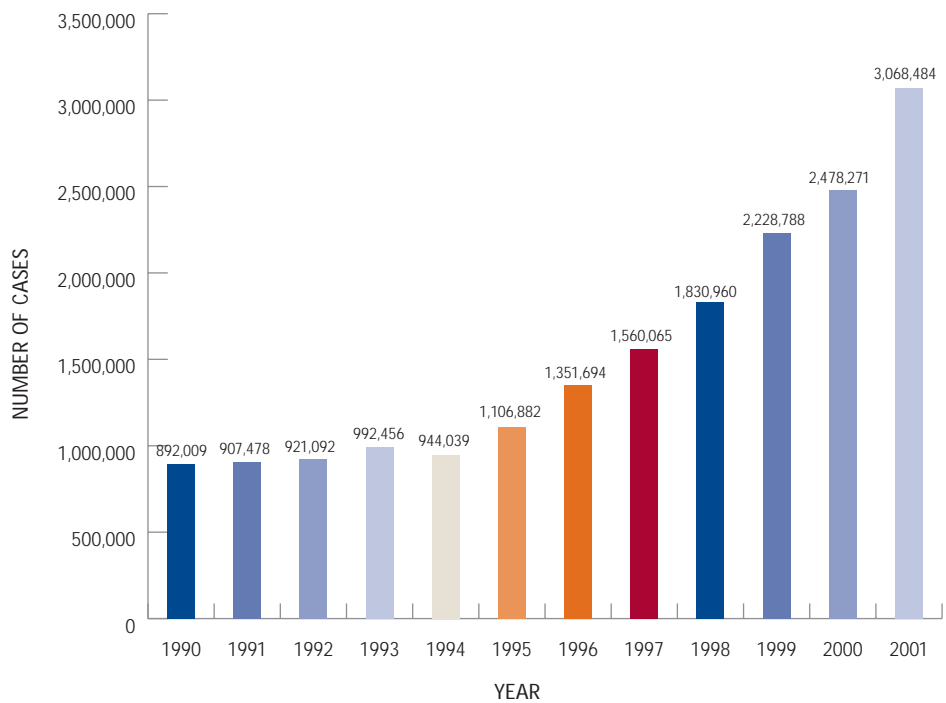
Complaints – board set up to handle complaints regarding debt collection services

Kredittilsynet received 315 complaints referring to debt collection agencies in 2002. Most complainants alleged that collection action had been initiated unlawfully since the debt was in dispute or had been paid, or that the Debt Collection Act's notification provisions had not been complied with. In some cases names had been confused and debt collection action was initiated against the wrong person. On occasion Kredittilsynet found cause to level strong criticism at debt collection agencies for breach of good debt collection practice, and ordered them to clean up deficient internal routines to prevent a repeat. Kredittilsynet has the impression that many debtors feel that they are ignored when trying to bring up their case with the agency. Kredittilsynet has in some cases censured agencies for failing to respond to debtors.

As a result of amendments to the Debt Collection Act that lay the basis for public authorisation of private arrangements for resolving debt collection disputes, the Association of Norwegian Debt Collection Agencies and the Consumer Council formally agreed to set up a board to deal with complaints regarding debt collection. The board goes into operation on 1 April 2003. The above act empowers Kredittilsynet to make the granting of a debt collection licence conditional upon joining a complaints board arrangement.



Chart 6:
NUMBER OF CASES RECEIVED BY AGENCIES



Source: Kredittilsynet



Other measures

Draft legislation on measures to prevent the laundering of the proceeds of crime and terrorist financing, along with international work in this field

In 2002 the Ministry of Finance set up an internal working group to prepare draft legislation implementing the revised money laundering directive (Council Directive 2001/97/EC), and a number of international standards in the field (in particular the Financial Action Task Force on Money Laundering (FATF)'s special recommendations on terrorist financing). Kredittilsynet was represented in the working group. The group presented a submission on the Bill on Measures to Prevent the Laundering of the Proceeds of Crime and Terrorist Financing which had been circulated for comments by the Ministry of Finance. The Bill substantially widens the range of persons and businesses coming under the money laundering rules to include

lawyers, auditors, estate agents and dealers in valuable goods. Kredittilsynet's submission supported the main content of the Bill. It nonetheless pointed out that the Bill should more clearly reflect the large volume of bank business transacted via the Internet. Kredittilsynet also recommended that a further three groups of businesses (debt collection agencies, securities registers as well as stock exchanges and authorised market places) should come under the rules, and that terminology as regards notification requirements should be clarified. Kredittilsynet did not expect the Bill to widen its sphere of responsibility.

FATF is the leading international organisation drawing up standards to combat the laundering of proceeds of crime and terrorist financing. The organisation has 31 members, including Norway. The FATF has drawn up 40 recommendations on money laundering, and eight special recom-

mendations on terrorist financing. The FATF is about to revise the 40 recommendations. Kredittilsynet has attended the organisation's meetings and worked on revising the recommendations.

ICT regulations

New regulations on businesses' use of information and communication technology were drafted and circulated for comment in October 2002. The regulations aim to provide a structure more in line with changes that have taken place in the use made of information technology, and to provide further concretisation in individual areas. The regulations are more process-oriented than previously and therefore in keeping with international standards in the field.

Internal control regulations

An amendment was passed to Kredittilsynet's internal control regulations requiring internal audits at all financial institutions, including investment firms, with assets under management for own and clients' account in excess of NOK 10 billion. The same applies to market places, settlement centres and securities registers. The amendment is designed to further strengthen the institutions' internal control.

Appeals handling – Register of Company Accounts in Brønnøysund

Kredittilsynet is the appeals body in respect of penalties imposed by the Register of Company Accounts for late filing of company accounts. In 2002 316 appeals were received compared with 326 in 2001 and 186 in 2000. The penalty was waived entirely or in part in 115 of the cases (i.e. 36.5 per cent) compared with 18.4 per cent in 2001.

Action plan for "A simpler Norway"

Kredittilsynet suggested a number of simplifications in a letter to the Ministry of Finance. Most were acted on by the ministry and were incorporated in action plans, while some are still being considered by the ministry. Examples include: greater use of electronic reporting; lifting the rules on reporting own-trading under chapter 2a of the securities trading act; simplified reporting of security put up for estate agency and debt collection business; continued statistical cooperation between Norges Bank, Statistics Norway and Kredittilsynet; amendments to auditing legislation to reduce reporting requirements; handling of licence application and delegation of powers; and revision of the arrangement for approving articles of association in the banking, finance and insurance fields.

Kredittilsynet also recommended the removal of the public scheme for authorisation of external accountants or, alternatively, that amendments be made to the Authorisation of External Accountants Act to simplify Kredittilsynet's administrative tasks in relation to accountants.

Kredittilsynet's international activities

It is a long time since developing rules for the financial market, and conducting supervision based on those rules, was a purely national concern. Kredittilsynet's activities greatly reflect international developments, especially within the European Union.

Growing need for global coordination and collaboration

Recent events have driven home the growing need for coordination of rules and supervisory practice on a global basis. The events of 11 September 2001 led to closer cooperation in combating money laundering and financial crime, especially in the context of terrorist financing, while the Enron affair and other accounting scandals in the US focused attention on the responsibilities of corporate management and the role of auditors. Steps have been taken within the EU and on a wider level to harmonise rules on corporate governance, and the effort to introduce international accounting standards has grown in significance.

More countries opt for integrated financial supervision

The integrated supervision model continues to gain ground as a means of promoting effective and efficient supervision of the financial industry. Several countries have amalgamated their supervisory regimes for banking, insurance and the securities market, or are considering doing so. In 2002 integrated supervision was established in Estonia, Germany and Austria, while steps are being taken to do the same in Ireland and Belgium. The integrated supervisory authorities meet annually to exchange experience gained⁵.

Cooperation within the EEA

Focus on supervision and regulation within the EU/EEA

The EU has introduced a model in the securities field based on the Lamfalussy Report with a view to expediting the creation of common rules. Based on directives adopted by the European Council and Parliament, the European

Commission will, in conjunction with the European Securities Committee (with finance ministries), establish rules to supplement the directives. Detailed guidelines and standards for practising and monitoring compliance with these rules will be prepared by the Committee of European Securities Regulators (CESR). The European Council has decided to introduce a similar model in the areas of banking and insurance.

Should the new structure be implemented in the banking and insurance sectors, the existing system of EU committees and supervisory groups in these areas will have to be modified. The new committees and expert groups are expected to require increased resources and effort on the part of Kredittilsynet.

Supervision of banks and financial institutions

The Ministry of Finance and Kredittilsynet alternate in representing Norway at meetings of the Banking Advisory Committee (BAC). The BAC and its Technical Sub Group, whose meetings are attended by Kredittilsynet, are responsible for the work done on the Basel Committee's new capital adequacy standards. Kredittilsynet also attends meetings of the liaison body Groupe de Contact (GdC) together with banking supervisors from other EEA countries. Groupe de Contact is a forum where common supervisory standards are developed and information is exchanged on institutions and market players. In 2003 the committee structure will be revised in keeping with the Lamfalussy model, and a new banking supervision committee will be established. Groupe de Contact will continue in its role of expert group under the new committee.

Alongside the multilateral cooperative bodies, Kredittilsynet has bilateral cooperation agreements, or Memoranda of Understanding (MoUs), with the banking supervisory authorities in France, Luxembourg, the Netherlands, the United Kingdom and Germany.

Supervision of insurance business

The Ministry of Finance and Kredittilsynet alternate in representing Norway at meetings of the EU's Insurance Committee (IC). Kredittilsynet is also an observer at the Conference of EU Insurance Supervision Authorities which meets twice yearly. In keeping with the decision to adhere to the Lamfalussy model in the insurance area, the conference will change its status to that of a formal supervisory committee. Its participants have concluded a multilateral cooperation protocol based on the insurance directives, as well as a separate cooperation agreement on supervision of insurance groups carrying on cross-border activities. Under the latter cooperation agreement, affected authorities have set up a working group, currently chaired by Kredittilsynet, to coordinate tasks related to supervision of insurance groups. The group is seeking cooperation agreements with supervisory authorities outside the EEA.

Supervision of the securities market within the EEA

In 2002 Norwegian authorities gained experience with the new EU committee structure for developing rules for the securities market. The Ministry of Finance represented Norway on the European Securities Committee, while Kredittilsynet provided experts at some meetings. Kredittilsynet attends meetings of CESR, the supervisory committee established to formulate technical details and develop supervisory col-

⁵ Thus far the group comprises the supervision authorities in Australia, Canada, Denmark, Iceland, Japan, Korea, Norway, Singapore, the United Kingdom and Sweden. Latvia and Hungary have also recently merged their banking, securities, and insurance supervisors.

laboration. CESR acts as an advisory committee to the European Commission and the European Securities Committee and works for consistent implementation of community law in member countries. Participating in CESR sub-groups was resource-demanding for Kredittilsynet in 2002 since it was involved in several working groups focusing on standardising prospectuses, harmonising clearing and settlement procedures, and formulating detailed rules on insider trading and market manipulation. There were also several meetings of CESR's forum for information exchange on market surveillance (CESR-pol), and for coordination of accounting and reporting rules (CESR-fin).

Collaboration on supervision across sectoral divides

Although there is a growing tendency to integrate supervisory regimes, coordination is still needed between supervisory authorities that have not taken this step. Kredittilsynet is a member of the Mixed Technical Group, an expert group under the European Commission which draws up recommendations for regulation of financial conglomerates. A new directive on supervision of financial conglomerates was adopted in 2002, prompting creation of a separate committee to develop rules in this sphere.

Closer cooperation on accounting and auditing

Kredittilsynet participates in the EU's elaboration of accounting rules and standards for auditors within the EEA, and attends meetings of the EU Accounting Contact Committee and the EU Committee on Auditing. In 2002 the EU adopted a regulation requiring EU states to introduce international accounting standards developed by the International Accounting Standards Board. A new body – the Accounting Regulatory Committee, responsible for assessing and authorising new accounting standards – was established in pursuance of the regulation. Norway is invited to attend the committee's meetings in an observer capacity.

EU enlargement

Several peer reviews have been carried out ahead of the planned enlargement of the Union. Peer reviews by teams of EU experts coordinated by the EU Commission examine the standard of financial legislation and financial industry supervision in applicant countries. Kredittilsynet participated in two such reviews in 2001, and forms part of the expert group that started a review of Romania in 2002.

Collaboration within EFTA

Kredittilsynet attends meetings of EFTA's Working Group on Financial Services, a working group under

EFTA's sub-committee II (services and capital) which prepares cases in the financial sector, evaluates directives to be included in the EEA Agreement and updates the EFTA states on the activities of EU agencies.

Collaboration with the European Central Bank (ECB)

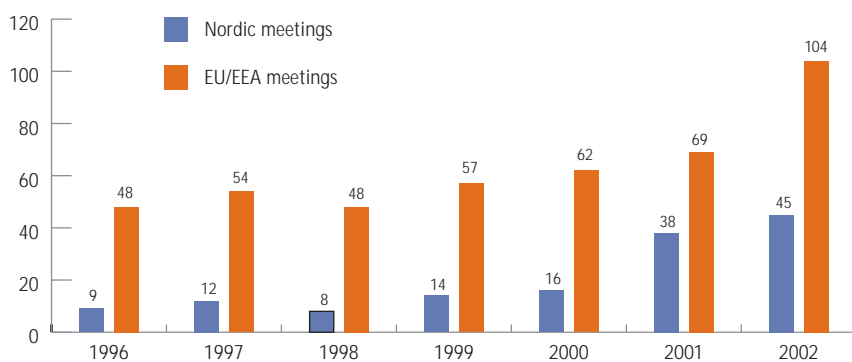
There is an increasing need for coordination between supervisory authorities and central banks to ensure financial stability in Europe and worldwide. In conjunction with Norges Bank, Kredittilsynet has established a pattern of biannual meetings with the European Central Bank on financial market issues. Two meetings were held with the ECB in 2002.

Nordic supervisory cooperation

Nordic cooperation remains important to Kredittilsynet despite the existence of numerous cooperation fora at the global and EEA level. The Nordic financial supervisors have drawn up an agreement on supervisory collaboration. In 2002 Kredittilsynet was host to the annual meeting of Nordic financial supervisors, this time held in Bergen in June. Kredittilsynet regularly meets its Nordic counterparts to collaborate on the supervision of Nordic financial conglomerates. There was an extensive regime of meetings and information exchange in 2002.



Chart 7:
OVERVIEW OF KREDITILSYNET'S
INTERNATIONAL ACTIVITY 1996–2002



Kredittilsynet's part in global supervisory collaboration

Supervision of the securities market

Kredittilsynet is a member of the International Organization of Securities Commissions (IOSCO) and has acceded to a number of resolutions adopted by IOSCO. Kredittilsynet also attends the biannual meetings of IOSCO's European Regional Committee, and participates in a working group under the technical committee which deals with enforcement of IOSCO resolutions and collaborates on issues related to surveillance, enquiries, investigation and prosecution of criminal offences. Under an international collaboration agreement (MoU) drawn up by IOSCO, supervisors have to meet certain criteria to qualify for membership of the organisation. Kredittilsynet has one representative on the committee charged with processing applications for membership. Kredittilsynet is also a member of the Enlarged Contact Group for Supervisors of Collective Investment Funds which meets once a year.

Supervision of the insurance industry

Kredittilsynet is a member of the International Association of Insurance Supervisors (IAIS). IAIS's general meeting adopted international standards for reinsurance supervision at its ninth annual conference in Santiago, Chile. The IAIS is also in the process of revising its Insurance Core Principles, and is developing standards for supervision of insurance activities on the Internet. At the above conference Kredittilsynet's Director General, Bjørn Skogstad Aamo, was elected to the IAIS's Executive Committee. Kredittilsynet is also represented on several IAIS sub-committees as well as the tech-

nical committee, which has overarching responsibility for standards for supervision and regulation of the insurance sector.

Supervision of banks and financial institutions

No global forum on a par with IOSCO and IAIS exists for banking supervision. The Basel Committee on Banking Supervision under the Bank for International Settlements (BIS) is responsible for coordinating global cooperation on banking supervision.⁶ Kredittilsynet attended the International Conference of Banking Supervisors (ICBS) held by the Basel Committee every second year. Kredittilsynet receives relevant documents from the Committee and is invited to comment on them, and to attend some of the Committee's activities. The Basel Committee has for some time worked on revising the international rules for calculating banks' capital adequacy, cf. page 36.

Cooperation on financial stability and macroeconomic surveillance

Developments in financial markets have led to closer international collaboration on financial stability and macroeconomic surveillance. Kredittilsynet is in regular contact with the European Central Bank and the International Monetary Fund (IMF). It also attends the meetings of the OECD Capital Markets Committee and Insurance Committee as well as meetings of the UN-coordinated Project Link, a macroeconomic analysis centre. Kredittilsynet hosted a seminar on financial crises in 2002 which drew international speakers and participants, cf. page 26.

Money laundering

As part of the fight against money laundering, Kredittilsynet attended the meetings of the Financial Action Task Force on Money Laundering (FATF) which develops international standards for anti-money-laundering measures. In the period since 11 September 2001 the FATF has also recommended measures to combat terrorist financing. This collaboration was intensified in 2002, and numerous meetings were held. Kredittilsynet participated in an expert group that evaluated Bulgaria's follow-up of FATF recommendations, and figures on the UN list of experts that can be contacted by countries needing help to develop rules and implement counter-measures against money laundering.

⁶ The Basel Committee comprises representatives for the banking supervision authorities and central banks in the following countries: Belgium, Canada, France, Italy, Japan, Luxembourg, the Netherlands, Spain, the United Kingdom, Switzerland, Sweden, Germany and the United States.

Table 13: OVERVIEW OF INTERNATIONAL ORGANISATIONS AND EU/EEA RELATED COMMITTEES IN WHICH KREDITILSYNET PARTICIPATES AS A MEMBER OR OBSERVER

Banking/finance

ICBS (International Conference of Banking Supervisors)
 OECD's Financial Markets Committee
 BAC (EU's Banking Advisory Committee)
 GdC (Groupe de Contact)
 Nordic supervisory meetings

Insurance

IAIS (International Association of Insurance Supervisors)
 OECD's Insurance Committee
 EU's Insurance Committee
 Conference of EU/EEA Insurance Supervisory Authorities
 Conference of European Insurance Supervisory Services
 Nordic supervisory meetings
 Nordic-Baltic supervisory meetings

Securities

IOSCO (The International Organization of Securities Commissions)
 ECG (Enlarged Contact Group on Supervision of Collective Investment Funds)
 ESC (European Securities Committee)
 CESR (Committee of European Securities Regulators)
 Nordic meetings

Accounting and auditing

ARC (Accounting Regulatory Committee)
 EU's Accounting Contact Committee
 EU Committee on Auditing
 Nordic meetings

Money laundering

FATF (Financial Action Task Force on Money Laundering)
 EU's Contact Committee on Money Laundering
 Nordic meetings

EFTA

EFTA Working Group on Financial Services
 EFTA Working Group on Company Law

Why regulate and supervise the financial system?

Financial market stability has received a great deal of attention in recent years. Many countries, including most of the Nordic ones, have experienced banking crises. It has become clear to all that widespread problems in the financial sector can entail heavy costs for society and for the consumer, and that a properly functioning financial market with strong financial institutions is a precondition for a sound economy. Stability and confidence in the financial system are therefore a central aim of regulation and supervision.

While appropriate regulation and effective supervision of banking and other financial activity are at centre-stage, regulation and supervision of securities markets and the insurance business are also important for securing stability and confidence. Through supervision of banks and other credit institutions, investment firms and insurance companies, a watch is kept on institutions' compliance with the rules and on institutions' management and control of their business and risk. Regulation and supervision of auditors and

external accountants is designed to ensure that the information provided by the institutions is correct.

The second main goal of regulation and supervision is to protect consumers and other users of financial services. Much of this protection is provided through regulation and supervision of the solvency of financial institutions that manage their clients' assets – whether in the form of bank deposits, insurance policies or investments in securities – and various types of public guarantee schemes, such as deposit guarantee schemes.

A very important aspect of consumer protection comprises regulation and supervision of intermediary functions performed by investment firms, management companies for securities funds, insurance brokers, estate agents, debt collection agencies etc. Here the objective is to prevent misuse of client assets along with other behaviour that promotes the interests of an intermediary at the expense of user interests.

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