



KREDIT TILSYNET

The Financial Supervisory Authority of Norway

[Annual Report 2003]

[Organisation chart]



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For analysis of financial market trends, see *The Financial Market in Norway: Risk Outlook 2003*, published concurrently with the annual report.

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, real 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]

Problems in competitively exposed sectors led to heavier losses for Norwegian banks in 2002 and in the first half of 2003 than for many years. Most banks have nonetheless emerged from the recession with reasonably good earnings and a sound financial position. Norges Bank (Norway's central bank) lowered its key interest rates by a substantial margin in 2003. The resulting fall in the krone exchange rate and improved competitiveness led to reduced losses on corporate loans. Lower interest rates also helped to reduce defaults and loan losses in general. With an incipient recovery in the international and Norwegian economy in evidence, the outlook for banks in the year ahead is promising.

At the same time, low interest rates confront banks with other challenges.

Viewed over a number of years, interest spreads have declined. Low interest rates are likely to continue to squeeze margins. Banks need to act to avoid a fall in revenues, for example by pricing risk correctly and by reducing costs.

Banks and borrowers alike need to assess borrowers' ability to service and repay loans at interest rates that, after a time, could well be far higher than they are at present. The impact of continued credit expansion on households and interest rates is illustrated in the report *The Financial Market in Norway: Risk Outlook 2003* which Kredittilsynet is publishing concurrently with this annual report. A gradual adjustment to higher interest rates may be called for to limit untoward consequences for the markets and to assure financial stability.

The new international capital adequacy rules, which are expected to become effective in 2007, may bring a substantial reduction in minimum capital requirements. While the new rules encourage improved risk management by banks, a corresponding reduction in banks' actual capital could heighten their vulnerability to future problems in the business sector and the economy in general. Hence the introduction of a new capital standard should be accompanied by close, systematic monitoring of the risk picture by the banks themselves and by Kredittilsynet, at the same time as the individual bank takes care to maintain a reasonable buffer over and above the minimum capital requirement.

The formation of the financial conglomerate DnB NOR heralds a substantial change in the structure of the Norwegian financial industry. The authorities' premise has been that the presence of a strong Norwegian financial conglomerate necessitates steps to preserve effective market competition. Kredittilsynet will act on this premise and concurrently consider appropriate adjustments to the way financial market supervision is organised.

The current low interest rates also heighten the challenges facing the Norwegian life insurance business. Yields on holdings of fixed interest securities will gradually diminish. Life companies need to focus on building up a buffer enabling them to carry higher risk and achieve additional return, for example by investing in equities. For their part the authorities need to design a regulatory framework that will make it easier for life companies to build up buffer capital, and to enable them to plan for longer-term asset management offering higher returns. In a letter to the Ministry of Finance dated 16 September 2003, Kredittilsynet presented a number of proposals on how this

might be done. It is imperative to preserve and utilise the Norwegian life insurance industry's expertise and resources with a view to assuring future pensions.

In the securities market Kredittilsynet's greatest challenge is to reinforce good market conduct in order to preserve public confidence in the markets. While compliance with the rules on disclosure of notifiable share acquisitions has improved in recent years, a number of cases of suspected unlawful insider trading or attempted price manipulation have been brought to light. Obtaining firm evidence for prosecution purposes is often difficult in such cases. Hence the political authorities' decision in 2003 to act on Kredittilsynet's request for legislation requiring brokers to tape incoming orders and enabling Kredittilsynet to obtain IP addresses from website operators etc., was welcome. Kredittilsynet will continue to strengthen its resource inputs in this area. Follow-up of the market for electricity derivatives has also proved demanding.

International and Norwegian experiences alike have demonstrated the importance of capable and independent auditors. This has been at the heart of Kredittilsynet's work in the auditing sphere in the past couple of years, and underlies a circular on auditors and counselling services that was presented in 2003. Responding to a request from the Ministry of Finance, Kredittilsynet has drafted enabling provisions and regulations that are better able to assure auditors' independence.

In the autumn of 2002 Kredittilsynet adopted a new strategy that puts users of the agency's services at centre-stage. In 2003 this was followed up with a requirement in most areas that over 90 per cent of cases should be processed within 30 days. The emphasis is on good dialogue with affected trade organisations and on wider collaboration with consumer bodies with the aim of ensuring high-quality information to the users of financial services.

In the years ahead Kredittilsynet will be assigned wider responsibility under new EU rules for control of prospectuses and for monitoring compliance with international accounting standards. Many other rules, especially in the securities area, are due for implementation in 2004 and 2005. New capital adequacy rules, follow-up of operational risk and increased activity in the securities market will also make increasing demands on Kredittilsynet's resources. With this in mind Kredittilsynet has in recent years suggested a number of measures to simplify rules and reporting. This effort must continue. If Kredittilsynet is to do its job in an efficient, effective and straightforward manner, both the agency itself and the highest authorities need to consider what tasks can either be simplified or performed elsewhere.

Oslo, 19 January 2004


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's approach to attaining its overarching goals can be summarised as follows:

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 works 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.

[Important events in 2003]

[Structural changes and licensing]

Den norske Bank and Gjensidige NOR merge

In line with Kredittilsynet's recommendation, the Ministry of Finance authorised DnB Holding ASA and Gjensidige NOR ASA to merge to form the financial conglomerate DnB NOR. As recommended by Kredittilsynet, the ministry also gave the go-ahead for the merger of Den norske Bank ASA and Gjensidige NOR Sparebank ASA, the merged entity to be known as DnB NOR Bank ASA. The Competition Authority has imposed conditions to ensure continued competition, one being the sale of 53 branch offices and 19 business centres, along with the sale of Gjensidige NOR Fondsforsikring and Elcon Finans AS.

Plans afoot to restructure Nordea Bank

In the summer of 2003 Nordea AB announced a comprehensive restructuring of the group's banking business. The first stage of the process was for Nordea to acquire the shares of Nordea Bank Norway ASA. The second stage is for Nordea Bank Sweden AB to merge with Nordea AB such that the parent company in Sweden is a bank, and the remaining banks are subsidiaries of the latter. In line with Kredittilsynet's recommendation, these measures were approved by the Ministry of Finance on 22 October 2003. The third stage will be for the Swedish parent company to convert to a European company (*Societas Europaea*), whose national subsidiaries are transformed into branches. Kredittilsynet has announced that an application to this effect will need to be given thorough consideration.

Storebrand Bank and Finansbanken merge

In line with Kredittilsynet's recommendation, the Ministry of Finance on 21 February 2003 authorised the merger between Storebrand Bank and Finansbanken.

DnB takes over Nordlandsbanken

In line with Kredittilsynet's recommendation, the Ministry of Finance on 21 February 2003 authorised Den norske Bank ASA to acquire 100 per cent of the shares of Nordlandsbanken ASA. Kredittilsynet's recommendation was prompted by Nordlandsbanken's difficult financial situation.

Flora-Bremanger Sparebank and Sogn og Fjordane Sparebank merge

As recommended by Kredittilsynet, the Ministry of Finance on 28 August 2003 authorised Flora-Bremanger Sparebank and Sogn og Fjordane Sparebank to merge. The merger was a consequence of financial difficulties at Flora-Bremanger Sparebank related partly to loan losses.

Enebakk Sparebank wound up

By letter of 21 February 2003, the Ministry of Finance authorised Enebakk Sparebank to wind up its business under the direction of a liquidation committee appointed by Kredittilsynet. The liquidation committee implemented the liquidation resolution and transferred the bank's business to Lillestrøm Sparebank in 2003.

Norsk Legemiddelforsikring established

Kredittilsynet advised the Ministry of Finance to authorise the Pharmaceutical Liability Association to establish a wholly-owned insurance company, Norsk Legemiddelforsikring (Norwegian Pharmaceutical Insurance), to insure the association against pharmaceutical liability in conformity with the Product Liability Act. The new company was set up since liability cover was unavailable from other insurance companies.

[Regulatory framework]

Kredittilsynet proposes better opportunities for long-term management of pension assets

On 16 September 2003 Kredittilsynet wrote to the Ministry of Finance proposing measures to encourage long-term management of pension insurance assets. The measures build on a report on measures to promote long-term management of pension insurance assets from a project group within Kredittilsynet, and was forwarded to the Ministry of Finance. The report's main conclusion is that life insurance companies must be allowed to build up increased buffer capital out of customer assets, and that a number of the current restrictions on the use of buffer capital should be removed.

Three per cent guaranteed minimum interest rate introduced

In response to Kredittilsynet's proposal, the Ministry of Finance on 24 November 2003 adopted regulations entailing that life insurance contracts with premiums falling due from 1 January 2004 onwards cannot incorporate a minimum guaranteed interest rate in excess of 3 per cent per annum. The amendment was motivated by the low level of interest rates in Norway and elsewhere.

New ownership restriction rules introduced

Amendments to the Financial Institutions Act and certain other acts introduced a new system of ownership restriction and ownership control in financial institutions. The new rules build largely on EU Directive 2000/12/EC as subsequently amended (the Consolidated Banking Directive). In contrast to the previous rules, the new rules introduce a graduated, discretionary system rather than prescribe absolute prohibition zones.

New capital standard could cut capital adequacy requirements by NOK 20 billion

The Basel Committee on Banking Supervision has drafted new guidelines for computing banks' capital adequacy. In parallel with the Basel Committee, the European Commission has revised 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 Basel Committee, the European Commission has carried out three rounds of consultation in which Kredittilsynet and Norges Bank have issued joint submissions. Both the Basel Committee and the

European Commission plan for the new rules on capital adequacy calculation to become effective at the end of 2006. Calculations show that Norwegian banks' formal capital requirements could be reduced by up to NOK 20 billion. This will necessitate improved risk management and closer supervisory monitoring.

As part of the process of implementing the new capital adequacy framework, Kredittilsynet established a reference group consisting of the affected institutions' trade organisations and Norges Bank. Through the reference group, Kredittilsynet wishes to obtain viewpoints from the financial industry and to identify relevant practical issues which need to be resolved before the Directive is implemented.

E-money Directive implemented

The Act on E-Money Institutions regulates the issuance of electronic money and the supervision of institutions carrying on such business. Electronic money is prepaid purchasing power in the form of monetary value stored in an electronic device. In 2003 the Ministry of Finance issued three ordinary licences and one limited licence under the act, based on Kredittilsynet's recommendations.

Amendments to Securities Funds Act implemented

Based on amendments proposed by Kredittilsynet, the Securities Funds Act was amended in June 2003 in consequence of two directives amending the UCITS¹ Directive. The amendments introduce new parameters for management companies and new provisions for the products offered. Securities funds now have a wider scope to invest a fund's assets in money market instruments, derivatives and other mutual-fund units. Investment in bank deposits is introduced as an ordinary area of investment.

Law amendment enables management companies to carry on active management

Management companies for securities funds are now eligible for permission to carry on active (discretionary) asset management as this investment service is defined in the Securities Trading Act. This means that collective and individual management business may be carried on within the same company, promising more effective utilisation of investment expertise. In regard to active management, management companies must meet capital requirements in the same way as investment firms, and also furnish security for their business.

Change in rules on disclosure of large shareholdings

The rules governing disclosure of holdings and rights in the Norwegian listed companies were amended as from 1 January 2003. The lower disclosure threshold was reduced to 5 per cent. This means that notification is required both when a shareholding rises above or falls below this threshold.

Investment firms required to tape incoming assignments

Regulations on investment firms' obligation to make sound recordings of incoming assignments went into effect on 1 January 2004. The regulations will ensure that investment firms establish satisfactory routines for taping all orders received by telephone. Firms are also required to establish satisfactory

routines for storing documentation of received orders as well as indications of orders received via other communication channels.

Kredittilsynet given access to IP² addresses

An amendment to the Securities Trading Act which went into force on 13 August 2003 empowers Kredittilsynet to obtain IP addresses and customer identities from operators of websites and telecommunications operators. This will permit more efficient control over information flows via such media, for example in connection with investigations prompted by suspicion of attempted price manipulation and the like.

New ICT regulations issued

The ICT regulations play an important role in Kredittilsynet's effort to ensure that financial institutions utilise information and communication technology in a manner that makes for stability and predictability. New regulations, effective as from 1 August 2003, embrace a wider range of institutions. A series of information meetings was held in connection with the new regulations.

Information requirements proposed for composite products

Composite financial products have been marketed on a substantial scale in recent years. Equity-linked bonds and deposits are among the most common. These consist of a bond or deposit component and a derivative component, i.e. an option component. The return depends on movements in one or more equity indices. Common to these products is the difficulty that ordinary savers have in understanding them. Kredittilsynet drafted information requirements making it easier for savers to compare composite products with other products. These requirements will be published in a circular early in 2004.

New money laundering act passed

The Act relating to measures to combat money laundering of proceeds of criminal activities etc. (Money Laundering Act, No. 41 of 20 June 2003) went into force on 1 January 2004. Revised regulations on identity checks and money laundering etc. were concurrently adopted. The new rules largely implement the EU's second money laundering directive and international standards in this field, among them those relating to terrorist financing. The rules significantly widen the range of persons required to give notification to include auditors, accountants, estate agents, lawyers, and dealers in valuable objects.

Accounting Act into line with international accounting standards

On 15 August 2003 a committee presented a report proposing changes to the accounting legislation. The report recommends changes to the Accounting Act to enable accounts to be presented in accordance with international accounting standards. Full application of the international accounting standards will be mandatory in the case of consolidated accounts of listed companies. Kredittilsynet has delivered a submission on the report.

¹UCITS = Undertakings for Collective Investment in Transferable Securities

²IP = Internet Protocol. An IP address is the computer's identity on the Internet and may be compared to a telephone number.

International financial reporting standard for insurance contracts

The International Accounting Standards Board (IASB) is developing an international financial reporting standard (IFRS) for insurance contracts. The standard is due to be completed by 2008, although phase 1 is likely to have an impact on companies coming under the IAS Regulation adopted by the EU as early as in 2005. Kredittilsynet presented its submission to the IASB both as a consultative body in its own right and through its membership in the IAIS (International Association of Insurance Supervisors). Kredittilsynet is drafting changes in the accounting rules for insurance companies, and is engaged in an active dialogue with relevant bodies in Norway.

Complaints board established for debt collection cases

Under an agreement between the Norwegian Association of Debt Collectors and the Consumer Council, the first ever board has been set up to deal with consumer complaints against debt collection agencies. Following approval from the Ministry of Justice, the debt collection complaints board opened for business on 1 April 2003. The board received 171 complaints in 2003, reducing the number of approaches to Kredittilsynet in this field. Close collaboration has been established between the board and Kredittilsynet. Kredittilsynet receives a copy of all the board's decisions, and can follow up on debt collection agencies responsible for gross violations or defective routines.

[Supervision and administration]

Audit companies' non-audit services (consultancy)

In 2002 and 2003 Kredittilsynet conducted thematic inspections of non-audit services provided by auditors to their audit clients. The inspections revealed that the largest audit companies delivered a variety of wide ranging supplementary services to audit clients which often far exceeded the value of the audit fee itself. Kredittilsynet found cause to criticise eight statutory auditors for performing additional services that were counter to the rules. The cases in question involved a total of twelve audit clients, all of which are either listed companies or of significant public interest.

In light of the above, a circular was in October 2003 sent to audit companies concerning non-audit services they provided to their audit clients. To further clarify the rules governing auditors' non-audit services, Kredittilsynet drafted law provisions and regulations on the matter which it forwarded to the Ministry of Finance in December 2003.

Finance Credit affair followed up vis-a-vis involved banks

In February 2003, after scrutinising banks that granted loans to the Finance Credit system, Kredittilsynet pointed to a number of weaknesses in the credit process employed by the banks in question. Kredittilsynet's scrutiny also brought to light considerable room for improvement in terms of their follow-up of commitments and their control of the premises on which loans were granted.

Kredittilsynet criticises the lending business of Den Norske Krigsforsikring for Skib (DNK)

In 2003 Kredittilsynet levelled criticism at the board of Nordika Asset Management for the company's management of certain loan commitments on behalf of DNK (which provides marine war risk cover). In November Kredittilsynet censured the DNK's board for the poor quality of its guidelines to Nordika. Kredittilsynet

expected the board of DNK to keep a closer watch on the company's asset management in future.

New risk analysis carried out

A new risk analysis was carried out in the ICT field in 2003. The analysis is based on about 30 IT inspections carried out in 2002 and the first half of 2003. In addition, representatives of selected companies were interviewed and events registered by companies were reviewed. The aim of the analysis was to identify risk elements in the ICT sector and bring them to the companies' attention. The analysis is being followed up with information to the companies along with planned ICT inspections.

Decline in the number of notification cases referred by Oslo Børs

In 2003 Kredittilsynet received 161 cases from Oslo Børs (Oslo Stock Exchange) concerning failure to notify securities trading compared with 326 cases in 2002 and 536 in 2001. While the decline is partly due to changes in the registering of such cases towards the end of 2002, the main reason is a real fall in the number of forwarded cases by Oslo Børs. This is probably due to greater awareness among market players after the active effort made by Oslo Børs and Kredittilsynet to follow-up rule breaches.

Samspar Norge declared bankrupt

Samspar Norge was a savings association that received deposits from its members. The association incurred heavy losses as a result of investments in the securities market. Samspar's management board decided to petition for winding-up, and on 23 September 2003 the Oslo Probate Court declared the association an estate in liquidation. The management board found it no longer possible to call in outstanding loans, which at that point totalled about NOK 10.7 million. Contributors had recovered NOK 104 million, or about 70 per cent of their capital, ahead of the liquidation proceedings.

[International cooperation]

Active participation in international cooperation

Kredittilsynet's participation in international meetings has risen in recent years – on the global level, EU/EEA level and Nordic level alike. Kredittilsynet attended 258 meetings in 2003. International cooperation among financial supervisors is important in ensuring a coordinated approach to rule harmonisation and their ability to perform effective supervision of an increasingly integrated financial sector.

New committee structure adopted by the EU – greater emphasis on monitoring financial stability within the EU/EEA

The EU has decided to change its committee structure in the financial sphere to create a distinction between committees at

ministerial level – which together with the European Commission adopt technical implementing measures to the framework legislation passed by the European Council and the European Parliament – and supervisory committees responsible for giving advice on implementing measures and coordinating cooperation between the supervisory authorities. The supervisory committees have also been given tasks related to monitoring financial stability in the financial sector as a whole. Kredittilsynet has drawn up a proposal for arrangements for monitoring financial strength in the insurance sector, and will participate in the working group under the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) which will further develop such arrangements.

[Organisational set-up and resource use]

[Board of Directors]

Kredittilsynet is headed by a board of five members. Members and alternates are appointed by the King for a period of four years.

Kredittilsynet's Board, appointed on 1 March 2002, has the following members:

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, 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, attended as observer until 3 December 2003 when he was replaced by Mr Birger Vikøren, director. Mr Thorvald Grung Moe, special adviser, is his alternate.

Two members elected by and from among the employees supplement the board when administrative matters are dealt with. Since February 2003 the employee representatives have been:

Ms Ellen Jakobsen, adviser
 Ms Lisbeth Strand, senior adviser

Alternates: Mr Henning Siebke, adviser, and Ms Linda Bruås, adviser

Eleven ordinary board meetings were held in 2003. The board dealt with 68 administrative matters and 70 matters related to institutional supervision. The board received 134 matters of an informational nature.

[Prioritised tasks in 2003]

Kredittilsynet's supervisory activities are based on statutory tasks, the Ministry of Finance's annual letter of allocation based on the budget adopted by the Parliament (Stortinget) and

Kredittilsynet's strategy. Kredittilsynet's new strategy was adopted by the Board in November 2002 and, together with signals given by the ministry, guided Kredittilsynet's priorities in 2003.

[Strategic projects in 2003]

Kredittilsynet's strategy also contains seven strategic projects. Several have reached completion; the remainder are in progress. An overview follows below:

1. Development of risk-based supervision

Kredittilsynet is in the process of assessing the overall consequences of new capital adequacy rules for supervision, and is preparing the transition to a more risk-based regime along international lines.

2. Control of prospectuses and accounts: Preparing and setting the stage for new tasks

New tasks related to prospectus control and control of institutions' observance of international accounting standards have been identified, along with the consequences of new Directives concerning information disclosure and reporting of accounts as well as corporate acquisitions. The report analyses what the new rules entail in terms of responsibilities and functions, organisation, resource needs and methods. In its letter of 22 May 2003 to the Ministry of Finance, Kredittilsynet recommended that overarching and operative responsibility for control of prospectuses and accounts should both be assigned to Kredittilsynet. (The Norwegian report is available on Kredittilsynet's website.)

3. Methods, reporting and organisation of the supervision of asset management

An in-house survey of asset management in supervised institutions showed that institutions largely outsource asset management functions to investment firms, primarily within their own group. The project report assesses the need for changes in supervisory methods, reporting from institutions and internal adjustments to their organisational set-up.

4. Changes in the pension system and consequences for the supervisory regime

An interim report proposing measures to encourage long-term management of pension insurance assets was forwarded to the Ministry of Finance on 16 September 2003. (The Norwegian report is available on Kredittilsynet's website.)

5. Measures to improve information to end-users in the financial market

Kredittilsynet has initiated a project related to information to end-users in the financial market in conjunction with the Consumer Council and the Consumer Ombudsman. The project surveys current information provision, and action to improve information provision will be recommended. The project focuses on services targeted at bank customers, the insured, including purchases of pension products, and non-professional investors in the securities market. The project will reach completion in the spring of 2004.

6. Adjustments to Kredittilsynet's organisation

Changes in markets along with new supervisory methodology, areas and tasks necessitate adjustments to Kredittilsynet's organisation. A report will be available in the first half of 2004.

7. Electronic administration

An electronic case-processing system is being introduced in the course of 2003 and 2004. The system is expected to produce higher quality and better control of document production and by the same token more efficient and effective use of Kredittilsynet's overall resources. Work is continuing on electronic reporting by supervised entities. Kredittilsynet's website is being further developed with a view to enabling access to a public postal journal, information on supervised entities' licences and other important documents in 2004.

[Administration, staff and gender equality]

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.

The Director General's salary in 2003 totalled NOK 875,000, and the fee to the Chairman of the Board was NOK 150,000.

Sixteen vacancies were advertised in 2003 compared with 17 in 2002. Nine of the positions were advertised internally compared with five in 2002. Applicants totalled 458 compared with 314 in 2002.

At the end of 2003 Kredittilsynet had 178 permanent staff compared with 176 at the end of 2002. Forty-six per cent of the permanent staff are female. Eighty-four per cent hold a university degree or the equivalent.

Women constituted 29 per cent of Kredittilsynet's management team in 2003. Twenty-four per cent of all managers with personnel responsibility were women. An effort is made to recruit women to senior positions. Kredittilsynet had no managerial vacancies in 2003. In order to improve opportunities for in-house recruitment at middle-manager level, nine experienced administrative officers, six women and three men, took a course entitled "Change management in the public sector" and the associated concluding examination at the Norwegian School of Management BI in the period February-November 2003.

Kredittilsynet attaches much importance to building up the expertise needed to perform effective supervision, and this is reflected in its pay and personnel policy. Whereas in 1995 24 staff members had experience (as a rule in excess of five years) from industries under supervision, by the end of 2003 the figure had reached 46. 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 environment 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.

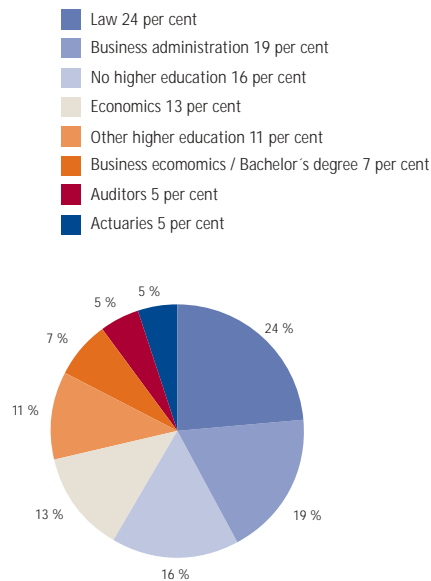
Kredittilsynet's staff turnover was very low in 2003 – a mere 4.5 per cent.

With its espousal of the government-sponsored "IA agreement" designed to promote an inclusive world of work, Kredittilsynet has initiated a systematic effort to maintain the agency's low level of sickness absence (3.3 per cent in 2003). Attention also focused on avoiding discrimination of physically-challenged applicants to jobs with the agency (although the low staff turnover in 2003 provided little opportunity to further this effort), and on raising the de facto retirement age. Collaboration with the Social Security Administration and company health service receive high priority under the IA agreement.

Kredittilsynet adopted a revised code of ethics in 2003. The new code includes guidelines for securities trading and use of supervised entities' services by Kredittilsynet's employees and board members. The revision was grounded in a need to adapt the code to changes in Kredittilsynet's responsibilities and functions, other legislation and increasing awareness of good ethical standards. No significant defects or problems had been noted in the previous code, however. In continuation of this effort Kredittilsynet also assessed a possible need for restrictions on trading by Kredittilsynet's staff in quoted shares and equity capital instruments. This refers to securities issued by listed companies not subject to Kredittilsynet's oversight. Prohibition already exists against trading in the shares etc., of supervised institutions. Kredittilsynet has not noted problems in connection with staff trading in such securities. The issue was raised with a view to preserving the high level of public confidence in Kredittilsynet, to prevent suspicion that its staff might misuse confidential corporate information and to prevent conflicts of interest. The issue is particularly topical in the context of new tasks likely to be

assigned to Kredittilsynet. A draft law amendment to provide for closer regulation of the prohibition against certain types of securities trading was forwarded to the Ministry of Finance in the autumn of 2003. Both documents are available on Kredittilsynet's website.

Chart 1: STAFF EDUCATIONAL BACKGROUND AS OF 31 DECEMBER 2003



An in-house survey was prepared as a basis for the organisational review (strategic project no. 6).

Implementation of electronic administration forms part of Kredittilsynet's strategy. Three new electronic report forms were developed in 2003. Electronic reporting by management companies for securities funds was introduced in the first quarter of 2003, and capital adequacy reporting by banks at the start of 2004, as was electronic reporting of security furnished by estate agents and debt collection agencies.

Several analyses and measures designed to improve resource use, efficiency and quality were implemented in 2003.

In line with Kredittilsynet's strategy, specific targets were set for the time spent on a selection of administrative cases and for supervisory reports and resulting observations as from 2003. The aim is to process 90 per cent of such cases within 30 days. Where some types of complex cases are concerned, a longer period is allowed. The deadline for supervisory reports and ensuing observations varies somewhat from one area of supervision to the next. Target achievement is reported on a quarterly basis, and detailed results are published on Kredittilsynet's website. Main figures for 2003 are as follows:

Table 1: Case processing time at Kredittilsynet as of 31.12.2003

Administrative cases	
Total no. of cases with processing-time target	3,281
No. of cases with 30-day deadline	2,913
No. of cases with longer deadline	368
Target achievement for 30-day deadlines	= 94.7%
Target achievement for longer deadlines	= 45.7%
Overall target achievement	= 89.2%

Supervisory reports and observations

Supervisory reports: No.: 132, within deadline: 117, i.e. 88.6% target achievement.
Supervisory comments: No.: 113, within deadline: 88, i.e. 77.8% target achievement

Table 2: Case documents registered by Kredittilsynet 1995–2003

Sector	1995	1997	1999	2000	2001	2002	2003
Administration/support staff	556	480	594	686	1,116	850	1,196
Finance and insurance	7,020	8,141	6,497	7,098	6,696	6,947	7,036
Securities	2,920	3,850	3,798	4,908	6,833	7,911	5,822
Estate agency and debt collection	4,188	3,910	3,489	4,625	5,347	6,285	5,539
Accounting and auditing*	4,981	4,356	11,101	10,346	9,482	9,567	9,418
Total	19,665	20,737	25,479	27,663	29,474	31,560	29,016

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

In several areas the decline in the number of registered case documents is a result of active steps to reduce document volumes, for example in the case of returns on own-account trading. Follow-up of breaches of the securities-trading notification requirement and

the establishment of a debt-collection complaints board have also helped to reduce the number of incoming cases. It should be noted that the complexity and scope of documentation in the financial and securities sphere are far greater than in other areas.

[Finances]

Expenditure

Kredittilsynet's budget forms part of the government budget and is established by the Parliament (Stortinget). The budget for 2003 totalled NOK 134.6 million including funds of NOK 3.9 million carried forward from 2002. Kredittilsynet received an additional NOK 2.5 million in refunds of maternity and sickness

benefits, bringing the total expenditure budget to NOK 137.1 million. Aggregate expenses came to NOK 134.8 million, an increase of 9.1 per cent over 2002. Overall salary expenditure rose by 10.8 per cent, while expenditure on goods and services rose by 5.2 per cent.

Table 3: Kredittilsynet's expenditure 2001–2003

Type of expenditure	2001 accounts	2002 accounts	2003 accounts
Salaries bill	73,774	85,603	94,866
Of which:			
Salaries and social costs (full-time and temporary positions)	71,727	83,036	91,736
Stand-ins / Substitutes	1,436	1,899	2,396
Other emoluments (directors, consultants etc. / other fees)	611	668	734
Goods and services	37,657	37,974	39,939
Of which:			
Operating expenses	15,846	15,959	16,420
Information	4,081	2,256	3,033
Service travel and meetings	3,712	3,988	4,185
Inspections and other supervision	3,679	3,520	4,615
Organisation development, leadership and competence development	4,258	4,127	4,054
IT expenditure	6,081	8,124	7,632
Total expenses	111,431	123,577	134,805

Figures in NOK 1000

(Preliminary accounts for 2003)

The Office of the Auditor General had some comments and queries in connection with the audit of the accounts for 2002, related partly to procurement. The Office of the Auditor General

was satisfied with Kredittilsynet's explanations, and endorsed the accounts by letter of 30 June 2003.

[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 2002 was NOK 121.13 million. The amount levied was smaller than actual expenses because a) the

levy is based on the budget appropriation, b) any amount carried forward from the previous year is deducted and c) part of the expenses are covered by the National Insurance Fund through refunds of maternity and sickpay outlays. The levy proposed by Kredittilsynet for 2002 was approved by the Ministry of Finance on 21 May 2003 after prior consultation with affected trade organisations. Supervised entities liable to pay the amount levied for 2002 number 9,296 compared with 8,952 in 2001. The apportionment of the levy among the various categories of supervised entities is shown in table 4.

Table 4: Total levy distributed on supervised groups

Supervised group	Percentage of total levy in 2001	Percentage of total levy in 2002
Banks	27.43	28.68
Insurance	25.54	24.65
Pension funds	4.30	4.46
Finance companies/Mortgage companies	3.79	3.79
Auditing firms/Auditors	4.98	4.81
External accountants	6.78	5.67
Securities market	16.62	16.89
Estate agencies	4.48	4.34
Debt collection	2.09	2.52
Holding companies	2.87	2.52
Miscellaneous	1.12	1.67
Total	100.00	100.00

Table 5: Distribution of expenditure 1997, 2000 and 2002 – in per cent of total

Supervised category	Calculation base	Per cent of calculation base		
		1997	2000	2002
Credit institutions	Total assets	0.0030	0.0024	0.0024
Insurance	Premium income	0.0324	0.0432	0.0404
Investment firms	Income from investment and ancillary services	0.1563	0.1551	0.2343
Management companies for securities funds	Total assets	0.0027	0.0028	0.0047
Estate agencies	Commissions earnings	0.2477	0.1736	0.1619
Debt collection	Debt collection income	0.2121	0.1674	0.1896
Auditors	Turnover	0.1923	0.2147	0.1925

Table 5 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 2002. External accountants are omitted from the table since they pay an identical annual levy regardless of turnover. There is some variation between the groups in terms of the trend in the burden represented by the levy, due in part to conditions

in the respective industries, cf. low revenues for investment firms in 2002. Although Kredittilsynet's expenditure rose by 57.4 per cent from 1997 to 2002, in the case of most groups the increase has not exceeded volume and revenue growth in the sectors in question.

[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. The information and communication aspect is incorporated in Kredittilsynet's strategy, and is also elaborated on in a separate communication strategy. Kredittilsynet attaches importance to contact with sectors under supervision, and holds regular meetings with trade organisations. Similar meetings are held with collaborating public authorities. Collaboration with the Office of the Consumer Ombudsman and the Consumer Council moved forward in 2003 with the start-up of a joint project designed to survey information available to end-users in the financial market.

Kredittilsynet also participates widely in seminars for trade organisations and institutions under supervision and numerous presentations are given on the agency's activities and tasks, as well as on rules and guidelines affecting supervised entities.

In February 2003, in conjunction with the annual report for 2002, Kredittilsynet presented its first ever report on the state of the financial market. A similar synopsis of financial institutions' results and of risks facing financial institutions and other financial market actors viewed in light of general trends in the international and Norwegian economy is produced for 2003, *The Financial Market in Norway 2003: Risk Outlook*.

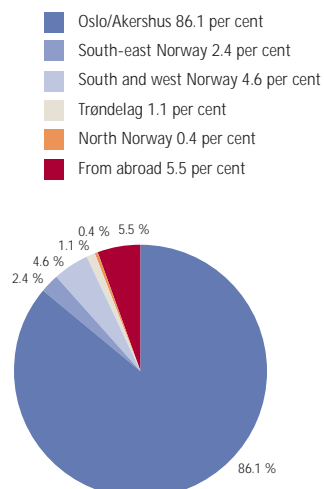
Kredittilsynet's website was taken a stage further in 2003, and work started on preparing a new publishing platform. The English language web pages progressed, and now feature updated translations of key laws and regulations. A steadily increasing share of Kredittilsynet's documents is published on its web pages.

Kredittilsynet's strategy calls for user surveys to be conducted every second year to ensure that the agency's activity is properly geared to users' needs. At the end of 2003 a new broad-based user survey was prepared which will also serve as a basis for the organisational review (strategic project no. 6).

Thirty circulars were issued in 2003 compared with 20 in 2002, and 41 press releases as in 2002. Two press conferences were held.

Kredittilsynet has wide-ranging contacts. Each year Kredittilsynet's management and other staff meet a large number of representatives of supervised institutions, trade organisation, collaborating authorities etc. Kredittilsynet's officers meet many of these contacts in the field. Kredittilsynet received 1,980 visitors in 2003 compared with 1,424 in 2002. Eighty-six per cent of the visitors were from Oslo and Akershus.

Chart 2: Visitors to Kredittilsynet as of 31.12.2003



[Key figures and data on supervisory activities]

Table 6: Principal supervised entities as at 31 December 1998–2003

	1998	1999	2000	2001	2002	2003
Banks and financial institutions						
Savings banks	133	131	130	129	129	129
Commercial banks	13	13	13	15	16	15
Foreign branches of Norwegian banks	12	12	12	10	10	9
Norwegian branches of foreign banks	6	8	9	8	8	8
Finance companies	34	35	35	35	33	29
Foreign branches of Norwegian finance companies	–	–	–	2	2	2
Norwegian branches of foreign finance companies	12	13	18	21	21	21
Mortgage companies	9	9	11	10	10	10
Norwegian branches of foreign mortgage companies	0	1	1	1	1	1
E-money institutions						
E-money institutions*						4
Insurance						
Life insurance companies	10	9	8	8	7	7
Unit Linked companies	6	6	6	8	6	6
Non-life insurance companies	52	51	52	53	52	46
Local marine insurance associations	15	15	14	14	14	13
Local fire insurance associations	38	22	21	20	20	20
EEA branches and foreign companies' general agents	17	21	29	29	29	30
Insurance brokers	41	41	44	49	50	50
Private pension funds	144	132	130	122	120	107
Pension schemes	96	84	80	70	65	50
Municipal pension funds	28	26	30	29	29	30
Holding companies						
Holding companies	11	12	13	12	13	8
Securities market						
Investment firms	70	88	93	93	92	88
Management companies for securities funds	26	27	29	28	24	23
Clearing houses	1	1	1	1	2	2
The Norwegian Central Securities Depository	1	1	1	1	1	1
Stock exchanges	–	–	–	1	2	2
Authorised market places	–	–	–	–	2	1
Estate agency						
Estate agencies	407	428	479	507	528	542
Lawyers' practices incl. estate agencies	898	928	961	1,016	1,018	1,094
Cooperative building associations	–	–	77	67	55	47
Debt collection						
Debt collection agencies	122	117	115	113	113	123
Debt purchase businesses	–	–	–	–	8	10
Auditors						
Auditors	4,303	4,454	4,640	4,824	5,006	5,154
Auditing firms	493	489	507	514	507	514
External accounting firms						
External accountants	–	6,961	5,544	5,856	6,201	6,598
External accounting firms	–	2,325	2,138	2,377	2,415	2,566

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.

* All e-money institutions were licensed in December 2003.

Table 7: Number of on-site inspections by type of institution 1998–2003

	1998	1999	2000	2001	2002	2003
Banks/finance ¹	47	43	42	51	55	53 ²
Holding companies	0	0	0	2	2	0
Insurance ³	17	12	17	12	16	19 ²
Insurance brokers	2	4	3	6	4	6
Pension funds	7	13	12	5	8	5
Investment firms ¹	25	23	25	20	20	23
Other institutions in the securities market (incl. management companies for securities funds ¹)	12	14	2	10	9	13
Estate agencies	27	68	62	60	71	12
Debt collection agencies	14	7	6	5	6	12
Auditors	82	128	80	73	32	19
Data processing centres ¹	1	3	0	1	2	2
External accountants / External accounting firms ^{1 and 3}	–	47	147	62	41	35

¹ The number of IT inspections in the respective segments has the following breakdown: Banks/finance (7), Insurance (1), Investment firms (4), Other institutions in the securities market (4), Data processing centres (2) and External accountants/External accounting firms (4).

² Of which four on-site inspections of bank groups and three at insurance companies, all conducted under the auspices of the Swedish Finansinspektionen with participants from Kredittilsynet.

³ Administration of the authorisation arrangement for external accountants was transferred to Kredittilsynet as from 1 January 1999.

Table 8: Cases handled after the delegation from the Ministry of Finance 1998–2003

	1998	1999	2000	2001	2002	2003
Cases pursuant to Savings Banks Act (No. 1 of 24 May 1961)	45	45	48	28	50	46
Cases pursuant to Commercial Banks Act (No. 2 of 24 May 1961)	28	45	29	13	12	21
Cases pursuant to Financial Institutions Act (No. 40 of 10 June 1988)	94	81	69	64	59	53
Cases pursuant to Insurance Activity Act (No. 39 of 10 June 1988)	95	74	37	37	36	74
Cases pursuant to Tax Act, delegated by Ministry of Health and Social Affairs, under rules on occupational pensions	3	3	19	1	–	0
Cases pursuant to the Guarantee Schemes Act (Act No. 75 of 6 December 1996)	–	–	2	0	–	0

[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, the Securities Funds Act, the Securities Register Act and the Stock Exchange Act. Important areas of supervision are market players' financial position and operations and their compliance with the regulations governing their activities.

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

[Investment firms]

Supervision

Stock prices and turnover in the securities market showed a clear improvement in 2003 compared with 2002. Investment firms reported improved earnings and high activity levels. One firm surrendered its licence due to bankruptcy. Other firms which appeared vulnerable improved their earnings appreciably.

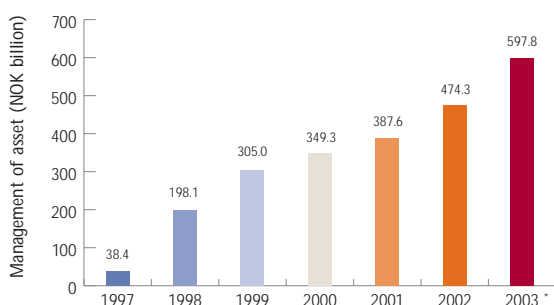
Kreditilsynet conducted 19 on-site inspections at investment firms in 2003. The firms vary in terms of size, organisational set-up and the services they provide. Risk-based criteria are

used to select firms for on-site inspection. The criteria include liquidity, capital adequacy, earnings, customer complaints and suspected breaches of good business practice. Firms' periodic reporting to Kreditilsynet and information gained in dealing with administrative tasks provide a valuable basis for selecting firms for on-site inspection. Priority is also given to large firms, firms that have recently received a licence, firms that have undergone substantial changes and firms that have not been inspected for some time.

Supervision of asset management was the main focus in 2003; see Chart 3 showing the increase in funds under discretionary management at investment firms. An inspection team comprising officers from various sections of Kreditilsynet visited five large asset managers and five of their institutional customers. These thematic inspections were designed to produce a broad-based overview of practices related to the management of insurance companies' and pension funds' assets. In addition, Kreditilsynet conducted IT inspections in four investment firms.

In October 2003 Kreditilsynet distributed for comment a draft circular that will set minimum requirements as to information provided by vendors of composite products, including equity linked bonds and deposits. The minimum information requirements are designed to improve investors' opportunity to compare different investment options. The point is not to enable the customer to understand how these complex products are put together or work. The intention is rather to improve media analysis and discussion by improving the product information available to commentators. Kreditilsynet looked into new products whose structures are so complicated that assessing them requires the customer to simulate expected return on the basis of historical time series. In several cases Kreditilsynet confronted issuers, management companies and investment firms with their marketing material. The material was duly modified in all cases.

Chart 3: Discretionary asset management

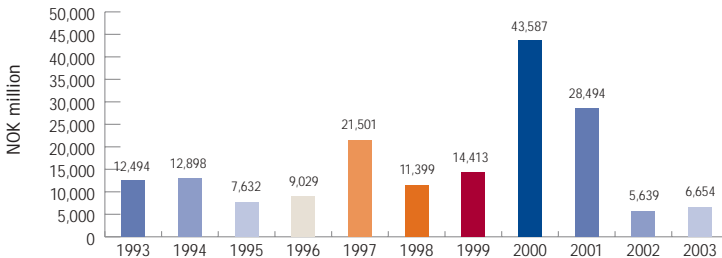


*The 2003 figure is from the third quarter.
Source: Kreditilsynet

Table 9: Investment firms

	2001	2002	2003
Firms with licence	93	92	88
New firms with licence	15	5	6
Firms with licence handed in	14	6	10
Firms with licence revoked	1	0	0
Firms licensed only to market financial instruments	13	13	10
Firms licensed only for discretionary asset management	9	9	11
Firms licensed both for discretionary asset management and marketing of financial instruments	18	19	19
Firms licensed for all investment services listed in Securities Trading Act section 1-2	12	9	9

Chart 4: Share issues (volume) at Oslo Børs



Source: Oslo Børs

Legislation

The Investment Services Directive (93/22/EC) is undergoing revision, and the revised document is expected to be adopted in the spring of 2004. The Committee of European Securities Regulators (CESR) has been asked by the European Commission to draft technical implementing measures to a number of articles in the draft Directive. Kredittilsynet is represented in three expert groups charged with drawing up such provisions on issues such as business practice, organisation requirements, market transparency and exchange of information between public authorities. CESR is expected to complete its assignment in the autumn of 2004.

Regulations on investment firms' obligation to make sound recordings of incoming assignments took effect on 1 January 2004. The regulations are designed to ensure that investment firms establish satisfactory routines for taping all orders received by telephone. Firms are also required to establish satisfactory routines for keeping documentation of received orders as well as indications of orders received via other communication channels.

In 2003, as previously, Kredittilsynet arranged two information seminars for investment firms in conjunction with Oslo Børs. Participants were updated on pertinent EU processes and topical issues of general interest.

[Management companies for securities funds]

Supervision

At the end of 2003 23 management companies were licensed to carry on activities. The number of securities funds fell from about 419 to 414.

Nine on-site inspections were carried out at management companies for securities funds in 2003. There were also three IT inspections.

Kredittilsynet established an agreement with Oslo Børs

Informasjon AS on access to daily data showing variations in each fund's return. Where a fund has supplied a benchmark, the relative return and variations in return are measured against the benchmark. This enables Kredittilsynet to monitor the funds more effectively. Data access will be used to check that funds' investments are in compliance with their articles of association, prospectuses and marketing. Kredittilsynet will react to marked divergence from expected return and to wide variations relative to benchmarks.

Legislation and administration

Amendments to the Securities Funds Act

Based on drafts prepared by Kredittilsynet, a number of amendments – some of them sizeable – were adopted in the Act on Securities Funds (No. 52 of 12 June 1981) as a result of the implementation of two Directives amending Council Directive

85/611/EEC (the UCITS Directive). The amendments refer partly to new framework conditions for management companies and partly to new provisions for the products offered. The amendment became effective in August 2003, with transitional provisions.

Management companies eligible for discretionary asset management

Amendments to the Securities Funds Act render management companies for securities funds eligible for authorisation to engage in discretionary asset management, i.e. to manage individual portfolios as this service is defined in the Securities Funds Act. The amendments permit a financial services group to assign both its collective and individual management business to a single group company, the assumption being that this will promote effective and efficient use of investment expertise. This complements the ability to pursue similar types of business within a single company which is already inherent in management companies' right to outsource business. Kredittilsynet has authorised one management company to engage in discretionary asset management alongside its ordinary asset management business. Such authorisation entails that provisions in the Securities Trading Act governing discretionary asset management apply *pari passu*, and that management companies need to meet capital requirements in the same way as investment firms with a similar licence, and to furnish security for their business.

Differentiated management fees and loans

In January 2003 new secondary legislation was passed to regulate management companies' right to differentiate management fees and securities funds' right to loan financial instruments. Kredittilsynet drew up new standard articles of association for securities funds wishing to avail themselves of this opportunity. In the case of new securities funds, differentiation of management fees and loans in compliance with the regulations presents no problems. Kredittilsynet also received and processed applications for permission to amend mutual funds' articles of association in line with the new rules for existing funds. Kredittilsynet noted that the opportunity to differentiate management companies' fees prompted a desire to combine approximately identical funds, although not in regard to the size of the management fees. As is generally the case with amendments to articles of association, a condition for approval

is that they are assumed to be in the interest of the fund's unit holders.

Other amendments to regulations

Based on changes to the UCITS Directive and recommendations put forward by Kredittilsynet, new provisions were adopted for inclusion in regulations (No. 750 of 28 July 1994) on prospectuses for securities funds requiring each fund to prepare a simplified prospectus. Amendments were concurrently adopted in regulations (No. 800 of 8 July 2002) on securities funds' trading in derivatives, also based on a draft prepared by Kredittilsynet. Kredittilsynet received applications to enable existing funds to employ derivatives in compliance with the amendments to the derivatives regulations. For each individual fund Kredittilsynet decides whether the extension is within the mandate specified in the fund's articles of association. Draft regulations on the calculation of and requirements on the start-up capital and capital base of management companies for securities funds were being reviewed by relevant bodies at the end of 2003, as were draft regulations on nominee registration of unit holders in securities funds.

Marketing of foreign securities funds

UCITS funds, i.e. funds approved for marketing in the EEA, can be marketed in Norway after Kredittilsynet has been notified. Other funds may only be marketed subject to special authorisation. Kredittilsynet received and processed several applications for permission to market non-UCITS securities funds in Norway in the course of 2003. In processing these applications, Kredittilsynet focused on whether the foreign fund to be marketed in Norway operates under home-country legislation that gives Norwegian investors at least the same protection as applies to the latter's investments in Norwegian securities funds. Crucial emphasis was given to whether the foreign fund is subject to investment strategy restrictions corresponding to those applied to Norwegian funds.

[Market infrastructure]

Kredittilsynet oversees the Norwegian 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).

The Ministry of Finance licensed the Norwegian Central Securities Depository (VPS) as a securities register on 29 January 2003. The VPS was converted to a public limited company on 6 February 2003.

With the advent of the new act on registration of financial instruments – the Securities Register Act (No. 64 of 5 July 2002) which went into force on 1 January 2003 – the VPS' legal monopoly on the registration of financial instruments came to an end. The act entails that Kredittilsynet is now responsible for assessing rules and commercial terms for securities registration

business. Kredittilsynet is empowered to lay down regulations to some of the authorising provisions of the Securities Register Act. The Securities Register Act widens the right to register financial instruments in a nominee account. Kredittilsynet prepared draft regulations to the Securities Register Act section 6-3. This includes rules on who is eligible to be licensed as a nominee, further rules on nominee's disclosure obligation and on withdrawal of nominee licences.

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 supervisor, Kredittilsynet wishes to see the risk of serious problems reduced to a minimum.

Kredittilsynet conducted on-site inspections at Nord Pool Clearing ASA, the Central Securities Depository and Imarex in 2003. It also carried out an IT inspection at Nord Pool ASA.

The electricity market was affected by high prices in the winter of 2002/2003. This was due to an unusually dry summer and autumn in 2002 combined with low temperatures in the Nordic area in the latter months of 2002 and the first few months of 2003.

Electricity derivatives contracts with delivery in the winter of 2002/2003 were traded on the Nordic power exchange, Nord Pool ASA, at historically very high prices. The high prices are assumed to be related primarily to low reservoir levels in the Nordic hydroelectricity system, as in the previous winter season. Uncertainty due to unstable nuclear power production in Sweden may also have contributed. The high prices heightened

the loss risk facing players in the financial electricity market. Price volatility in the electricity derivatives market results 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 needs to keep a close watch on developments in the electricity market.

In the autumn of 2003 Kredittilsynet established a cooperation agreement with the Competition Authority and the Norwegian Water Resources and Energy Directorate on supervision of the electricity market. The collaboration will be formalised in a forum drawing representatives from the three supervisory bodies. The forum will address issues associated with developing the rules governing the electricity market, exchange information, collaborate on joint projects and coordinate their supervision of certain undertakings.

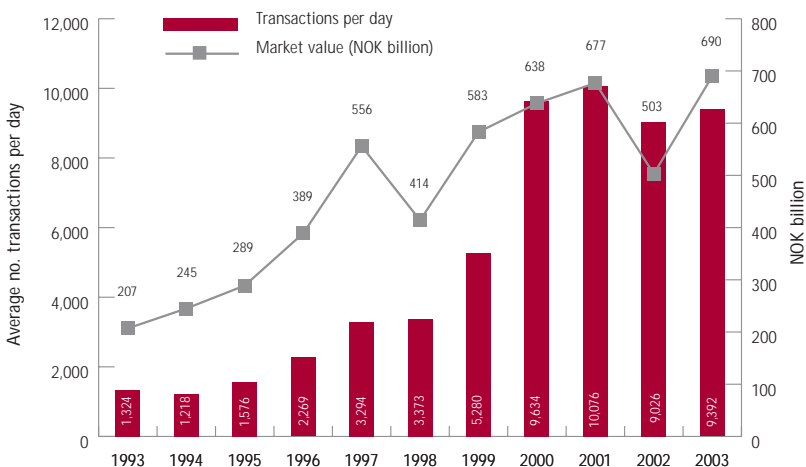
[Supervision of compliance with the general rules of conduct in the Securities Trading Act]

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 dealing/trading and price manipulation. Kredittilsynet also oversees compliance with provisions on confidentiality and prohibition of counselling based on confidential insider information, 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 electricity derivatives. Kredittilsynet aims to show potential lawbreakers that contravention incurs risk, and also applies other measures designed to discourage criminal acts.

Supervisory tasks

Chart 5: Turnover and number of trades at Oslo Børs



Source: Oslo Børs

The majority of cases dealt with in 2003 were referred to Kredittilsynet by Oslo Børs. Under the agreement between Oslo Børs and Kredittilsynet only a low level of suspicion is required to justify referral to Kredittilsynet. In 2003 Kredittilsynet investigated a number of cases where breaches of the insider 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.

Kredittilsynet investigated several cases of suspected price manipulation in 2003. 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 financial instrument.

Kredittilsynet noted several instances where the Internet was used to spread misleading or incorrect information with a bearing on securities prices. Kredittilsynet takes a serious view of such behaviour, which could be highly damaging for the issuing companies involved and for confidence in the market. Also worrying is the fact that this is an area where the risk of discovery is perceived to be slight. An amendment to the Securities Trading Act whereby section 12-2 sixth paragraph received a new second sentence, which went into force on 13 August 2003, empowers Kredittilsynet to obtain IP addresses and customer identities from operators of websites and telecommunications operators. This will permit more efficient control over information flows via such media.

In 2003 four cases of suspected unlawful insider dealing/trading and/or breaches of confidentiality were referred to the prosecuting authority, as were six cases of price manipulation. Some of these cases resulted in a number of individuals being reported to the police. Eight breaches of the securities-trading notification requirement were reported to the police over the year. A total of 161 notification cases were forwarded by Oslo Børs compared with 326 cases in 2002 and 536 in 2001. Even allowing for the change in procedure for registration of cases towards the end of 2002, there was a real decrease in the number of cases forwarded by Oslo Børs. The reduction in the number of violations is probably due to greater awareness among market players which is in turn related to Oslo Børs' and Kredittilsynet's active follow-up of possible breaches of the rules. Eight cases against issuing companies and individuals resulted in fines.

In 2003 charges brought against three individuals for unlawful insider dealing/trading resulted in convictions. One of these is unappealable. One conviction was handed down for breach of the prohibition against price manipulation.

Kredittilsynet investigated several breaches of the rules on notifiable securities trading in 2003 after new rules on disclosure of holdings and rights in Norwegian listed companies went into force at the start of the year. One important change is the reduction of the lower disclosure threshold to 5 per cent. Persons whose holdings ranged from 5 and 10 per cent when the act came into force were given until 31 January 2003 to disclose their holdings. Several breaches that came to light in 2003 involved the transitional provisions, in which cases Kredittilsynet issued a warning. Kredittilsynet also announced the rule change in a press release issued in March 2003. Kredittilsynet reported two breaches of the disclosure obligation to the police in 2003.

January 2003 saw the adoption of the EU Market Abuse Directive. The deadline for implementing the Directive is October 2004. The Directive will lead to certain changes in provisions regulating general market conduct and in the supervisory authorities' competence. The Ministry of Finance asked Kredittilsynet to draft a consultative letter on the implementation of the Directive which will be forwarded to the ministry in the spring of 2004.

An EU Directive on prospectuses was adopted on 1 July 2003. The deadline for implementation is July 2005. The Directive includes requirements as to the design, content, approval and publication of prospectuses. In response to a request from the Ministry of Finance, Kredittilsynet set up a working group charged with drafting a submission. The working group is to present its recommendations in June 2004.

In 2003, as previously, work progressed on further developing the collaboration between Kredittilsynet, Oslo Børs and the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM). Kredittilsynet also collaborated fruitfully with Nord Pool in the period. The aim of the collaboration is to improve the overall efficiency of market surveillance. Themes discussed included routines, priorities and legal issues.

[Banking and finance]

Supervision of banking and finance is intended to ensure satisfactory financial strength, risk awareness, management and control of institutions and to promote financial stability and orderly market conditions. 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.

[Financial stability]

In its macroeconomic surveillance Kredittilsynet monitors developments in the Norwegian and international economy that may affect financial market stability and collates these developments with conditions among financial institutions brought to light via inspections. Biannual reports, exempt from the public domain, are communicated to the Ministry of Finance and Norges Bank (The Central Bank of Norway). A public report

entitled *The Financial Market in Norway: Risk Outlook* provides a synopsis of the state of the Norwegian financial industry. The report is prepared on an annual basis, and is published concurrently with Kredittilsynet's annual report. Kredittilsynet and Norges Bank collaborate on monitoring and safeguarding financial stability.

[Analyses]

A weak trend in business conditions and securities markets, in Norway as elsewhere, brought poor results for banks in 2001 and 2002. Results for 2002 were the weakest for ten years, mainly due to loan losses referring to Finance Credit. The 2003 bank results were an improvement on the previous year, although first-half losses were high. See also the report *The Financial Market in Norway 2003: Risk Outlook*.

Macroeconomic surveillance in the first half-year focused above all on the consequences of the sluggish economic climate for the banking sector. Alongside the effect of impaired competitiveness on exposed trades, the sheltered sector was also increasingly affected by the downturn. Banks' and life insurance companies' exposure to commercial properties was therefore investigated. A seminar on this theme organised by Kredittilsynet in the spring of 2003 was attended by market players and public authorities. In light of the current low long interest rates, the seminar focused on the consequences that the rapid debt build-up in the household sector could have for banks and finance companies in the medium term.

Regular analyses of credit institutions' profitability, financial strength and risk are prepared as well as ad hoc analyses of topical problems. Quarterly reports on financial institutions' results and financial strength are published on Kredittilsynet's website, and quarterly press releases illuminate the main trends.

The regular reports to Kredittilsynet were supplemented, in 2003 as previously, with surveys of banks' credit and liquidity risk. In the home loan survey, banks are asked to report on their credit practice in regard to loans secured on housing property, including loan-to-value ratios and collateral security. Kredittilsynet investigated banks' exposure to, and their assessments of, risk associated with loans to selected sectors. It also investigated banks' financing of loans secured on shares and other securities. Deposits in some banks, broken down by size and sector, were looked into to ascertain what portion of these banks' deposits was covered by the guarantee fund schemes. The results of these surveys are used both in conjunction with on-site inspections of individual banks and to assess the situation in the financial industry in general. See also the report *The Financial Market in Norway 2003: Risk Outlook*.

Kredittilsynet's analyses assess the impact that structural changes in the Norwegian financial market will have for risk and profitability. In recent years a process of consolidation has been witnessed in the Norwegian financial market. With DnB and Gjensidige NOR receiving the go-ahead to merge, there are now three large mixed financial groups in Norway: DnB NOR, the SpareBank 1 Group and Storebrand. After disposing of its insurance arm, Nordea Bank Norway is now a pure banking group; see the description of the Nordea group page 28.

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

Oversight of compliance with statutory requirements

Financial institutions are themselves responsible for complying with laws and regulations. Off-site and on-site supervision entails overseeing financial institutions' compliance with statutory requirements – including those related to capital adequacy, liquidity and large exposures. Compliance with most of these statutory requirements can for the most part be monitored by checking the accounting reports regularly submitted to Kredittilsynet.

Oversight of annual accounts

The annual reports of the largest financial institutions were reviewed in 2003. The reviews focused on financial statements' compliance with laws and regulations, and were confined to specific themes. This work could prompt follow-up in the form of clarifications explained either in circulars or in letters direct to the institutions involved. Kredittilsynet's review did not bring to light significant deficiencies in the institutions' financial statements in the areas investigated.

[On-site inspection]

The 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.

Forty-three inspections were carried out in 2003 at commercial banks and savings banks, and three inspections at finance companies and mortgage companies. The 2002 figures were 47 and four, respectively. The overall number of ordinary inspections was reduced partly to enable resources to be spent on developing and testing risk-based supervision.

Banks' credit risk

The three largest banks' systems for measuring credit risk showed that portfolio quality deteriorated somewhat in the first half of 2003.

As a step in monitoring credit risk, Kredittilsynet tested some medium-size banks' corporate portfolios against Norges Bank's 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. Most banks' risk profile has either remained unchanged or slightly deteriorated of late. The analyses also indicate banks' inability to apply sufficiently differentiated risk pricing, although improvements here are in evidence. The largest banks above all charge more for high risk.

Most mid-sized banks recorded an increase in defaults on corporate loans in 2003 compared with the previous year. Defaults affected many trades. Export-oriented businesses, including fish farming, were particularly vulnerable. However, the accretion of new loss commitments was significantly dampened compared with the quarters around the turn of the year 2002/2003 when the collapse of the Finance Credit system and the conversion and write down of Pan Fish shares brought substantial losses.

Inspections of small and mid-sized banks in 2003 left the impression that a number of them were tightening their requirements on corporate customers. In addition to reducing risk of loss, the tightening slowed lending growth and thereby reduced liquidity risk. Not all small banks have good control over their lending business. Those that are remiss in this respect need to be closely monitored.

There is still reason to warn against credit risk at small banks since their skill in assessing credit risk is in many cases inadequate. Moreover, small banks in general are more exposed to concentration risk in terms of single commitments and trades than are large institutions.

Banks' liquidity risk

The general impression is that awareness of management and control in the liquidity sphere has grown. This is due not least to the market situation in the autumn of 2002 and the funding problems experienced by some banks at the time. Most of the

problem banks saw their situation improve in the first half of 2003, partly thanks to a higher deposit-to-loan ratio.

Any continuation of rapid growth in lending and slower growth in bank deposits will increase banks' need for other funding. In such a situation higher lending losses could well trigger liquidity problems for some banks.

Banks' market risk

Three savings banks posted a negative result in 2002 due to losses on shareholdings. These banks were inspected in 2003. As part of Kredittilsynet's testing of a new method for risk-based supervision in the market-risk sphere, a thematic inspection of market risk was conducted in the DnB Group which focused above all on the Group's market-risk management on an overarching level.

The book value of a bank's shareholdings must not exceed 4 per cent of its total assets. The share component rose from March 2003 onwards due to a positive trend in share prices.

Operational risk

Operational risk associated with the use and operation of IT systems represents a substantial risk factor for Norway's financial industry. For several years Norwegian financial institutions have assembled their ICT solutions and operation with fewer and fewer providers. Most solutions are now operated by EDB Business Partner ASA (EDB Felleldata AS / EDB Teamco AS). This represents a strong concentration of risk.

Reports from thematic inspections in the ICT field called for more formalised processes for preparing and updating ICT strategy, for overall risk and vulnerability analyses, for improved continuity and catastrophe planning and for improved change and problem handling. They also underscored institutions' obligations when outsourcing and formalising service agreements with service providers.

Banks' measures to curb operational risk associated with products and internal processes and systems are assessed as part of Kredittilsynet's review of the banks' internal control systems.

Under the new capital standard (Basel II) to be introduced with effect from 2007, operational risk will be included in the basis (risk-weighted assets) on which each bank's capital requirement is calculated. Hence operational risk is one of the modules currently being developed as part of the emphasis on risk-based supervision. Alongside ICT risk, this module will incorporate organisation, leadership and internal control. The aim is to test the module in individual banks in the first half of 2004.

The internal control regulations require large financial institutions to have established an internal audit by 1 January 2004. This means that the organisation and quality of institutions' internal audit function will be a target of supervision in its own right from now on.

Anti-money-laundering measures

At on-site inspections it is normal procedure to make spot checks of how institutions carry out the mandatory ID check. In some cases the inspections revealed ample room for improvement. During on-site inspections in 2003 Kredittilsynet followed up on information from the police on issues involving

the car trade and finance companies. Thematic inspections are planned in the field of anti-money-laundering measures at a selection of banks and finance companies in the first quarter of 2004.

[Individual cases]

Nordea Bank Norway – criticism of loans to fish farming companies

In May 2003 Kredittilsynet levelled criticism at Nordea Bank Norway for loans extended to the fish farming industry. Kredittilsynet affirmed that financing acquisitions is in effect debt financing of equity, and that financing the acquisition of some fish farming companies had resulted in business constellations with a very high debt ratio. Kredittilsynet concluded that Nordea's optimism as regards the fish farming industry was excessive, and that the licences were valued too highly. Its criticism extended to Nordea's failure to bring its strategy on fish farming up to date, and that the board of directors' limit on exposure to fish farming had been overstepped. Kredittilsynet also pointed to the internal audit's failure to conduct a general review of the fishery sector in recent years.

Follow-up of banks with heavy losses after the collapse of the Finance Credit system

After examining the banks that had granted loans to the Finance Credit system, Kredittilsynet pointed in February 2003 to a number of weaknesses in the credit practice of the banks involved. Although the banks had evidently been misled by erroneous accounts, they had failed to conduct a sufficiently critical and thorough scrutiny and assessment of available information. Among other things they had not demanded presentation of or analysed consolidated accounts. Kredittilsynet's scrutiny also revealed considerable room for improvement in terms of lenders' follow-up of commitments and control of the premises on which loans were granted.

Banks' exposure to the Aker RGI Group

During an ordinary inspection of a major bank in March 2003 Kredittilsynet received information indicating liquidity problems in the Aker RGI Group. The problems facing the group surfaced in the media when the company Norway Seafoods Holding AS announced that it lacked the liquidity to repay a loan of NOK 600 million to Orkla ASA in September.

Prompted by the above, Kredittilsynet obtained information from banks exposed to companies within the Aker RGI Group and identified the debt situation in the companies making up the Aker RGI Group.

[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 group at deputy director general / head of section level. Groups focusing on overall risk assessment, insurance, accounting, liquidity and ICT have also been set up.

Four Nordic group-wide inspections were conducted in 2003 at Nordea. The risk-assessment group presented the document "Overall Risk Assessment of the Nordea group" to the coordinating supervisory group in August 2003. This document was thereafter reviewed by the heads of the four Nordic supervisory

bodies at the Nordic meeting of director generals in Copenhagen in September. The supervisory heads discussed the document with Nordea's group management in October 2003.

A Nordic approach was made to Nordea concerning their outsourcing of ICT operations. These operations are monitored by a designated officer from each supervisory agency whose specific focus is continuity solutions and catastrophe support. For its part, Kredittilsynet looked into Nordea Bank Norway's actions in connection with Nordea's decision to outsource ICT operations in 2003. Kredittilsynet wrote to Nordea Bank Norway to clarify Kredittilsynet's requirements on financial institutions that outsource services.

[Licensing and regulatory compliance]

Merger between Den norske Bank and Gjensidige NOR

The merger between DnB and Gjensidige NOR was the most significant structural change in the banking industry in 2003. Acting on Kredittilsynet's recommendation, the Ministry of Finance in November 2003 authorised DnB Holding ASA and Gjensidige NOR ASA to merge to form the financial conglomerate DnB NOR. The ministry, again acting on Kredittilsynet's recommendation, also gave the go-ahead for the merger of Den norske Bank ASA and Gjensidige NOR Sparebank ASA (Union Bank of Norway). The name of the new bank is DnB NOR Bank ASA. Rather than prohibit the merger, the Competition Authority decided to impose conditions to ensure continued competition. The conditions included the sale of the following: 53 branch offices and 19 business centres, Postbanken Eiendomsmegling and Aktiv Eiendomsmegling, Gjensidige NOR Fondsforsikring and Elcon Finans AS. A further condition was that the collaboration agreements between DnB NOR Bank and the independent savings banks should not restrict the savings banks' opportunity to distribute products from other market players or their opportunity to refer customers to providers other than DnB NOR. The Ministry of Finance required information on group affiliation to be disclosed when using and marketing the group's various brand names, including information to customers in cases where different brand names belonging to the group are covered by one and the same deposit guarantee. The ministry also required DnB NOR to reduce its stake in companies where the group would otherwise have become a major owner. Kredittilsynet is empowered to intervene in cases where DnB NOR's share of the market for individual insurance/annuities ought to be reduced, or where competition in general needs to be strengthened.

Merger between Sparebanken Flora-Bremanger and Sparebanken Sogn og Fjordane

In 2002 and the first half of 2003 Sparebanken Flora-Bremanger incurred heavy losses on loan commitments resulting in an impaired financial position and difficulties in meeting the bank's

liquidity needs in a satisfactory manner. The bank's board of directors considered various courses of action, and concluded that a merger would be the best solution if the bank was to remain viable. Upon Kredittilsynet's recommendation, the Ministry of Finance authorised Sparebanken Sogn og Fjordane and Sparebanken Flora-Bremanger to merge, with Sogn og Fjordane as the acquiring bank. In keeping with Kredittilsynet's recommendation, Sparebanken Flora-Bremanger was authorised to repay its primary-capital-certificate capital to the PCC holders, and to reduce its PCC capital to zero.

Restructuring of Nordea Bank

In the summer of 2003 Nordea AB announced a far-reaching restructuring of the group's banking business. The first stage was for Nordea AB to acquire the shares of Nordea Bank Norway ASA, Nordea Bank Denmark AS and Nordea Bank Sweden AB from Nordea Bank Finland Plc. In the second stage of the process, Nordea Bank Sweden AB is merging with Nordea AB with the latter as the acquiring company. After the merger, the parent company in Sweden comprises one bank, the other banks being its subsidiaries. This part of the process was approved by the Ministry of Finance in the autumn of 2003, as recommended by Kredittilsynet. The third stage will be for the Swedish parent company to convert to a so-called European company through the merger of the Norwegian, Danish and Finnish subsidiaries. Operations in Norway, Denmark and Finland will thereafter be run via branches of these subsidiaries. Kredittilsynet has announced that an application for conversion to branch status will be given thorough treatment. European companies, abbreviated to SEs (Societas Europaea), are regulated by Council Regulation (EC) No 2157/2001 which is now part of the EEA agreement and will be implemented in Norwegian law in the course of 2004. Kredittilsynet is part of a Nordic working group that is considering various models for the supervision of Nordea Bank's branch network. One of its terms of reference is to consider whether and in the event how host countries can to greater degree than envisaged by the EU Directives be involved in the supervision of a branch bank. Issues related to the funding of such supervision will also be looked into.

Capital Merchant Bank ASA

The Ministry of Finance authorised Capital Partners to establish and wholly own Capital Merchant Bank ASA, based on Kredittilsynet's alternative recommendation. As recommended by Kredittilsynet, the bank was required to have a tier one capital ratio of at least 16 per cent upon start-up. The bank did not commence operations in 2003.

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. Verdibanken will conduct ordinary banking business with a clear-cut values profile and Christian ideology. The bank's products and services will be available to the entire Norwegian market, but will in the first instance be targeted at Christian, voluntary and non-profit organisations, along with the members of these organisations. Verdibanken ASA started business in mid-November 2003.

Sparebanken Telespar

The Ministry of Finance authorised Sparebanken Telespar to carry on banking operations in the segments stated in the bank's application. The authorisation was in line with Kredittilsynet's recommendation. Sparebanken Telespar's operations are based on the business of AL Interessekontoret Telespar which was a cooperative society for employees of the Telenor Group whose members' liability was limited to each member's contribution. Upon the establishment of the bank, the cooperative society's assets and liabilities were transferred to the savings bank and the cooperative society was dissolved. The society's capital constitutes the savings bank's capital. Sparebanken Telespar will engage in ordinary banking business with the focus on banking services such as deposits, loans and money transfers.

Wind-up of Samspar Norge

Samspar Norge was a savings association that received deposits from its members. The association incurred heavy losses as a result of investments in the securities market. In the autumn of 2002 the Ministry of Finance decided to withdraw Samspar Norge's dispensation from the general rules of the Financial Institutions Act. The reason for the ministry's decision was that Samspar Norge had operated at variance with the terms of the dispensation, in particular the contributors had not been informed that their contributions were not properly secured. Withdrawal of the licence was also based on a desire to protect contributors against risk of further loss. Creditors numbered about 1,000 unit holders/contributors. Outstanding depositor claims totalled NOK 51 million. Subject to substantial reservation, the liquidator estimated a bankruptcy dividend of 11–17 per cent. All in all the contributors were set to recover about 70 per cent of their capital.

The establishment and operation of associations such as Samspar Norge should not be authorised in future without imposing financial and prudential requirements. It is clear, however, that Samspar Norge breached the conditions underlying its business by omitting to disclose that a substantial portion of its managed assets was invested in the securities market, which resulted in substantial losses to the association's contributors.

Wind-up of Enebakk Sparebank

Enebakk Sparebank was authorised by the Ministry of Finance to wind up its business under the direction of a liquidation committee appointed by Kredittilsynet. The bank no longer met requirements as to proper operation. After the wind-up the liquidation committee transferred the bank's assets to Lillestrøm Sparebank.

Merger between Storebrand Bank and Finansbanken

After an application from the two banks, the Ministry of Finance authorised Storebrand Bank and Finansbanken to merge, in line with Kredittilsynet's recommendation.

DnB's takeover of Nordlandsbanken ASA

The Ministry of Finance authorised Den norske Bank to acquire 100 per cent of the shares of Nordlandsbanken ASA, as recommended by Kredittilsynet. DnB was provisionally authorised to own Nordlandsbanken as a subsidiary up to February 2005. Kredittilsynet's recommendation highlighted Nordlandsbanken's difficult financial situation.

Acta Bank ASA

Sandnes Sparebank was granted a concession by the Ministry of Finance to purchase Acta Bank ASA and to own the bank as a subsidiary for a period of two years. After the acquisition, Sandnes Sparebank wrote down the assets of Acta Bank ASA by a substantial margin, with the result that at year-end Acta Bank ASA failed to meet the capital requirements imposed in connection with the original concession. Acta Bank ASA therefore applied for, and received, temporary dispensation from the capital adequacy rules. Sandnes Sparebank was authorised to absorb Acta Bank ASA at the start of 2004.

Olympia Capital ASA Group

After Multipartner Inkasso AS and Tenea AS, both companies in the Olympia Group, were awarded a licence to collect their own claims and conduct ordinary debt collection business, Kredittilsynet's carried out two inspections of these companies in December 2002. In the course of 2003 Kredittilsynet was in frequent contact with Olympia Capital ASA after the company reported the former general manager of Ontime Finance AS to the police for gross embezzlement. Ontime Finance AS is licensed to carry on car financing, and is the third company in the group to come under supervision. ØKOKRIM¹ has brought charges against the board chairman, a board member, the managing director and financial controller for fraudulent breach of trust. The case is under investigation.

Loan association established

In December 2003 Kredittilsynet recommended that Eiendomskreditt, a mortgage credit institution, be authorised to establish a loan association. The company's object is to provide medium-term and long-term loans to its membership, which is confined to Norwegian savings banks. The loan association will obtain funds from the capital market and channel them to the banks. The association aims by this means to reduce its member banks' liquidity and refinancing risk and to provide them with cheaper funding.

¹National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway

[Regulatory amendments]

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 three rounds of consultation in which Kredittilsynet and Norges Bank have issued joint submissions. The Basel Committee plans to adopt a new Basel Capital Accord in the first half of 2004. The new guidelines for computing capital adequacy will take effect at the end of 2006.

Ahead of the third round of consultation, the Basel Committee launched its third quantitative impact study (QIS 3), a field test for banks of its proposals for revising the 1988 Capital Accord. A total of 365 banks from 43 countries participated in the study including, from Norway, Den norske Bank, Nordea Bank Norway, Union Bank of Norway and Fokus Bank.

In conjunction with the Norwegian Financial Services Association and the Savings Banks Association, Kredittilsynet and Norges Bank carried out a further study to gauge the impact for small and midsize banks in which 15 savings banks and six commercial banks participated. These banks did not take part in QIS 3. The study showed a capital requirement reduction of 10 per cent for savings banks and 1 per cent for commercial banks. The relatively large impact for savings banks is related, as in the case of QIS 3, to lower capital requirements on loans secured on dwellings. The retail banking portfolio, including small and mid-size enterprises, also contributes to the substantial reduction.

The Norwegian survey and QIS 3 covers 84 per cent of the Norwegian bank sector's total assets. When the results from both surveys are combined, the capital requirement for credit risk shows a weighted average reduction of 32 per cent. The requirement for operational risk entails an increase of 7 per cent, such that the overall reduction for the participating banks comes to 25 per cent. The reduction in the capital requirement may lead to a significant reduction in the level of overall risk-weighted assets in the Norwegian banking sector, roughly corresponding to NOK 20 billion. Hence it will be important for the supervisory authority to satisfy itself through Pillar II that banks have sound risk management and sufficient capital in relation to their overall risk profile. Each bank needs sufficient buffer capital to withstand unforeseen losses in a recession. Improved risk management by the individual bank and closer supervision will also be crucial to identifying and managing risk.

The Basel Committee published changes to some aspects of its proposal in October 2003. It proposed changing the internal rating rules to enable the capital requirement to cover unexpected losses. It also proposed that the difference between expected losses and loss provisions should be corrected against institutions' risk-weighted assets.

In parallel with the Basel Committee, the European Commission has worked on 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 Basel Committee, the European Commission has carried out three rounds of consultation in which Kredittilsynet and Norges Bank have issued joint submissions.

As part of the process of implementing the new capital adequacy framework, Kredittilsynet established a reference group consisting of the affected institutions' trade organisations and Norges Bank. Kredittilsynet wishes, through the medium of the reference group, to obtain viewpoints from the financial industry and to identify relevant practical issues which need to be resolved before the Directive is implemented.

Draft regulations on accounting treatment of loans

In March 2002 Kredittilsynet forwarded draft regulations on accounting treatment of loans and guarantees to the Ministry of Finance. The draft was circulated for comment with the closing date for submissions set at 3 October 2002. However, since the international accounting standard, IAS 39, is under review, the Ministry of Finance decided that the draft regulations would be considered in conjunction with the final version of IAS 39 and enter into force on 1 January 2005, with effect for the accounting year 2005.

Valuation of financial instruments at fair value

On 19 December 2003 the Parliament (Stortinget) passed amendments to the Accounting Act to bring it into line with the Fair Value Directive (Directive 2001/65/EC). Institutions are entitled (but not obliged) to value certain financial instruments outside the trading portfolio at fair value in consolidated accounts. The amendments impose requirements on notes to the accounts and on information provided in the directors' report. The amendments became effective on 1 January 2004 and will apply until the new Accounting Act comes into force. The new provisions also apply to banks, finance companies and mortgage institutions, and some amendments have been made to the regulations on annual accounts etc., for banks, finance companies and mortgage companies and for parent companies of the latter.

Owner control of financial institutions

Amendments to the Financial Institutions Act and other acts in 2003 introduced a new system of ownership restriction and ownership control in financial institutions. The new rules build largely on EU Directive No 2000/12/EC as subsequently amended (the Consolidated Banking Directive). Instead of absolute thresholds, the new rules introduce a graduated, discretionary system. Anyone wishing to acquire a qualifying holding in a financial institution will have to seek prior approval from the authorities in order to do so. A qualifying holding is defined as 10 per cent or more of the capital or the votes in an institution, or which makes it possible to exercise significant influence over the management of the institution or business in question. Approval is also imperative where a holding is increased to or exceeds 20, 25, 33 or 50 per cent. Kredittilsynet prepared draft regulations on the content of applications to acquire qualifying holdings, disclosure rules for financial institutions and owners

and transitional rules in connection with the commencement of the new rules. The rules went into force on 1 January 2004.

Directive on financial conglomerates

Corporate structure in the financial industry is moving increasingly in the direction of financial conglomerates i.e. groups engaged in banking, insurance and securities business, both groups operating within a single country and those operating in several countries within and outside the EEA. The trend has prompted international collaboration on rules to secure the supervision of risks inherent in financial conglomerates. The European Parliament adopted such rules in Directive No. 2002/87/EC. The Directive is due to pass into Norwegian law by 11 August 2004.

The Directive on supplementary supervision of financial conglomerates requires changes in Norwegian law. Kredittilsynet identified the necessary changes in 2003. Kredittilsynet was asked by the Ministry of Finance to participate in a Nordic working group whose aim was to achieve uniform implementation of the Directive in the Nordic countries.

Act on E-money Institutions

This act regulates the taking up and pursuit of the business of issuing electronic money and the supervision of institutions carrying on such business. The act implements EEA rules corresponding to Directive 2000/46/EC – (the E-money Directive), and went into force on 15 April 2003.

Electronic money is prepaid purchasing power in the form of monetary value stored in an electronic device. Electronic money is designed to offer a cost-effective alternative to traditional means of payment such as credit cards and cash.

Bypass Originator AS, Contopronto AS and SmartCash AS were granted a concession to establish an e-money company in 2003. E-Solutions Group AS was awarded a restricted permit to set up a business in 2003, while Kopek AS' application was being considered by the Ministry of Finance at the turn of the year 2003/2004. Kredittilsynet recommended conditional approval in all cases.

Amendments to the Financial Institutions Act – covered bonds and securitisation

Amendments to the Financial Institutions Act in 2003 permit the securitisation of loan portfolios and permit mortgage credit institutions to issue covered bonds. The amendments took effect on 1 January 2004. Securitisation entails the sale of loans to a Special Purpose Vehicle that is established specifically for the purpose of purchasing the loan portfolio and issues bonds to finance the purchase. Holders of covered bonds will, through their security interest, be safeguarded should the mortgage credit institution that issued the bonds fail or be placed under public administration. This enables mortgage credit institutions to achieve a more favourable yield on their bonds. Other provisions are designed to secure bondholders timely payment. The requirements on covered bonds needed to be formulated in some detail in order to meet the international rating agencies' criteria for such rules. Kredittilsynet, in conjunction with the Norwegian Financial Services Association, has drafted a set of all-inclusive regulations which the Ministry of Finance has circulated to relevant bodies for comment.

Amendments to the regulations on primary capital certificates

In keeping with Kredittilsynet's recommendations to the Ministry of Finance, no changes were made to the provisions of the primary capital certificate (PCC) regulations governing the portion of the net profit available to PCC holders. Kredittilsynet highlighted the issue of treating PCC capital and other capital on an equal basis.

Kredittilsynet considered and recommended approval of a proposal from the Savings Banks Association that would enable equity premium reserves in PCC-issuing institutions to be used for bonus issues. The Ministry of Finance endorsed changes to the relevant provisions in the PCC regulations in accordance with Kredittilsynet's recommendation.

Kredittilsynet also proposed clarifications in the PCC regulations. In Kredittilsynet's view the regulations should clearly provide for equity premium reserves to be used to cover expenses incurred in an increase of PCC capital, for PCC capital to be reduced and for the amount of the reduction to be added to the equity premium reserves, subject to government approval.

Proposal from the Savings Banks Association and the Financial Services Association to merge the Savings Banks' Guarantee Fund and the Commercial Banks' Guarantee Fund

In November 2003 the Ministry of Finance circulated for comment a proposal from the Financial Services Association and the Savings Banks Association regarding merger of the two government bank insurance funds. A key rationale for the proposal was that continued separation of the two funds would come across as unreasonable in a situation in which the clearly dominant member in the respective funds, i.e. Den norske Bank and Gjensidige NOR were about to merge. In addition to the merger of the two funds, the proposal also entailed reducing the basis on which the funds' size and annual membership fee was calculated, as well as a transitional arrangement whereby savings Banks would be exempt from fee payment over a three-year period. The portfolio deriving from DnB would nevertheless be subject to payment of the ordinary fee, even though, after the merger, it would reside in DnB NOR Bank, which would be a savings bank. The transitional arrangements are justified with reference to the significant difference between the two funds in terms of paid-in assets. Whereas the Savings Banks' Guarantee Fund's capital measured about 82 per cent of the statutory requirement, the figure for the Commercial Banks' Guarantee Fund was about 41 per cent, both figures taken from the funds' accounts as at 31 December 2002.

Kredittilsynet's recommendation to the Ministry of Finance broadly endorsed the proposal from the two associations. The matter is expected to be put before the Parliament (Stortinget) during the spring session of 2004. Provided the Parliament endorses the proposal, the merger of the two funds will go ahead in mid-2004.

New rules on money laundering

The Act relating to measures to combat the laundering of proceeds of criminal activities etc. (Money Laundering Act) went into force on 1 January 2004. Revised regulations on identity checks and money laundering etc. (Money Laundering Regulations) were concurrently adopted. The above legislation replaces the money laundering provisions of the Financial Institutions Act sections 2-1 and 2-17 and associated regulations of 7 February 1994 no. 118. The new rules essentially implement the EU's second money laundering directive (Council Directive 2001/97/EC) and international standards in this field, particularly the FATF's special recommendations which include measures to combat terrorist financing. The rules significantly widen the range of persons required to give notification to include auditors, accountants, estate agents, lawyers, and dealers in valuable objects.

New chapter 4a "Foreign exchange activities" in the Financial Institutions Act

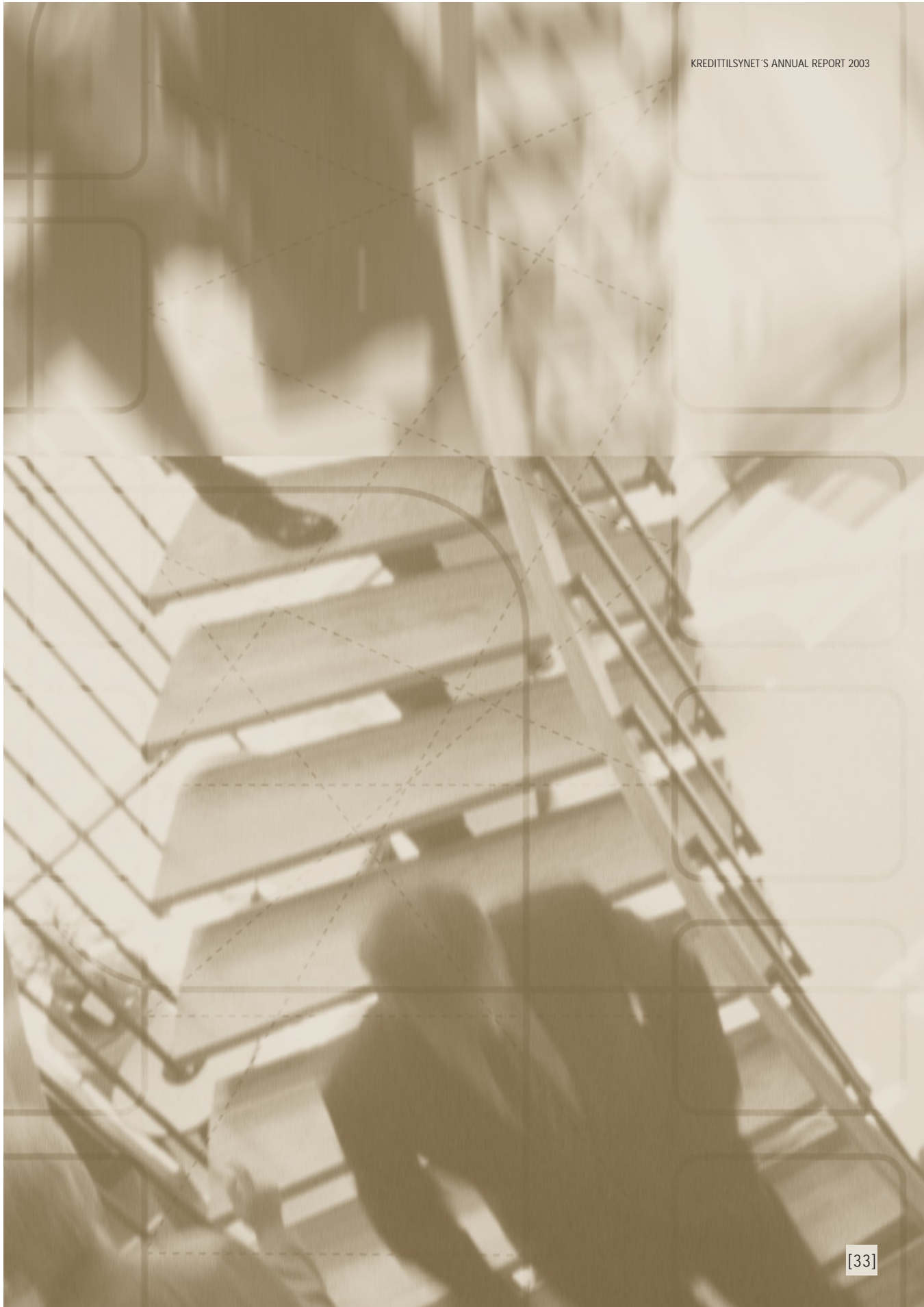
The Storting voted in June 2003 to repeal the Foreign Exchange Act, which provides the legal basis for the Foreign Exchange Regulations. A new chapter 4a entitled "Foreign Exchange Activity" was concurrently adopted for inclusion in the Financial Institutions Act. This chapter, which took effect on 1 January 2004, extends the right to engage in foreign currency operations, i.e. in international currency trading and money transfer services, by allowing finance companies and mortgage companies to carry on such business. Finance and mortgage companies whose activity is confined to foreign exchange business may also be granted such a licence. Banks and EU/EE branches of credit institutions that are entitled to engage in such business will retain this right. Establishing so-called independent foreign exchange offices, or undertakings that are not embraced by the ordinary legislation on financial institutions, will not be permitted.

Risk-based supervision

The introduction of a new capital standard, Basel II, and a new EU capital adequacy directive, was postponed until 2004. The timetable for implementation has so far not been changed, although it is not thought feasible to introduce the new capital standard until 2007. Hence Kredittilsynet has substantial leeway in deciding how supervision is to be organised in 2004, 2005 and 2006. The plan to step up staff numbers in preparation for new capital adequacy rules and risk-based supervision has been cut back due both to the postponement of Basel II and in light of structural changes in the financial industry.

The new risk-based supervision regime that was field-tested in 2003 will be phased in to the operative supervisory regime in the course of 2004. The modules for credit risk, market risk and liquidity risk will be brought into play in 2004. Training staff in the use of these modules will be a demanding process, and stepping up the thoroughness of each inspection may require the number of inspections to be reduced somewhat. The module for operational risk will be tested early in 2004, and will be put into operation once it has been evaluated. Work on the module for insurance risk has been delayed.

Possible organisational consequences of the introduction of risk-based supervision are being studied, and will be discussed early in 2004.



[Insurance]

Supervision of the insurance industry aims to ensure satisfactory financial strength, risk awareness, management and control of institutions and to promote financial stability and orderly market conditions. 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.

[Financial stability]

Kredittilsynet's macroeconomic surveillance includes analyses of insurance companies. Given the dominant position of conglomerates in the financial market, insurance companies are

also taken into account when monitoring financial stability. In addition, insurance companies are of major significance as institutional investors in the Norwegian securities market.

[Analyses]

Falling equity markets from 2000 onwards impaired insurance companies' results. Life insurance companies responded by reducing their share exposures and increasing their bond holdings, above all bonds held to maturity. While the equity market recovery starting in March 2003 improved life companies' financial revenues and substantially improved their results, the benefits from the recovery were curbed by a low share component at the start of the year.

Non-life insurance companies' results showed substantial improvement in 2003 compared with 2002. Several years' increases in premium revenues have improved their technical results. Like life insurance companies, non-life companies reduced their share component in 2002 with the result that the share market recovery in 2003 produced small gains. Even so, higher financial revenues contributed to improved results.

Pension funds' results showed a clear improvement following a very weak year 2002. Several large pension funds evaded substantial disinvestment in 2002 and entered 2003 with a relatively high share component. This brought sound results,

particularly for private pension funds, also compared with life insurance companies.

Macroeconomic analysis of the insurance industry focuses on insurance companies' profitability and financial strength in light of the expected trend in interest rates and the companies' asset composition. See also the report entitled *The Financial Market in Norway 2003: Risk Outlook*.

Analyses of insurance companies' profitability, financial strength and risk are prepared on a regular basis, along with analyses of topical problems on an ad hoc basis. Quarterly reports on results and financial strength are published on Kredittilsynet's website, and quarterly press releases illuminate the main trends.

Substantial emphasis was given to monitoring life insurance companies in 2003, partly by means of stress tests of the companies' vulnerability to falls in equity and fixed-income markets. Companies were in addition asked to submit extraordinary reports to cast light on their risk exposure and buffer capital.

[On-site inspection]

A main aim of on-site inspection of insurance companies 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.

Non-life insurance

Fifteen on-site inspections were carried out at non-life insurance companies in 2003.

Non-marine insurance business generally shows a substantial improvement in results thanks to several years' premium increases and in some cases substantially higher financial revenues. In the case of marine insurance, hull insurers are still experiencing difficulties after a period of intense competition, low premiums and heavy losses. Although premiums have shown a rising tendency over the past two years, this is far from sufficient to build up reserves to the level required. P & I clubs have also seen tough competition, and in some cases losses have been serious. In the case of the P & I club Skuld, this qualified

for dispensation from the solvency margin requirement from 20 February 2003 until 20 February 2004. Marine insurance companies are also benefiting from the general upturn in financial revenues, and by the end of the third quarter of 2003 Skuld was back in compliance with the solvency requirements.

Reinsurance

For the international reinsurance market, 2001 and in particular 2002 were the worst years in a very long time. Disbursements after the terrorist attack on 11 September 2001, natural disasters and large individual claims combined with a marked decline in international financial markets meant that even major international players incurred capital problems and were downgraded by the international rating agencies. Since the size of reinsurance provisioning is directly linked to insurers' ratings, the downgrading required several Norwegian companies to increase their provisioning to meet the higher credit risk this entailed.

Reinsurers have also tightened prices and terms, although this has largely had less impact on Norwegian players than was feared beforehand. However, some companies have had to accept a marked increase in their own risk. The equity market upturn has had a positive impact for the major reinsurance companies, and the third quarter of 2003 brought positive results.

Life insurance companies

Three on-site inspections were carried out at life insurance companies in 2003.

Compliance with the asset management regulations is a central theme of on-site inspections at life insurance companies and pension funds. Particular emphasis is given to institutions' buffer capital and their ability to withstand a value fall in the securities market. The amendment to the asset management regulations in 2001 imposes stricter requirements on institutions' boards when it comes to management and monitoring market risk. The new provisions include requirements as to stress testing and continual assessment of buffer capital's sufficiency in relation to actual exposure.

Life insurance companies and pension funds have outsourced much of their asset management to investment firms, and are consequently in less direct control of the operational risk associated with asset management. In light of this, Kredittilsynet considers it important for companies to maintain an up-to-date management agreement that clearly describes the management mandate and sets out the asset manager's reporting obligations. Moreover, Kredittilsynet considers that the outsourcer should retain sufficient competence and resources to ensure his ability to independently assess the adequacy of the asset manager's internal controls.

Pension funds

On-site inspections were carried out at two municipal and three private pension funds in 2003. Two inspections were thematic inspections related to outsourced asset management functions. The remainder focused on pension funds' overall management and control systems in the areas of finance, asset management and insurance-related matters.

The inspections revealed that the pension funds in question needed to improve their management and control systems. During the inspections attention was drawn to deficiencies that heighten operational risk and deficiencies which heighten risks inherent in asset management. Calculation of premiums was also shown to be flawed, heightening the risk of insufficient cover for the pension fund's obligations.

Between 1996 and 2002 inclusive, 60 inspections were carried out at pension funds. Based on these inspections, and in light of new regulatory amendments, Kredittilsynet issued a new synoptic circular in 2003 reporting experiences gained from on-site inspections at pension funds. The circular is intended to encourage pension funds to improve their operations.

Thematic inspections of outsourced asset management functions

In March 2003 thematic inspections of outsourced asset management functions were carried out at five selected insurance companies / pension funds and their respective external managers. Light was thrown on the need for competence/resources within the outsourcer's own organisation, on the asset manager's role as adviser and on requirements as to management agreements and investment mandates.

There are in general wide differences between pension funds and the largest insurance companies in their approach to outsourcing operative asset management functions. The difference is visible in the way the outsourced business is managed and controlled. Kredittilsynet's feedback to the inspected outsourcers included comments specific to the institution in question.

Insurance brokers

On-site inspections have been carried out at 31 insurance brokerages in the past seven years. Six of these were in 2003. During inspections in the past couple of years, attention has been drawn to the blurred distribution of roles and responsibilities between companies' administrations and management boards, and to weak financial positions. Moreover, defective routines for keeping client accounts and flawed routines for ensuring compliance with the obligation to provide information to policy-holders on the insurer's commission rates were brought to light.

[Individual cases]

The lending business of DNK

In 2003 Kredittilsynet levelled criticism at the board of Nordika Asset Management for the company's management of certain loan commitments on behalf of DNK. (DNK, or Den Norske Krigsforsikring for Skib, provides marine war risk cover). In November Kredittilsynet censured the DNK's board for poor-quality guidelines for its lending business. This censure referred above all to a loan to Njari Holding (controlled by Carl Fredrik Seim) with Paleum AS (controlled by Tor Arne Uppstrøm) who were jointly and severally responsible for the acquisition of Mjellem & Karlsen Gruppen (a shipbuilding group), secured on

the group's shares. The loan process was censurable on several counts. It was beyond the bounds of the investment mandate, which required security in the form of mortgage of real property, and it exceeded the loan volume limit. Moreover, the repayment plans were unrealistic, no credit analysis had been prepared, and provisions of the asset management regulations for insurance companies had been breached. Kredittilsynet expects the board of DNK to keep a closer watch on the company's asset management in future.

[Nordic supervisory collaboration]

If Skadeforsikring

The agreement between Finansinspektionen (the Swedish Financial Supervisory Authority) and Kredittilsynet on supervision of If Skadeforsikring was also signed by Försäkringsinspektionen (the Finnish Insurance Supervisory Authority) after Sampo's former non-life insurance business was taken over by If Holding on 1 January 2002. The agreement entitles Kredittilsynet to attend important meetings that Finansinspektionen holds with If and to take part in on-site inspections. Finansinspektionen will each year prepare a risk evaluation of the If Group, assisted by Försäkringsinspektionen and Kredittilsynet. Finansinspektionen

has classified the If Group as a conglomerate of importance for financial stability in Sweden.

Kredittilsynet participated, under Finansinspektionen's auspices, in three Nordic inspections of If Skadeforsikring Holding AB in 2003. Moreover, Kredittilsynet and Försäkringsinspektionen assisted Finansinspektionen in producing an updated overall risk assessment of the If Group for the first half of 2003. The assessment was presented to If's management in November 2003. Based on the document "Total Risk Assessment" of the If Group for 2003, a preliminary inspection programme was prepared for the If Group for 2004.

[Licensing and regulatory compliance]

Gerling Nordic Kredittforsikring AS – wind-up and transfer of insurance portfolio

Finding itself in a difficult financial situation, Gerling Nordic Kredittforsikring AS, a credit insurance company, decided to transfer its entire business to its sister company Nederlandsche Credietverzekering Maatschappij N.V. (NCM) and thereafter to wind up the Norwegian operation. The company was granted temporary dispensation from the minimum requirements as to contingency provisions and own capital. As recommended by Kredittilsynet, the Ministry of Finance authorised the wind-up and transfer of the company's insurance portfolio to the Dutch NCM.

ForbrukerForsikring AS

In July 2002 ForbrukerForsikring AS received the go-ahead to start a consumer insurance business. According to the licence terms, the licence would be withdrawn unless it were used within one year. The licence was not used by the deadline, and Kredittilsynet advised the Ministry of Finance to withdraw it.

Protector Forsikring AS

In line with Kredittilsynet's recommendation, the Ministry of Finance authorised Protector Forsikring AS to establish a non-life insurance company.

Norsk Legemiddelforsikring

Kredittilsynet recommended that the Pharmaceutical Liability Association should be authorised to establish a wholly-owned insurance company, Norsk Legemiddelforsikring (Norwegian Pharmaceutical Insurance), under the provisions of the Product Liability Act (No. 104 of 23 December 1988). This act stipulates the maximum indemnity for injuries incurred in the same calendar year and for injuries caused by the same substance in one or more pharmaceuticals (so-called serial injuries). Kredittilsynet recommended that authorisation be given on condition that Norsk Legemiddelforsikring, based on a timetable, built up sufficient buffer capital to enable it to meet the costs of a full serial injury and to concurrently meet the minimum capital and solvency margin requirements.

Ruling in court case against Halden kommunale pensjonskasse

After an inspection at Halden kommunale pensjonskasse (a municipal pension fund) in June 2001 had aroused Kredittilsynet's suspicion of a possible criminal offence, Kredittilsynet forwarded relevant material to ØKOKRIM which handed down a corporate fine of NOK 100,000. The fine was not accepted, and ØKOKRIM referred the case to Halden court of first instance which passed judgment against Halden kommunale pensjonskasse on 24 October 2003. The pension fund was sentenced as charged, and a new fine was fixed at NOK 200,000. In addition, the court required the pension fund to pay NOK 50,000 of the expenses of the case. The judgment was appealed by the pension fund, and is therefore not final.

Værdalsbruket

In June the Ministry of Finance granted the Storebrand Group dispensation to own AS Værdalsbruket (a major forest property) until 1 January 2004. Storebrand ASA asked the Ministry of Finance in February 2003 for confirmation that the Insurance Activity Act no longer prevented it from owning AS Værdalsbruket. The matter was referred to Kredittilsynet whose conclusion was that the excepting provisions that went into force on 1 July 2001 entitle Storebrand Livsforsikring to retain its stake in Værdalsbruket, provided the investment can be considered a prudent disposal of the life company's distributable reserves. The Ministry of Finance announced an identical conclusion on 14 November 2003.

Non-life insurance and the non-life sector account

The marked increases in occupational injury insurance premiums since 1997/1998 continued in 2002 and 2003. For the seven largest companies engaged in occupational injury insurance, of which one is a life insurance company, gross premium per insured rose by 15.6 per cent from 2001 to 2002. A further increase of 13-14 per cent is expected from 2002 to 2003.

Due partly to the premium increases, technical results have improved markedly in recent years. The claims ratio for 2002 was put at 97 per cent for these companies, which is less than half the level for 1998-1999. On the other hand substantial adjustments are still being made to estimated gross claims expenses referring

to previous years' occupational sickness insurances, whereas corresponding estimates for occupational accident insurances seem to have stabilised. Technical provisions in the occupational injury

insurance branch have grown sharply since such insurance became mandatory in 1990, this being related to the fact that it takes a long time (15–20 years) to conclude the individual claims years.

[Regulatory changes and submissions]

Measures proposed for more long-term management of pension insurance assets

On 16 September 2003 Kredittilsynet wrote to the Ministry of Finance proposing several measures designed to improve the possibilities for increased long-term management of pension insurance assets. The measures build on a report produced by a project group within Kredittilsynet. The report's main conclusion is that life insurance companies need to be allowed to build up increased buffer capital on the basis of customer assets, and that some of the present restrictions on the use of buffer capital should be removed.

Several bodies, including the Norwegian Financial Services Association and the Association of Norwegian Pension Funds, have in separate letters to the Ministry of Finance endorsed the main points in the report. The report was largely prompted by the fall witnessed in life insurance companies' returns and buffer capital in recent years.

The report focuses on how life insurance companies will adapt to the required interest rate guarantee. The project group points out that companies will necessarily wish to shield their equity capital, and assumes that equity capital will not be employed as a buffer to honour the interest rate guarantee. Hence if companies are to achieve a good long-term return on customer assets, the buffer capital they use to smooth out fluctuations in annual return will need to be generated out of customer assets.

The report points out that a variety of conditions and requirements attach to customer-generated buffer capital (supplementary provisions). This impairs the buffer function of supplementary provisions. The report proposes several changes designed to restore the significance of buffer capital. In the above letter Kredittilsynet calls for particular consideration to be given to the following proposals:

- Raising the maximum limit on supplementary provisions from 8 to 12 per cent of premium reserves.
- Enabling supplementary provisions to be used to cover negative financial return.
- Maintaining supplementary provisions as a rule as a solidary fund.

Companies with an occupational pension scheme in a life insurance company should, in Kredittilsynet's view, be given a greater opportunity to choose a long-term investment profile for their pension assets. The report outlines a proposal for a new type of contract between insurance companies and their client companies. This would allow voluntary agreements to the effect that a larger-than-usual portion of a company's pension assets are to be earmarked as buffer capital.

International accounting standard for insurance contracts

The International Accounting Standards Board (IASB) is develop-

ping an international accounting standard for insurance contracts (IFRS Insurance Contracts). The standard is due to be completed by 2008, although phase 1 is likely to have an impact on companies coming under the IAS Regulation adopted by the EU as early as in 2005. Kredittilsynet presented its submission to the IASB both as a consultative body in its own right and through its membership in the IAIS (International Association of Insurance Supervisors). Kredittilsynet is drafting changes to the accounting rules for insurance companies to achieve conformance with IFRS insurance contracts (phase 1 and 2), and is engaged in an active dialogue with relevant bodies in Norway.

Reduction of minimum guaranteed interest rate

In light of the low level of interest rates in Norway as elsewhere, the Ministry of Finance on 24 November 2003 amended the 1997 regulations on premiums and insurance funds in life insurance. The amendments were based on a proposal from Kredittilsynet and the ensuing round of consultation.

The most important change is that as from 1 January 2004 the premium on life insurance contracts cannot incorporate a minimum guaranteed interest rate in excess of 3 per cent per annum. This interest rate will apply to all collective interest rate and pension insurance contracts regardless of the date on which the contract was entered into.

In the interest of equal treatment of pension funds and life insurance companies, the Ministry of Finance did not act on Kredittilsynet's additional proposal to lower the minimum guaranteed interest rate to 3 per cent in the case of provisions associated with rights previously accumulated in private pension funds.

NOU 2002: 21 Cancellation etc., of insurance contracts

Kredittilsynet's submission does not support the proposal that policyholders should be entitled to cancel their non-life insurance in the insurance period in order to switch to another insurance company. This is because such an entitlement would result in higher costs for insurance companies which would be passed on to policyholders. Kredittilsynet believes there is little need for an arrangement which gives insurance customers a greater right than at present to cancel a policy during the period of insurance. Moreover, the proposal is thought unlikely to improve competitive conditions in the insurance market.

Change in the solvency margin rules for insurance companies

New EU directives bringing changes in the solvency margin rules for insurance companies were adopted in March 2002 with the deadline for implementation set at September 2003. Kredittilsynet's draft regulations on changes in the solvency margin rules were circulated for comment by the Ministry of Finance in May 2003. The closing date for submissions was set

at 1 August 2003, and the final amendments were ratified by the Ministry of Finance on 19 September 2003.

The amendments bring only marginal adjustments in the solvency margin requirements for Norwegian life insurance companies. For non-life insurance companies, however, the amendments herald substantial adjustments in several areas:

1. The absolute minimum solvency margin requirement is raised to EUR 3 million (EUR 2 million if the company takes out no form of liability cover). This will have repercussions for a number of small and midsize non-life insurance companies.
2. The basis for calculation of the solvency margin requirement is raised by 50 per cent for certain long-tail, volatile lines of non-life insurance business such as liability insurances, occupational injury insurances, P & I insurances and energy insurances.
3. Natural perils reserves will no longer be eligible for inclusion in solvency margin capital.

The Ministry of Finance has, however, incorporated generous transitional provisions in the solvency margin regulations in respect of point 2 and 3. The changes in the solvency margin rules will be effective as from the accounting year 2004.

New pension legislation – clarifications needed

A number of interpretation issues and other issues related to the pension legislation have been addressed by Kredittilsynet, and several have been referred to the Ministry of Finance for clarification. Law amendments are called for. This applies especially in respect of workers who were members of pension schemes before new legislation went into force.

The Ministry of Finance's understanding was that pension funds in life insurance companies and other pension funds would, with effect from 1 January 2003 at the latest, ensure that upon retirement workers would have their pension rights calculated on a linear basis with reference to their entire period of service in the company. The fact that provisions in most pension schemes are far from sufficient to guarantee this at the present time presents challenges both in terms of pension law and accounting.

Submission concerning changes in the pension scheme for nurses

The Ministry of Social Affairs has proposed changes to the Act on Pension Schemes for Nurses (No. 12 of 22 June) designed to widen the right to except nurses from mandatory membership in the public pension scheme. The proposal is motivated by a desire for greater competition in the market for occupational pensions. According to the proposal, the condition for dispensation would be that the employer operates a pension scheme (public or private) that can be considered to be virtually equal in qualitative terms to the pension scheme for nurses. For its part, Kredittilsynet did not consider defined-contribution pension schemes to be a sound alternative for nurses who are to be excepted from the public pension scheme for nurses. Kredittilsynet recommends the drafting of supplementary regulations to the Defined-Benefit Pensions Act that allow employers to operate a defined-benefit pension scheme without requiring employed nurses to be members of this pension scheme. Kredittilsynet points out that large-scale exemptions from mandatory membership will

undermine the public pension scheme for nurses.

In its submission the Ministry of Finance has expressed views that diverge from those of Kredittilsynet in significant respects.

Maintaining membership for personnel stationed abroad

Both the Defined-Benefit Pensions Act and the Defined-Contribution Pensions Act contain clauses to the effect that the requirement as to mandatory membership in the National Insurance Fund can be waived in regulations issued by the Ministry of Finance.

Kredittilsynet has drafted a submission which discusses in what cases and to what extent deviation from the requirement as to mandatory membership of the National Insurance Fund should be allowed, and has drafted joint set of regulations to the two acts. The submission and the draft regulations have been forwarded to the Ministry of Finance for further consideration.

The premise for membership for persons stationed abroad is that the assignment is intended to be temporary. It is therefore proposed that any such person must be entitled and/or obliged under his or her employment contract to take up or continue duties in Norway after completion of the assignment abroad. The proposal allows companies to operate a supplementary scheme to the ordinary pension scheme for the purpose of covering National Insurance Fund benefits that are lost due to the spell abroad.

Derivatives regulations

In December 2003 Kredittilsynet forwarded to the Ministry of Finance draft regulations on the use of derivatives in unit-linked pension schemes enjoying tax concessions. According to the proposal derivatives could only be used for hedging purposes and to improve efficiency provided there is no noticeable increase in risk. Kredittilsynet concurrently forwarded to the ministry draft rules on the use of derivatives in unit-linked insurance in general.

Paid-up policy register

In the autumn of 2003 Kredittilsynet participated in a working group set up by the Ministry of Finance to prepare a report containing draft regulations concerning a register of paid-up policies with the closing date for submissions set at 14 January 2004. The register is to contain information on paid-up policies and statements of accumulated pension rights, and will provide a basis for statistics and other research. The working group proposes that, if adopted, the register of paid-up policies should be financed by the users.

Report no. 10 from the Bank Law Commission

Kredittilsynet has presented its submission on NOU (Norwegian Official Reports) 2003: 11 from the Bank Law Commission on competition in collective life insurance which proposed two new chapters for inclusion in the Insurance Activity Act. Kredittilsynet's submission expressed support for the proposal's aim of creating a level playing field for all life insurance companies that offer pension schemes to the public sector, and for the intentions behind the proposal to simplify and clarify the rules governing transfers of insurance contracts. The new legislation was passed by the Storting on the basis of Proposition to the Odelsting No. 11 (2003–2004).

[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 profession 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 who mainly audit small and medium-size clients.

[Administrative activity in 2003]

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.

Table 10: Number of approved auditors

Auditors	31.12.2001	31.12.2002	31.12.2003	Approved in 2003
State authorised	1,998	2,107	2,177	89
Registered	2,826	2,899	2,977	149
Auditing firms	514	507	514	37

In 2003 Kredittilsynet recommended to the Ministry of Finance the inclusion of provisions in the Auditors Act enabling regulations to be issued on auditors' independence and objectivity. The proposal was accompanied by a draft version of such provisions. The proposal largely builds on Kredittilsynet's circular no. 23/2003 concerning non-audit services (i.e. consultancy) provided by auditors to their clients. See page 42 for further details.

In the autumn of 2003 the Ministry of Finance asked Kredittilsynet to review and comment on ØKOKRIM's proposal to amend the Auditors Act section 6-1 fourth paragraph on auditors' right to report, and to introduce an obligation to report suspicion of a criminal offence. Kredittilsynet plans to forward to the Ministry of Finance a draft version of such an amendment

Among Kredittilsynet's key responsibilities is authorisation of auditors. The number of authorised auditors and auditing firms in 2003 is shown in table 10.

along with a draft consultative document in the first half of 2004.

In June 2002 the Parliament (Stortinget) decided to introduce new study arrangements for colleges and universities. It was concurrently decided to introduce a new, national alphabetic marking scale. Under the provisions of the Auditors Regulations (No. 712 of 25 June 1999), Kredittilsynet is responsible for setting the grade required for approval as a registered auditor or state authorised auditor. In the autumn of 2003, after a round of consultation, Kredittilsynet set the grade required at C for both types of auditor training. In other words, candidates must score C or better in relevant subjects in order to qualify as a registered or state authorised auditor. A transitional arrangement has been established for candidates who have been graded under both systems.

[Supervisory activity in 2003]

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.

Supervisory cases handled in 2003 totalled 113, of which 19 were on the basis of on-site inspections. These were to a large extent follow-up inspections of auditors who had previously been censured by Kredittilsynet, and of auditors reported to Kredittilsynet, mainly by the tax authorities and liquidators.

Sixty-five complaints against auditors were received in 2003.

In 2002 and 2003 one thematic inspection was carried out with the focus on auditors' non-audit services to audit clients. It involved the five largest auditing companies and any company in their network providing other services, and was designed to investigate compliance with the Auditors Act's provisions on independence and objectivity. Non-audit services delivered to 50 major audit clients were examined. The inspections showed that both the scope and variety of additional services provided by auditors to their clients are substantial. Significant differences between auditing companies were also evident, in absolute as well as relative terms. Moreover, substantial variations were

noted within the individual auditing firm as regards the counseling component relative to the audit fee. In fact the total fee's non-audit component varied on average from one-third to twenty-eight times the audit fee over a period of two financial years.

Kredittilsynet found cause to censure eight statutory auditors for providing non-audit services to audit clients in contravention of the rules. A total of twelve audit clients were involved, all of which are either listed companies or of significant public interest. In one case the violations of the Auditors Act were considered sufficiently serious to warrant withdrawal of auditor authorisation. However, Kredittilsynet decided to confine its response to stern censure of the auditor in question since the auditing firm assumed a substantial responsibility in giving the statutory auditor the go-ahead to provide the non-audit services in question.

It was clear from the investigation of non-audit services that regulations in this area need to be clarified. To this end Kredittilsynet prepared circular no. 23/2003 concerning non-audit services provided by auditing firms to their audit clients. In its letter of 25 June 2003 to the Ministry of Finance, Kredittilsynet asked for a clause to be added to the Auditors Act enabling regulations to be issued on independence and objectivity as a basis for defining and delimiting auditors' non-audit services. The ministry asked Kredittilsynet to give the matter close consideration and to draft an enabling clause and

regulations. These were forwarded to the Ministry of Finance in December 2003.

In the autumn of 2003 all auditors and auditing firms were subject to off-site supervision. In addition to meeting statistical needs, off-site supervision is designed to gauge auditors' knowledge of and compliance with the Auditors Act and with generally accepted auditing standards. It also provided data which the Auditors Act requires to be present in the register of auditors. Processing of the information obtained will be completed in 2004.

Based on the "Commission Recommendation of 15 November on quality assurance for the statutory audit in the European Union: minimum requirements", Kredittilsynet in 2002 formalised an agreement with the Norwegian Institute of Public Accountants (DnR) on guidelines for coordinating quality control of auditors. The guidelines entail that as from 2003 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. The guidelines require Norway to publish a report on the control effort.

The report for 2003 (*DnR Quality Control Review 2003*) is published on Kredittilsynet's website at www.kredittilsynet.no/dnr_qualitycontrol2003.

Table 11: Auditor's licence withdrawn

	1997	1998	1999	2000	2001	2002	2003
State authorised auditors	0	0	1	4	0	1	0
Registered auditors	9	8	10	5	7	5	3
Approved auditing firms	–	–	–	–	2	8	1
Total	9	8	11	9	9	14	4

[External accounting services]

Kredittilsynet's tasks in relation to external accounting services comprise authorisation of individuals and firms in accordance with the legal requirements applying to this profession as well as registration and supervision. Supervision includes checking that 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 2003 the register of external accountants comprised 9,164 entities, of which 6,598 were individuals and 2,566 were firms.

There was a net increase in the number of authorised external accountants and authorised external accounting firms in 2003 as in 2002, but a decrease in the number of new authorised external accounting firms. The profession still features a large number of small firms although, particularly in recent years, there has been a trend towards larger entities and nationwide chains. See table 12.

Regulations

Kredittilsynet reviewed the External Accountants Act in 2001. In continuation of this process Kredittilsynet recommended terminating the entire authorisation scheme, or transferring it to a public agency other than Kredittilsynet. As an alternative Kredittilsynet recommended a law amendment to simplify its administrative tasks in relation to accountants (including the process of renewing authorisation every fifth year) which would reduce Kredittilsynet's caseload by about 1,500 per year. The amendment proposal was circulated for comment with the closing date for submissions set at 15 January 2002. The proposals were still being considered by the Ministry of Finance in 2003.

Unlawful external accounting activity

Kredittilsynet has noted that an appreciable number of accountants are engaged in external accounting activity without the requisite government authorisation. Unlawful external accounting activity is brought to light by reports to Kredittilsynet, through Kredittilsynet's processing of licence applications from individuals and through other investigations carried out by Kredittilsynet. Reports to Kredittilsynet of unlawful activity in 2003 numbered 38. Most of these reports came from the tax authorities.

In cases where Kredittilsynet believes there are grounds for suspicion of unlawful external accounting activity, the individuals in question are ordered to give an account of their

business. Where the suspicion is confirmed, Kredittilsynet orders its termination. Serious cases may be reported to the police. Three firms were reported to the police in 2003. Twelve firms were ordered to halt unlawful external accounting activities under the provisions of the Financial Supervision Act.

Supervisory activity in 2003

The primary aim of supervision is to ensure that providers of external accounting services observe a minimum standard of 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.

Kredittilsynet's on-site inspections in 2003 examined authorised accountants' business set-up in relation to Kredittilsynet's guideline circular no. 12/2000, and their conformance 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 varied widely in quality, and that in some areas material flaws seem to be a common feature of the profession.

A focal area of supervision in 2003 was external accounting services provided by the large nationwide external accounting firms/chains and mergers. Special attention was given to the organisation of the accounting business and to internal control, including ICT processes. Four IT inspections were carried out. Based on the inspections, Kredittilsynet's main conclusion was that the major external accounting firms/mergers had adjusted to the requirements imposed by Kredittilsynet in its guideline circular and to the industry standards that have been drawn up. However, Kredittilsynet noted that compliance with the formal requirements for documentation of ICT routines was deficient in the case of several groupings.

Forty-one authorised external accountants were examined in 2003, 31 on the basis of on-site inspections. In most cases it was a matter of following up external accountants who had previously been censured by Kredittilsynet or had been reported to Kredittilsynet by the tax authorities and other public agencies. Forty-one reports concerning external accountants were received in 2003 compared with 38 in 2002. Inspections based on a geographical sample were also carried out.

Table 12: Overview – external accountants

	31.12.2001	31.12.2002	31.12.2003	Authorised in 2003
Authorised external accountants	5,856	6,201	6,598	538
Authorised external accounting firms	2,377	2,415	2,566	196

Table 13: Number of sanctions – authorised external accountants

	2001	2002	2003
Withdrawal of licence	6	10	3
Warning	14	7	2
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 drafting regulations.

[Weaker earnings in the estate agency industry in 2003]

In the first half of 2003 the property market showed slower turnover in a number of localities, and keener competition for assignments in areas with a high concentration of estate agents. Reports filed with Kredittilsynet in the first half of 2003 showed a decline of 10 per cent, or NOK 164 million, in estate agencies' overall commission earnings compared with the first half of 2002. Property transactions also declined, by 2 per cent or about 1,000 in number, over the same period. Moreover, a marked

decline, of about NOK 4 billion or 6 per cent, was seen in property sale values in the first half of 2003 compared with the first half of 2002. At end-2003 542 licensed estate agency firms were in operation. Sixty-eight new licences were issued over the year, while 47 firms ceased their estate agency business. At year-end forty-seven housing cooperatives provided estate agency services without a licence, and 1,094 lawyers had furnished security to engage in estate agency.

[On-site inspection]

Kredittilsynet carried out 12 on-site inspections of estate agency firms and housing cooperatives in 2003. No lawyers were inspected. The number of inspections carried out in 2003 was lower than in the five preceding years when the average was just over 50 per year. The decline is the result of a major rule-drafting effort in 2003. The aim is to restore the number of inspections to their previous level in 2004. Inspections, which are an indispensable tool of direct supervision of the industry, are supplemented with agencies' semi-annual returns to

Kredittilsynet containing information on whether the basic requirements for carrying on estate agency are still met. Each return is accompanied by an auditor's declaration on the agency's treatment of client funds and reports the agency's financial situation. Inspections in 2003 prompted criticism of some agencies due to unsatisfactory case-handling routines and poor accounting documentation of treatment of client funds. No agency licences or personal licences were withdrawn in 2003.

[Equity capital situation]

The tendency for declining earnings witnessed in the trade in 2002 continued in 2003. With this in mind, Kredittilsynet asked estate agencies to file extraordinary reports of accounting data to permit closer monitoring of their financial position. Forty-nine agencies that were running a deficit and whose equity capital was below NOK 100,000 at mid-year were instructed to file such reports on a monthly basis until their financial position

improved. Nineteen agencies reported a negative equity capital position as of mid-2003, two more than in the same point in 2002. These agencies have by and large been able to continue their business since they demonstrated their compliance with the statutory requirements as to positive equity capital by strengthening their share capital.

[Sales of financial products via estate agencies]

Banks have acquired an increasingly prominent position in the estate agency industry over the past ten years. They lead the way in chain formation which is a marked feature of the trade, and now account for upwards of 40 per cent of all property transactions. 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. However, tight limits are imposed on financial products that can be offered by estate agencies. Under the estate agency regulations estate agents can only offer loan services not requiring a licence under other legislation.

In 2003 the Ministry of Finance decided an application from a bank-owned franchiser who asked Kredittilsynet for permission to expand franchisees' service offering to estate agency customers through the introduction of counselling and sale of financial services as part of the franchise concept. This specifically involved bank deposit products with associated services such as internet banking and card services along with counselling confined to such products. The franchiser's application was cast as an application for dispensation from the Estate Agency Act section 2-6, which prohibits estate agents from carrying on other business. According to the preparatory

works to the Estate Agency Act, banks had been permitted to engage in estate agency business on condition that it was hived off into a separate company, thereby avoiding a merging of banking services and estate agency services. Referring to this, Kredittilsynet did not find reason to grant exemption from the

restrictions on business set out in the Estate Agency Act beyond what already exists today, cf. above. The ministry also referred to the forthcoming revision of the Estate Agency Act which is expected to address the issue of owning and running other business.

[Estate agency industry brought under rules on money laundering]

Purchase and sale of real property is an attractive camouflage for money launderer. With this in mind the scope of the Money Laundering Act was extended in 2003 to include estate agents,

housing cooperatives' sales of cooperative flats and lawyers' estate agency activities.

[Amendments to the estate agency regulations]

The following amendments were made to the Estate Agency Act by an amending act of 13 December 2002:

- "Fit and proper" requirements were introduced for owners of estate agency firms.
- The ministry was empowered to issue regulations on bidding and on access to details of bids and bidders.
- Kredittilsynet was empowered to issue regulations on the obligations and responsibilities of the estate agent in charge, including the obligation to be present on the premises and to prepare an internal-control plan in writing.
- Own-account trading by estate agents and by lawyers who themselves carry on estate agency activities, employees of estate agency firms, as well as owners and elected officers who normally participate in the day-to-day business without being employed there, was prohibited. The prohibition extends to the above persons' close associates.

The above provisions will come into force once regulations on the following have been adopted:

- What details of the estate-agency-firm owner should be communicated to Kredittilsynet when an estate agency licence is applied for and when the size of a shareholding changes.

- What details of incoming bids should be disclosed, to whom and at what point in time.
- Concrete details of the time the person in charge is required to spend on the premises of the estate agency firm.
- Definition of close associates of parties prohibited from engaging in own-account trading and a statement of any exceptions from the prohibition.

Kredittilsynet drafted amendments to regulations in 2003, both in connection with the above amendments passed in 2003 and with existing provisions where Kredittilsynet saw a need for changes of substance as well as changes of a linguistic and editorial nature. These refer to the size of the security to be furnished for estate agency business and the introduction of a bid journal in which specific bid details have to be recorded and documented by the estate agent.

The draft regulations were circulated for comment on 1 September 2003 with the closing date for comments set at 1 November the same year. Extensive comments were received. The regulations on access to bids belong under the Ministry of Finance. Kredittilsynet aims to decide on the remaining amendments to the regulations in the first quarter of 2004.

Chart 6: Total commission earnings in the estate agency industry 1990-2002



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

[Purchase and collection of debt by the same agency]

After the amendment to the Debt Collection Act which took effect on 1 January 2002, agencies which purchase overdue debt and collect it themselves are now regarded as debt collection agencies in the eyes of the law. Hence these businesses also need a debt collection licence. Debt purchase and collection differs from ordinary debt collection in several respects.

Ordinary debt collection business has to be headed by someone with a personal licence, i.e. the person effectively in charge of the agency must have the competency to collect claims as evidenced by at least three years' practical experience, and must be of good character. Such agencies must maintain a positive equity capital position at all times and put up a guarantee for their business. The explicit requirements on debt purchase and collection businesses are far less comprehensive than in the case of ordinary debt collection agencies in that the sole requirement is that the person effectively in charge presents a police certificate and evidence of good conduct. Hence the scope of Kredittilsynet's ongoing supervision of debt purchase businesses is confined to ensuring that such businesses adhere to generally accepted debt collection standards when collecting purchased overdue claims, as indeed was the intention behind the regulation of such business.

However, in light of the events surrounding the collapse of the Finance Credit system, it should be pointed out that where debt is sold without prompt payment to the vendor, the transaction is regarded as an ordinary sale on vendor's credit. Should the purchaser of the claim go bankrupt, as happened with Finance

Credit Norge AS, the proceeds of any further sale are converted to a dividend in bankruptcy. The original vendor has no independent right of recourse to the sum received by a new purchaser, unless this is specifically agreed and implemented in a manner that secures the original vendor priority. Nor, as mentioned above, is there any legal requirement as to guarantee or financial position in the case of businesses that purchase and collect overdue claims, unless the company concerned is licensed to carry on financing business. In the latter case a separate debt collection licence is not required.

Finance Credit Norge AS' principal business of purchasing and collecting overdue claims was not under Kredittilsynet's supervision. This was because 2002 was a transitional year, and the deadline for applying for a debt purchase licence was 31 December 2002. The company was, however, licensed to engage in ordinary debt collection, which represented a minor part of its overall business. The loss of NOK 7.4 million inflicted on clients because recovered funds had, illegally, not been kept separate from the company's own funds, brought the debt collection guarantee of NOK 6.25 million into play. The guarantee almost covered the claim of the aggrieved clients.

At the end of 2003 ten agencies were licensed to purchase and collect overdue claims. Four of these started up in 2003. Kredittilsynet inspected the majority of them, focusing on collection procedures. Only three conduct business on any scale, and recovery takes place chiefly through the courts. No basis was found for criticising any agency's collection procedures.

[Increased concentration in the debt collection business]

At the end of 2003 123 ordinary debt collection agencies were registered, seven of which were housing cooperatives. Twenty were recent start-ups, while five agencies closed down during the year. Ten debt purchase and collection businesses were registered at year-end. Fifty-six personal licences were issued.

A process of gradual concentration has been witnessed in the industry whereby the largest agencies have increased their market shares by taking over existing firms and by securing new, sizeable debt collection contracts. Agencies able to supplement debt collection with a broad range of additional services are likely to have a competitive advantage. The large agencies in particular have intensified their development of such services. At the start of 2003 the seven largest ordinary debt collection agencies accounted for just over 80 per cent of total claims for collection. At the same point the same agencies accounted for about 70 per cent of new debt collection cases received in 2002.

These seven companies included Aktiv Kapital Norge AS and Inkassosentralen AS (owned by Nordea). Concentration in the industry increased further when Aktiv Kapital ASA acquired Inkassosentralen AS from Nordea Bank AS in the autumn of 2003. Aktiv Kapital concurrently purchased the bank's default portfolio containing claims worth NOK 3.7 billion.

The increasing concentration in the debt collection industry has so far not led to any reduction in the overall number of agencies which has remained more or less constant over the past five years. Although several companies cease operations each year due to acquisition or other reasons, interest in starting up such business persists – generally in niches with a limited number of clients. Eighteen debt collection businesses started up in 2003, the largest number since 1995, while five closed down.

[On-site inspection]

Seven on-site inspections were carried out at ordinary debt collection agencies in 2003, five at debt purchase and collection businesses. Kredittilsynet aims to increase the frequency of inspections ahead, particularly at recent start-ups of ordinary

debt collection business, since checks on such agencies have in some cases revealed serious flaws in accounting for and handling client assets.

[Weaker financial results in parts of the industry]

On 1 March 2002 the Government lowered the basic debt collection fee from NOK 670 to NOK 520. The debt collection fee will no longer be tied to the court fee, but will instead be pegged to the consumer price index. The fee at the end of 2003 was accordingly NOK 530. This entailed a substantial revenue fall for the industry, the full effect of which was only felt in 2003 since the new rates applied to cases where the claim fell

due after 1 March 2002. This may be the reason for the high share of debt collection agencies that were running a deficit as of mid-2003: 31 agencies, or 28 per cent of the total, reported a negative operating result at this point compared with 18 one year previously.

[New board for complaints against debt collection services]

As a result of amendments to the Debt Collection Act that lay the basis for government 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 debt collection services complaints board. The board went into operation on 1 April 2003. Kredittilsynet requires agencies wishing to obtain or renew a debt collection licence to join a complaints board arrangement. The complaints board only handles complaints from consumers. In order to have a complaint handled the complainant must have raised the matter with the debt collection company without an amicable solution being reached. Kredittilsynet received 315 written complaints against debt collection agencies in 2002.

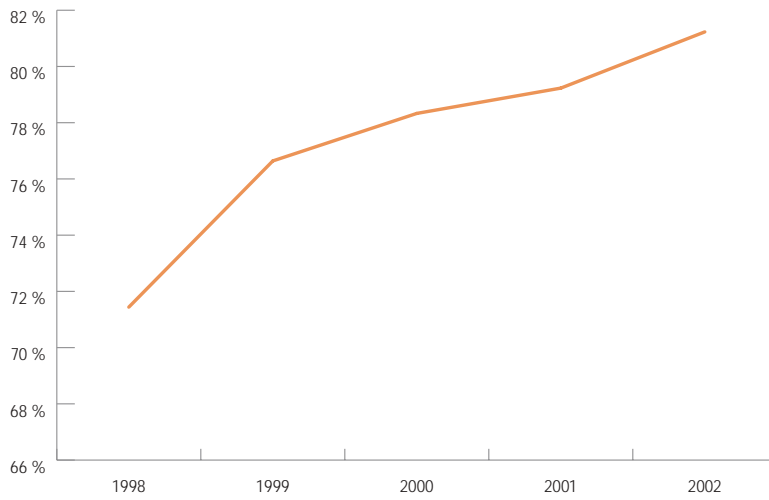
Since Kredittilsynet's remit does not include dealing with complaints of a routine nature, such complaints are now appropriately referred to the complaints board. Kredittilsynet receives a copy of all decisions rendered by the complaints board, providing it at all times with a basis on which to contemplate supervisory responses in cases where the complaints board reveals gross contraventions and/or systematic flaws in a debt collection agency's routines. The Debt Collection Services Complaints Board has become widely known in a short space of time. It received 171 complaints in 2003, whereas complaints to Kredittilsynet that were taken up for supervisory treatment that year were down to 186. Sound contact and liaison routines have been established with the complaints board's secretariat.

["Fit and proper" assessment of debt collection agency personnel]

In a letter sent to the Ministry of Justice dated January 2003, Kredittilsynet recommended the introduction of "fit and proper" requirements for members, the general manager and owners of debt collection agencies to ensure that the business is run in

accordance with law and generally accepted debt collection practices. The Ministry of Justice circulated the proposal for comment with the closing date for submissions set at 1 November 2003.

Chart 7: Seven largest agencies' share of total claims for recovery



Source: Kredittilsynet

[Other issues]

[Money laundering]

New rules on laundering the proceeds of crime etc. The Act relating to measures to combat the laundering of proceeds of criminal activities, etc. (Money Laundering Act) went into force on 1 January 2004. Regulations on identity control and measures against the laundering of criminal proceeds were concurrently passed. The above legislation replaces the money laundering provisions in the Financial Institutions Act and associated regulations. The new body of rules essentially implements the EU's second money laundering directive (Directive 2001/97/EC), along with international standards in this field, notably the FATF's special recommendations including measures against terrorist financing.

Large profits from criminal acts create an increasing incentive to legitimise ill-gotten gains through money laundering which disguises their illegal origin. Combating and preventing money laundering is therefore an important tool in the fight against financial crime. Enterprises outside the financial sector are being used for money laundering purposes to greater degree than previously. The new rules require auditors, accountants, estate agents, lawyers and dealers in valuable objects (e.g. cars and antiques) to report to ØKOKRIM any suspicion that a client or customer is engaged in money laundering. So far only banks and other financial institutions have been required to do so. See also the chapters on *Banking and finance*, *Auditing*, *External accounting services* and *Estate agency*.

[Prudential safeguards and preparedness]

Maintaining a preparedness to deal with problems that may arise in the financial sector is defined as one of Kredittilsynet's objectives. The aim is to respond to possible crises in enterprises, infrastructure and markets with measures that limit harmful impacts and consequences for users, enterprises and owners to the greatest possible extent. This includes monitoring compliance with relevant statutory requirements. Priority is given to crisis preparedness focusing on activities etc., which could threaten financial stability. Preparedness plans have been drawn up in all areas where such a threat is possible. These plans were reviewed and updated in 2003, and were presented to Kredittilsynet's Board of Directors at a seminar in October. Prudential safeguards and preparedness are attended to in conjunction with the annual updating of the agency's activity planning regime.

Kredittilsynet carried out a new risk analysis in 2003 focusing on the financial industry's use of information and communication technology. The report's findings are followed up on in the ongoing supervisory effort.

A new overarching contingency plan was drawn up in 2003 for dealing with any crisis arising within Kredittilsynet's own organisation. A number of internal plans addressing safeguards in the broad sense already exist. These are also reviewed annually in connection with the review of activity planning.

[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 2003 361 appeals were received compared with 316 in 2002. The penalty was waived entirely or in part in 170 cases (i.e. 47.1 per cent) compared with 36.5 per cent in 2002. The number of incoming appeals was as all of 77 per cent higher in 2003 than in 2002.

Kredittilsynet approached the Ministry of Finance in the autumn of 2003 to discuss the content of the rules governing late filing penalties and practice as regards collecting such penalties.

[Kredittilsynet's international activities]

Kredittilsynet's international involvement in 2003 was marked by high activity and active participation in several international forums. Work on the coordinating rules and supervisory practice on a global basis continued at a brisk pace. Development of international accounting standards and other supervisory standards involved all departments of Kredittilsynet. Above all, drafting of regulatory provisions for the securities sector within the EU/EEA was intensified.

[Cooperation between integrated supervisory authorities]

Since 1999 supervisory authorities with integrated supervision of the financial sector have met each year to discuss administrative and technical matters of common interest. In 2003 the conference of integrated financial supervisors was hosted by the UK Financial Services Authority (FSA)¹. The integrated supervision model continues to gain ground. Ireland established an integrated supervisory regime on 1 May 2003 and Belgium on

1 January 2004. Liechtenstein and the Netherlands are in process of establishing integrated regimes.²

In keeping with international practice, it was decided to change Kredittilsynet's English name to The Financial Supervisory Authority of Norway with effect from 1 January 2004.

[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 will itself apply for membership in the course of 2004. Kredittilsynet is also a member of the Enlarged Contact Group for Supervisors of Collective Investment Funds (ECG) which meets once a year.

Supervision of the insurance industry

The International Association of Insurance Supervisors (IAIS) is engaged in developing international principles for supervision of insurance business, and in improving supervisory methods through international cooperation. IAIS' general meeting adopted revised Insurance Core Principles at its tenth annual conference in Singapore. The new principles embrace issues such as transparency of the supervisory process, assessment and management of risk, consumer protection, and anti-money laundering measures. In addition, new standards were adopted for supervision of the reinsurance industry. The IAIS aims toward common guidelines for capital adequacy and solvency assessment. Four papers presented at the Association's General Meeting are building blocks for this work. They addressed quantification and assessment of insurance liabilities, use of actuaries as part of a supervisory model, solvency control levels and stress testing. Kredittilsynet's Director General, Bjørn Skogstad Aamo, was elected to the IAIS' Executive Committee in 2002. Kredittilsynet is represented on several IAIS subcommittees as well as the technical committee, which has overarching responsibility for standard setting.

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.³ Kredittilsynet receives relevant documents from the Committee and is invited to comment on them, and to take part in some of the Committee's activities. The Basel Committee has worked for some time on revising the international rules for calculating banks' capital adequacy, which will also apply within the EU/EEA (see page 30 in the chapter entitled *Banking and finance*).

Cooperation on financial stability and macroeconomic surveillance

Developments in financial markets have led to closer international collaboration on financial stability and macroeconomic surveillance. In conjunction with Norges Bank, Kredittilsynet had two contact meetings with the European Central Bank (ECB) in 2003. 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.

Money laundering and terrorist financing

As part of the fight against money laundering, Kredittilsynet attends the meetings of the Financial Action Task Force on Money Laundering (FATF) which develops international standards for anti-money laundering measures. In June and July 2003 the FATF resolved to revise its 40 recommendations on money laundering. Kredittilsynet participated in all working group meetings prior to the revision as well as in the plenary session as part of the Norwegian delegation.

Kredittilsynet has participated in the work on anti-terrorist financing measures at both national and international level. It participates in the FATF Terrorist Financing Working Group and collaborates with the United Nations. Kredittilsynet is currently participating in the European Council's evaluation of Bulgaria and the Ukraine on anti-money laundering measures.

¹ The meeting was attended by the supervisory authorities from Australia, Austria, Belgium, Canada, Denmark, Germany, Hungary, Iceland, Ireland, Japan, Korea, Norway, Singapore, Sweden and the United Kingdom.

² A number of East European countries have also merged their supervisory authorities (among them Latvia and Estonia).

³ The Basel Committee comprises representatives for the banking supervision authorities and central banks in the following countries: Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States.

[Cooperation within the EEA]

Changes in EU committee structure

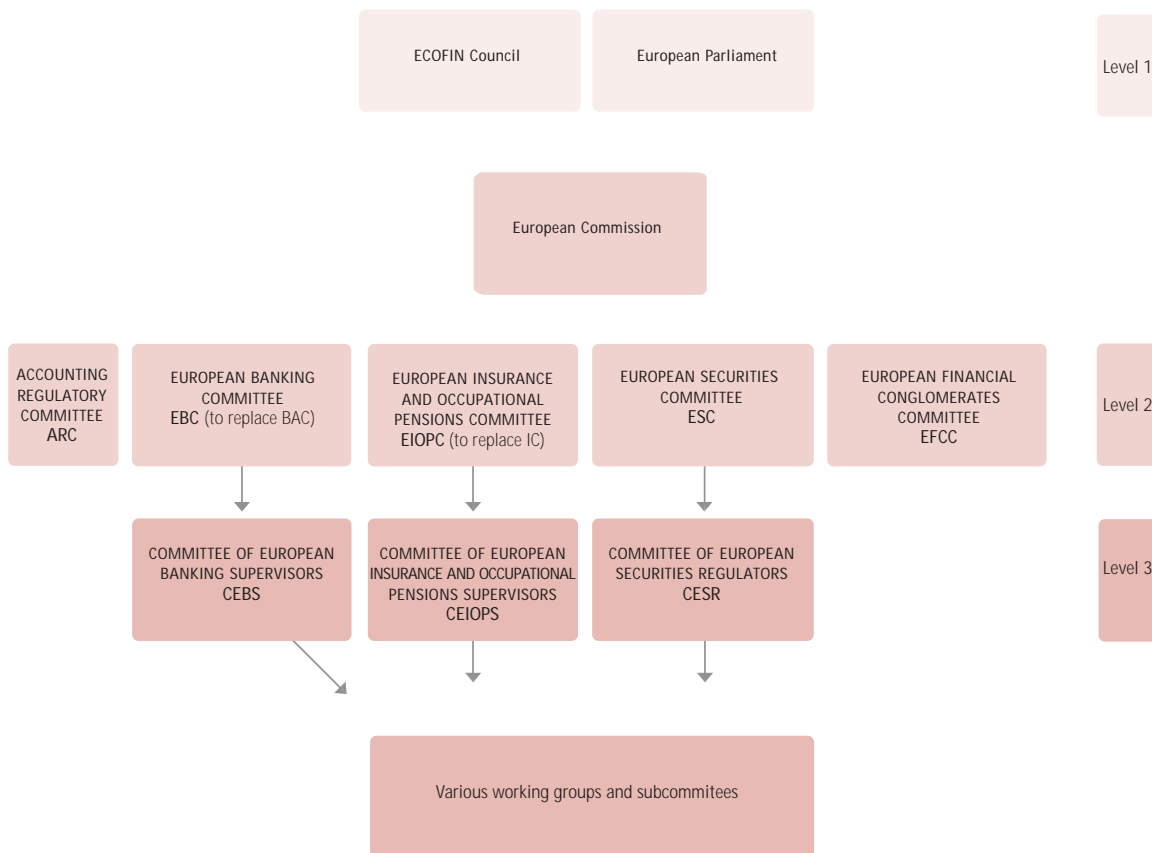
In the wake of the establishment of new committees for supervision and regulation of the securities sector in the EU, it has been decided to introduce a similar model in the areas of banking and insurance.

Under the new procedures, the formulation and enforcement of rules within the EU is conducted at several levels (cf. chart 8). Framework principles (Directives or Regulations) proposed by the European Commission are adopted by the European Council and the European Parliament at Level 1. These acts may define implementing powers for the Commission on Level 2. The supervisory committees at Level 3 draft implementing measures which are thereafter adopted by the European Commission in

consultation with the committees on Level 2 (finance ministries). The supervisory committees are liaison bodies for the supervisory authorities. They also act as advisory committees to the European Commission and the committees at Level 2 and aim towards consistent follow-up and enforcement of community law in member countries.

The Ministry of Finance attends meetings of Level 2 committees in an observer capacity. Kredittilsynet is entitled to attend as adviser to the Ministry. Kredittilsynet is an observer at committee meetings on Level 3. The new committees and expert groups are expected to require increased resources and effort on the part of Kredittilsynet in the fields of banking and insurance, as they have in the securities area.

Chart 8: EU financial architecture



Increased cooperation with the financial industry and consumers

The EU's new committee structure presupposes closer collaboration between public agencies and the financial industry, as well as with consumers and other users to be consulted on the development of new rules. Kredittilsynet will review its relations with consumers and the financial industry in light of its participation in the European bodies.

Supervision of the securities market within the EEA

The European Securities Committee (ESC) and the Committee of European Securities Regulators (CESR) were established in June 2001, in line with the recommendations of the Lamfalussy Report. In 2003 it was decided to widen the functions of the ESC and CESR to include regulation and supervision of securities funds, thereby taking over the functions of the UCITS' Contact Committee. The Ministry of Finance represents Norway on the European Securities Committee, while Kredittilsynet attends CESR. CESR acts as an advisory committee to the ESC and the European Commission, and works for consistent implementation of community law in member countries. Participating in CESR working groups was resource-demanding for Kredittilsynet in 2003. These working groups draft rules on market abuse, investment services and on simplification and standardisation of prospectuses. One such group is looking into the possibility of harmonising clearing and settlement procedures. 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).

The first legislation proposed by the Commission under the Lamfalussy procedures was adopted in December 2003. This comprised two Directives and a Regulation pertaining to the Market Abuse Directive. Further proposals pertaining to the Market Abuse Directive and the Prospectus Directive will be adopted in the course of 2004.

Supervision of banks and financial institutions

A new banking supervisory committee, the Committee of European Banking Supervisors (CEBS), was established on Level 3 with effect from 1 January 2004. Kredittilsynet will attend CEBS meetings in a non-voting capacity. The European Commission has also set up a new committee on Level 2, the European Banking Committee (EBC), to replace the Banking Advisory Committee on which the Ministry of Finance and Kredittilsynet have alternated as Norway's representatives.

Kredittilsynet also attends meetings of the liaison body Groupe de Contact (GdC) together with banking supervisors from other EEA countries. Groupe de Contact, a forum for information exchange on a series of supervisory issues, is a CEBS subcommittee from 2004 onwards. Groupe de Contact provides input to the European Commission on the formulation of the new Capital Adequacy Directive. Much work has been done in recent years to achieve supervisory convergence with a basis in the existing rules and the forthcoming capital adequacy rules.

While attending the Conference of Integrated Financial Supervisors in Oxford in June 2003, Kredittilsynet visited the Financial Services Authority in London (in keeping with Kredittilsynet's bilateral MoU) to exchange information on matters relating to banking supervision, including that of DnB's branch in London.

Supervision of insurance business

The Ministry of Finance and Kredittilsynet have so far alternated in representing Norway at meetings of the EU's Insurance Committee (IC) which is to be converted to a new Level 2 committee known as the European Insurance and Occupational Pensions Committee (EIOPC). On 24 November 2003, after an interim period, the Conference of EU Insurance Supervision Authorities was converted to the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). As an observer in CEIOPS, Kredittilsynet has played an active part in establishing this new committee. Kredittilsynet has proposed a system for monitoring financial stability in the insurance sector, and will participate in the working group that is to continue the work on statistics and financial stability. Kredittilsynet chairs a working group charged with coordinating the supervision of insurance groups engaged in cross-border activities, based on a multilateral MoU.

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 2003 the EU adopted a Regulation requiring EU states to introduce international accounting standards based on certain principles. The Regulation is incorporated in the EEA agreement, and work on implementing into Norwegian law is in progress. A new body, the Accounting Regulatory Committee, responsible for assessing the new accounting standards, has been established in pursuance of the Regulation. Kredittilsynet attends the committee's meetings in an observer capacity.

⁴ Undertakings for Collective Investment in Transferable Securities

EU and EEA enlargement

A far greater number of countries are now attending EU meetings as a result of the enlargement of the EU and the EEA. After enlargement, due in 2004, applicant countries will be on an equal footing with existing members, and it is uncertain how Norway's participation and influence will be affected. Kredittilsynet participates in EFTA's Working Group on Financial Services and EFTA's Working Group on Company Law which are working groups under EFTA's Subcommittee II charged with coordinating viewpoints and with incorporating legislative acts in the financial sector in the EEA agreement.

Nordic supervisory cooperation

Nordic cooperation remains a priority despite the increasing cooperation both within the EU and EEA framework and on the global level. In addition to joint annual meetings of Nordic financial supervisors at director general and deputy director general level, Kredittilsynet's representatives attended several meetings with their Nordic counterparts to collaborate on the supervision of Nordic financial conglomerates. The Nordea group's plans to convert its Norwegian subsidiary to branch status have prompted increased collaboration between the supervisory authorities, particularly with an eye to future supervision of the Nordea group and distribution of supervisory responsibilities.

Chart 9: International meetings attended by Kredittilsynet 1999–2003

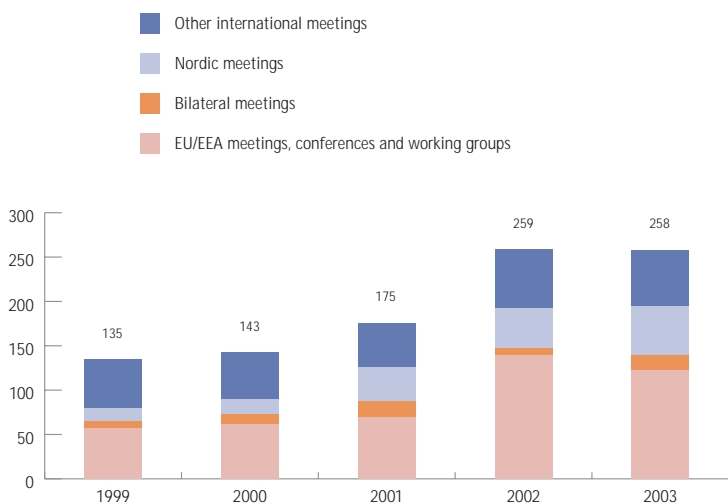


Table 15: International organisations and EU/EEA-related committees in which Kredittilsynet participates as a member or observer

Banking/finance

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

Insurance

- IAIS (International Association of Insurance Supervisors)
- OECD's Insurance Committee
- EU's Insurance Committee
- CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors)
- 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
- European 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, real 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.

The Financial Market in Norway 2003

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

This year's report is available on paper from Kredittilsynet, and in electronic form at www.kredittilsynet.no.

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