



FINANSTILSYNET

THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

ANNUAL REPORT 2017



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REPORT BY THE CHAIR AND THE DIRECTOR GENERAL



REPORT BY THE CHAIR AND THE DIRECTOR GENERAL

Finanstilsynet's overriding mission is to contribute to financial stability and well-functioning markets. New supervisory tasks and new European legislation make it all the more important for Finanstilsynet to focus its use of allocated resources on achieving the highest possible overall mission achievement. Within the remit assigned to it in the Ministry of Finance's annual letter of allocation, Finanstilsynet's emphasis is on creating sufficient space for its core activity, namely risk-based supervision of firms and markets. Finanstilsynet has in the main discharged its tasks in line with the Ministry's letter of allocation and the plans made for its activities.

The regulation of Europe's financial sector is very wide-ranging and constantly evolving. This makes great demands on Finanstilsynet's follow-up in the Norwegian financial market, its participation in European supervisory cooperation and its assistance to the Ministry of Finance in transposing European regulation into Norwegian law. Finanstilsynet considers it important to ensure that designing and enforcing legislation does not unduly displace its core activity.

The oil price fall in 2014 hit oil-related sectors hard. However, contagion effects to the wider economy have been limited, and in 2017 growth in the Norwegian economy picked up. A weaker Norwegian currency, fiscal policy stimuli, low interest rates and high household borrowing have helped to support activity levels. Developments in the mainland (non-oil) economy are reflected in good earnings among the banks. Net interest income rose, and overall loan losses declined slightly from 2016 to 2017 as a result of lower write-downs on loans to oil-related industries. Payouts in the form of dividends etc., have risen, and a smaller share of net profit is retained than in previous years. Even so, capital adequacy again improved slightly in 2017, putting banks in a better position to cope with a downturn.

High household debt and high house prices pose a significant threat to financial stability. House prices have fallen somewhat since spring 2017. Thus far the price fall represents a moderate correction after a period of very high price growth, and house sales have held up. The future path of the housing market is uncertain. The risk of a renewed rise in prices is present, driven by economic upturn, continued low interest rates and easy access to credit. Higher house prices will increase the risk present in the financial system.

The Ministry of Finance's residential mortgage lending regulations were tightened as from 1 January 2017, contributing to tighter lending practices. Despite this, and the turnabout in the housing market, the growth in household debt has continued. Household debt is growing faster than household incomes, lifting the debt-income ratio from an already record-high level. Household debt is dominated by residential mortgages, and lower house prices will over time help to reduce debt growth to a more sustainable level.

The market for consumer lending features extensive marketing and numerous fledgling banks with high growth ambitions. Consumer credit accounts for a small portion of household debt and therefore has limited bearing on financial stability. However, the continued strong growth of this part of the credit market gives cause for concern since such lending can inflict heavy burdens on vulnerable households. Banks' reputation may suffer, and the credit risk may be underestimated. In 2017 steps were taken to help to improve consumer protection and reduce risk. For example the Ministry of Finance, in line with Finanstilsynet's recommendation, adopted regulations on invoicing of credit card debt, and Finanstilsynet issued guidelines on consumer lending practices.

Last year saw new wide-ranging regulations in the securities area were introduced. The European market infrastructure regulation (EMIR) was transposed into Norwegian law, entering into force on 1 July 2017. The regulation covers mandatory clearing of trading in unlisted (OTC) derivative contracts, mandatory reporting of derivative trades and common rules for central counterparties and trade repositories. Finanstilsynet monitors compliance with these rules by market participants both inside and outside the financial industry.

In December Finanstilsynet adopted interim regulations transposing the EU's regulation and new directive on securities trading, MiFIR and MiFID II. The regulation and the directive are yet to be incorporated in the EEA Agreement. In order to ensure that Norwegian investment firms and Norwegian trading venues enjoy the same rights as their European competitors, it was important for European law to be reflected in Norwegian law when the legislation entered into force in the EU at the turn of 2018.



MiFID II introduces new, wide-ranging regulation of trading in commodity derivatives. Under the legislation Finanstilsynet has established limits on the size of derivative positions that may be held in contracts with commodities, such as electricity supply, as the underlying. Finanstilsynet has also laid the basis for ongoing reporting of derivative positions, which will be followed up on as part of the supervisory effort.

Lower interest rates and rising longevity require larger reserves in pension schemes offering guaranteed benefits. The increased risk faced and the increased need for reserves are better reflected in the new requirements of the Solvency II framework than in earlier solvency requirements. Overall, Norwegian life insurers have responded to these challenges by reducing costs, accumulating reserves through profit retention and aligning investment risk to their risk-bearing capacity. The industry now meets the new solvency requirements by a satisfactory margin and is in a position to pay dividend to investors.

However, Silver Pensjonsforsikring AS was not in a position to meet the new requirements under Solvency II. The Ministry of Finance granted the company dispensation from the solvency requirements as from 1 January 2016 to allow it to find a solution. When it proved unable to do so, the Ministry of Finance resolved in February 2017, in keeping with Finanstilsynet's recommendation, to place Silver into public administration. The administration board appointed by Finanstilsynet found that the policyholders' interests were best safeguarded by converting paid-up policies with a guaranteed return into paid-up policies offering a choice of investment options and transferring policyholders to another life insurer. While this solution entailed the loss of owner capital, the value of the insurance claims (after conversion) at the time the company was placed into public administration could be preserved with the addition of some return in the period up to transfer of the portfolio to Storebrand Livsforsikring AS in January 2018. This solution was heavily endorsed by Silver's policyholders, and the public administration does not appear to have affected public confidence in the life insurance industry.

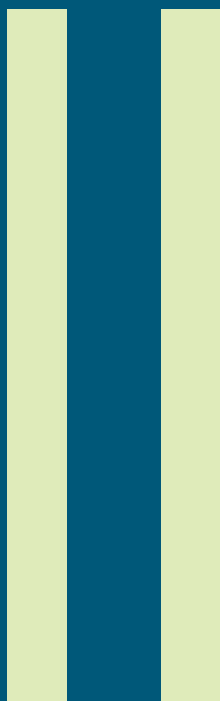
New private pension saving is now dominated by defined contribution schemes. These do not provide lifelong benefits and the individual bears the return risk and thus the risk with respect to future supplementary pensions. Defined contribution pension assets, comprising both collective and individual contracts, are substantial in volume and growing rapidly. Finanstilsynet will accordingly give much emphasis to consumer protection in its supervision of defined contribution pension products and managers of mutual funds.

Technological innovation and digitalisation have for a number of years enabled considerable efficiency gains to be made in the financial industry. Digitalisation and new business models can be expected to continue to leave their imprint on the industry in the years ahead. Finanstilsynet will facilitate the use of technological innovation and digitalisation by traditional financial industry actors and new actors with new business models. At the same time it is important to meet society's need for financial stability, secure services and good customer protection. To achieve this, equal risks should be treated equally, regardless of business model. In its regulatory enforcement and supervisory practices Finanstilsynet will therefore emphasise the obligation of actors with new business models to comply with relevant regulatory requirements set for the services they offer.

Oslo, 27 February 2018

Endre Skjørestad
Board Chair

Morten Baltzersen
Director General



INTRODUCTION AND MAIN FIGURES



INTRODUCTION AND MAIN FIGURES

Finanstilsynet is responsible for the supervision of banks, finance companies, mortgage companies, e-money institutions, payment institutions, insurers, pension providers, insurance intermediaries, investment firms, securities fund management companies, managers of alternative investment funds, regulated markets (incl. stock exchanges), securities depositories, real estate agencies, debt collection firms, external accountants and auditors. Finanstilsynet is also responsible for prospectus control and it oversees listed companies' financial reporting and conduct in the securities market.

Basis in law

Finanstilsynet's mission is set out in the Financial Supervision Act (section 3):

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

Strategy

Every four years Finanstilsynet reviews the strategy underlying its activities. The strategy is an important basis for ongoing prioritisation and management of Finanstilsynet's activities and, together with the letter of allocation from the Ministry of Finance, is the basis for Finanstilsynet's annual activity plans. The strategy for the period 2015–2018 was established by Finanstilsynet's Board of Directors on 14 December 2014.

Main mission

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

Operational goals 2015–2018

To simplify operationalisation of the main mission and evaluation of activities, five operational goals have been formulated:

1. Financially sound and well-capitalised financial institutions
2. Robust infrastructure
3. Investor protection
4. Consumer protection
5. Effective crisis management

Management

Finanstilsynet's Board of Directors has by law the overarching responsibility for Finanstilsynet's activities. The Board has five members. Members and alternates are appointed by the Ministry of Finance for a term of four years.

The day-to-day management is in the hands of the Director General who is appointed by the King in Council for a period of six years. Morten Baltzersen – Director General of Finanstilsynet since 15 August 2011 – was reappointed Director General for a new six-year term starting on 15 August 2017. The Director General confers with a management team consisting of the directors of the supervisory departments and the Administration Department, the General Counsel and the Communications Director.



Composition of the Board of Directors in 2017:

Endre Skjørestad

chair
Attorney-at-law / partner –
Haver Advokatfirma AS

Giuditta Cordero-Moss

deputy chair
Professor – Department of Private Law,
The Faculty of Law, University of Oslo

Mette Bjørndal

board member
Professor – Department of Business
Management and Science,
NHH Norwegian School of Economics

Eirik Wærness

board member
Director / chief economist – Statoil ASA

Arne Skauge

board member
Retiree, previously Managing Director of the
Norwegian Financial Services Association

Thorunn Falkanger

first alternate
Senior lecturer – Department of Law and
Governance, BI Norwegian Business School

Kjetil Wibe

second alternate
Attorney-at-law, Advokatene Rege & Wibe

Sindre Weme

observer
Director, Banking Analysis – Norges Bank

Henrik Borchgrevink

alternate observer
Director, Macroeprudential Department –
Norges Bank

Board of Directors

Two members elected by and from among the employees supplement the Board when administrative matters are dealt with. Up to 1 March 2017 the following represented the employees:

Senior Supervisory Adviser
Anders S. Hole

Senior Supervisory Adviser
Gry Evensen Skallerud

Their alternates were Special Adviser
Inga Baadshaug Eide and Senior Executive
Officer **Anne Nybohm**.

As from 1 March 2017 the following
represented the employees:

Senior Supervisory Adviser
Inga Baadshaug Eide

Special Adviser
Johan Fredrik Øhman

Their alternates were Special Adviser
Hege Bunkholt Elstrand, Senior Adviser
Kaja Solli and Special Adviser **Elise Ødegård**.

Eleven ordinary board meetings and two
extraordinary board meetings by telephone
were held in 2017.

The Board decided 31 administrative matters
and 74 supervisory matters. The Board
received information in writing on a further
35 administrative matters and 41 supervisory
matters. The Board also receives a verbal
briefing on relevant matters.

From the left:
Arne Skauge
Giuditta Cordero-Moss
Inga Baadshaug Eide
Eirik Wærness
Mette Bjørndal
Thorunn Falkanger
Endre Skjørestad
Kjetil Wibe
Johan Fredrik Øhman
Henrik Borchgrevink

Photo:
Jarle Nytingnes



Finanstilsynet's management team

Morten Baltzersen

Director General

Emil R. Steffensen

*Deputy Director General,
Banking and Insurance Supervision*

Anne Merethe Bellamy

*Deputy Director General,
Capital Markets Supervision*

Cecilie Ask

General Counsel

Gun Margareth Moy

Deputy Director General, Administration

Kjetil Karsrud

Communications Director

For further details see Chapter IV Management and control of Finanstilsynet's operations, page 65.

From the left:
Anne Merethe Bellamy
Gun Margareth Moy
Kjetil Karsrud
Morten Baltzersen
Cecilie Ask
Emil R. Steffensen

Photo:
Jarle Nyttinges



Personnel policy and organisation

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

Finanstilsynet attaches importance to measures designed to recruit, retain and further develop capable staff members and managers. The Authority scores highly on popularity surveys among students of economics and law. Measures to develop staff competence are in place, and in 2016–2017 an employeeship programme and an employee survey were carried out.

Finanstilsynet's activities require both cross-disciplinary competence and spearhead competence in the various areas of supervision. Its departments have highly competent staff with good industry knowledge. The majority have their training in economics, business economics, law or auditing. Staff turnover has risen in recent years: in 2017 turnover measured 9.4 per cent compared with 7.5 per cent in 2016 and 5.9 per cent in 2015.

With its espousal of the Government-sponsored "IA Agreement" designed to promote inclusive employment, Finanstilsynet attaches importance to reducing sickness absence, to diversity and to a sound policy on older employees. Sickness absence was 3.4 per cent in 2017, compared with 3.9 per cent in both 2016 and 2015. In 2017 optional health checks were offered by the in-house health service, emphasising the importance of a healthy lifestyle.

Facts and figures

Total staff expanded with the addition of six permanent positions. At year-end the permanent staff totalled 276 and FTEs totalled 271. 53 per cent of the permanent staff are women. The management team comprised equal proportions of women and men at the end of 2017. Men accounted for 52 per cent of all staff with managerial responsibilities.

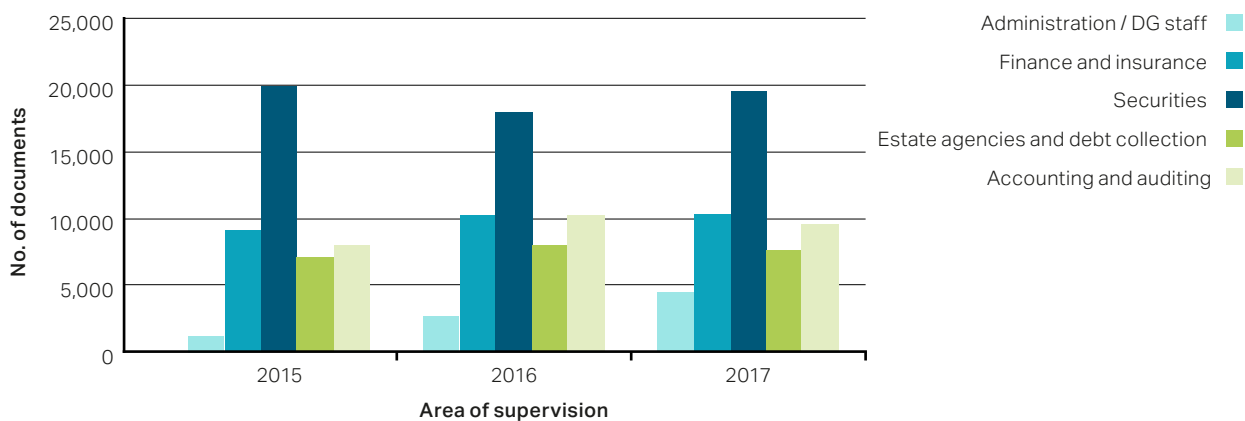
The Director General's salary at the end of 2017 totalled NOK 1,610,000. Fixed annual remuneration to the Board Chair was NOK 262,000, to the Deputy Chair NOK 177,000, and to each board member NOK 153,000. Remuneration to the first alternate was NOK 129,000, and to the second alternate NOK 108,000.

Table 1: Main figures

	2016	2017
No. of FTEs	264	271
Overall allocation, items 01–99	NOK 374,268,000	NOK 378,678,000
Utilisation ratio, items 01–29	98.32 per cent	97.94 per cent
Disbursements to operations	NOK 355,771,766	NOK 352,305,231
Salaries as a share of operating expenses	74.26 per cent	72.89 per cent
Salary expenses per FTE	NOK 1,000,808.43	NOK 947,644.35



Chart 1: Document processing



	2015	2016	2017
Total case documents	45,195	49,143	51,527

The number of incoming and outgoing documents registered rose by almost 2,400 from 2016 to 2017. The number of registered case documents related to securities funds continued to rise in 2017. This is due to

the expansion of Finanstilsynet's remit in the securities area to include supervision of managers of alternative investment funds (AIFs).



Table 2: Overview of supervised entities as at 31 December 2017

	2013	2014	2015	2016	2017
Savings banks	106	105	104		
Commercial banks	18	19	22	125	126
Finance companies	54	55	57	25	24
Mortgage companies**				34	33
Foreign branches of Norwegian banks and other credit institutions	17	18	7	18	18
Norwegian branches of foreign banks and credit institutions	42	40	41	39	39
Savings bank foundations and financial foundations	25	25	25	30	33
Payment institutions	21	14	15	15	19
E-money institutions	2	3	4	6	7
Life insurers	12	13	13	13	12
Non-life insurers, incl. local fire insurance associations***	59	59	60	59	58
Local marine insurance associations	11	10	9	6	6
Norwegian insurers' branches abroad	15	15	13	13	13
Foreign insurers' branches in Norway	34	31	32	29	29
Insurance intermediaries ¹	97	102	102	107	107
Private pension funds	51	52	49	48	47
Municipal pension funds	33	38	39	39	37
Defined benefit pension providers			1	1	1
Pension funds	5	4	4	4	1
Holding companies	12	11	14	17	13
Investment firms	129	106	114	107	106
Norwegian branches of foreign investment firms	21	22	22	19	19
Fund management companies	31	30	30	31	29
Alternative investment fund managers (AIFMs)			15	35	37
Central counterparties (prev. clearing houses) ²	3	4	3	4	–
Norwegian Central Securities Depository	1	1	1	1	1
Regulated markets, incl. stock exchanges	4	5	5	5	5
Auditors	6,973	7,191	7,380	7,570	7,807
Audit firms	563	533	516	488	447
External accountants	11,611	11,500	11,558	11,185	11,350
External accounting firms	2,853	2,858	2,835	2,785	2,827
Estate agency firms	508	499	500	503	510
Lawyers' practices that include estate agency	1,325	1,278	1,238	1,164	1,160
Debt collection agencies	98	98	100	103	99
Debt purchase businesses	5	4	4	3	7

¹ Insurance agent firms that distribute insurances exclusively for insurers with offices in Norway are not included in this overview, nor are entities engaged in accessory insurance agent business.

² After an amendment of 1 July 2017 to the Securities Trading Act and the introduction of the European Market Infrastructure Regulation (EMIR) from the same date, foreign central counterparties are no longer supervised by Finanstilsynet. Central counterparties can nonetheless continue to operate in Norway under an EMIR licence granted by their own home country authority. See page 48.

* As from 2016 commercial banks and savings banks are combined in the category 'banks'.

** As from 2016 the category finance companies and mortgage companies is split into separate categories.

*** As from 2016 local fire insurance associations are included in the category non-life insurers.

Finanstilsynet also oversees the financial reporting of 260 listed firms and supervises 415 securities funds. It also maintains limited supervision of 89 registered AIFMs.

Fit and proper tests of managers of supervised entities

Finanstilsynet assesses the fitness and propriety of senior managers of supervised entities across all areas of supervision. Finanstilsynet conducted 136 such tests in 2017. The number of tests varies from year to year.

**Table 3: Number of on-site inspections by type of institution – incl. IT inspections**

	2013	2014	2015	2016	2017
Banking and finance	63	67	54	53	42
Payment institutions and e-money institutions	–	1	1	3	–
Life insurers	4	3	3	4	7
Non-life insurers	4	10	6	8	9
Insurance intermediaries	5	3	2	3	5
Pension providers and funds	5	3	2	2	3
Investment firms	12	11	17	8	12
Fund management companies	3	3	2	2	–
Infrastructure	–	–	1	4	3
Auditors	55	29	40	32	41
External accountants	46	50	43	40	57
Estate agencies	43	32	37	29	25
Debt collection agencies	11	3	6	7	6



Finanstilsynet's organisation

Updated as of 31.12.2017





THE YEAR'S ACTIVITIES AND RESULTS

Mission achievement

Consumer protection

Money laundering

Information and communication

International cooperation

Report from the supervised sectors:

Banking and finance

Supervision of ICT and payment systems

Insurance and pensions

The securities area

Investment firms

Mutual funds and collective investment schemes

Securities market infrastructure

Market conduct rules

Prospectus control – transferable securities

Financial reporting enforcement – listed companies

Auditing



THE YEAR'S ACTIVITIES AND RESULTS

Mission achievement

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

Finanstilsynet's strategy for 2015–2018 contains main goals and intermediate goals. Further goals for Finanstilsynet's activity in the particular year are set

out in the Ministry of Finance's letter of allocation. They are mainly qualitative outcome goals for institutions and markets under supervision. Their attainment will depend on decision takers and factors additional to the instruments that are available to Finanstilsynet.

Implementing the various measures and tasks that are described in the plan of operations provides an important basis for gauging mission achievement. This is the subject of a separate report to the Ministry of Finance. Finanstilsynet has in the main implemented the measures and tasks that were planned for 2017.



Consumer protection

Consumer protection is an important factor in the development of rules for the financial market and in the supervision of financial services providers. Regulatory development and supervision aim to safeguard the interests of consumers who purchase financial services.

Changes in the regulatory framework and in the supervision of institutions whose object is to improve the position of consumers and the customer when purchasing financial services have accordingly become an increasingly important aspect of Finanstilsynet's remit.

Consumer protection is at centre-stage in the statutory regulation of the financial market and in the supervision of financial services providers in the banking, insurance and securities markets. Solid, well capitalised financial institutions and well-functioning financial markets are fundamental consumer interests, both for the community and for the individual. At the same time it is important for consumers to be well protected when purchasing and selling financial products and property, and to be able to base their decisions on good information and neutral advice.

Finanstilsynet collaborates with the Consumer Authority (formerly the Consumer Ombudsman), the Consumer Council and the Competition Authority to achieve better consumer protection in the financial sector.

Consumer protection is also an important task of financial supervision in other countries and in international activities, and Finanstilsynet collaborates closely with the European supervisory authorities when new consumer-related regulations are to be framed.

Consumer lending in 2017

Loans to Norwegian households are largely residential mortgages, but the percentage share of consumer credits has risen. Consumer loans are offered in the form of various products, and include both credit card loans and other unsecured loans. The effective interest rate varies widely depending the amount borrowed and the repayment period, but is consistently high. Unsecured consumer loans accounted for just over 3 per cent of total household debt at the end of 2017, while the interest on consumer loans accounted for 14 per cent of total household interest expenses.

Norwegian government authorities initiated a number of measures in 2017 to curb the growth in consumer lending. In April the Ministry of Justice and Public Security adopted new regulation of the marketing of consumer loans. An act allowing for the registration and dissemination of debt information for use in credit assessments (Debt Information Act) entered into force in 2017, but a

debt register has yet to be established. Draft regulations on the invoicing of credit card debt were adopted by the Ministry of Finance in April 2017. The regulations build on earlier guidelines from Finanstilsynet.

Finanstilsynet has adopted guidelines for prudent consumer lending practices (see circular 5/2017). The guidelines set requirements with regard to debt-servicing capacity, maximum overall debt-income ratio and instalment repayments. The guidelines aim to promote consumer protection by reducing the risk of borrowers taking on debt obligations they are unable to service, to promote well capitalised financial institutions and to promote public confidence in the financial industry. The guidelines apply to all Norwegian financial institutions and to branches of foreign financial institutions. They cover unsecured credit, including credit associated with credit cards and debit cards. Finanstilsynet will monitor financial institutions' compliance with the guidelines in 2018.

Topical consumer matters:

Compliance with the residential mortgage lending regulations

Finanstilsynet has obtained the quarterly board reports on compliance with the residential mortgage lending regulations from 23 banks and branches. The reports shows the proportion of mortgages granted that fall short of the requirements of the regulations in terms of servicing capacity, debt-income ratio, loan-to-value ratio or instalment repayments. See the account on page 33.

Residential mortgage lending survey 2017

The 30 largest banks in the survey (measured by share of the residential mortgage market) reported granting close to 8,000 new repayment mortgages and residential lines of credit after 15 August 2017. The banks in the survey have an overall market share of about 90 per cent of residential mortgages in Norway. See the account on page 33.

Supervision of consumer loans

Finanstilsynet regularly reviews the activity of a number of banks and finance companies engaged in consumer finance. The sample comprises 27 entities and covers the bulk of the Norwegian market. See the account on page 32.

Financial Contracts Act

In autumn 2017 the Ministry of Justice and Public Security circulated for comment amendments proposed to the Financial Contracts Act. The proposed amendments transpose three EU directives into Norwegian law. Important amendments not covered by EU rules are also proposed. The amendments are prompted mainly by consumer considerations. Finanstilsynet's submission



supports the considerations underlying the law, but is critical to the proposal to expand its scope of application and to several of the proposed provisions that are not based on EU rules.

Loan-based crowdfunding

In a letter of February 2017 to the Ministry of Finance, Finanstilsynet gives its assessment of the market for, and regulation of, crowdfunding. Finanstilsynet's circular 10/2017 gives an overview of licensing requirements for firms operating a loan-based crowdfunding platform.

Payments systems

2017 saw a large increase in reports of operational problems affecting the banks' payments systems. Finanstilsynet is monitoring this development closely in order to contribute to stable payment services for users. See the account on page 37.

New securities trading regulations place more emphasis on consumer protection

In December 2017 Finanstilsynet adopted regulations on investment firms, regulated markets, data reporting services, trade in commodity derivatives and emission quotas ("Norwegian MiFID II Regulations") and regulations setting rules corresponding to the Markets for Financial Instruments Directive ("Norwegian MiFIR regulations"). The European MiFID II framework strengthens consumer protection. See the account on page 47.

Ongoing consumer supervision

2017 saw several licence withdrawals from insurance intermediaries that have intermediated unsuitable products from foreign life insurance companies.

In 2017 Finanstilsynet placed a particular focus on investor protection, and through on-site inspections it checked investment firms' compliance with the rules on good business practices.

Finanstilsynet's supervision of mutual fund management companies and of alternative investment fund managers was essentially a follow up to earlier thematic inspections of active management of mutual funds and marketing of alternative investment funds (AIFs) to non-professional investors.

Finanstilsynet's supervision of real estate agents gives priority to checking that purchases and sales of residential and recreational properties take place in a secure and efficient manner for consumers. Finanstilsynet's thematic inspection of off-market sales is an appurtenant example.

Supervision of debt collection agencies targets entities suspected of non-compliance with the requirements set for good debt collection practices. Non-compliance may lead to loss or increased costs for consumers.

Unlawful investment service activities

Finanstilsynet noted a number of matters in 2017 related to unlawful investment service activities. Entities lacking the required authorisation had sold overpriced shares and participations in property companies to consumers. Five entities were ordered to halt such activity. One entity did so upon being questioned by Finanstilsynet.

Warnings were published against five Norwegian entities and five warnings against foreign entities that had offered investment services in Norway without the requisite authorisation. Finanstilsynet published a further 315 warnings from foreign supervisory authorities against entities providing investment services in the EU/EEA without the requisite authorisation.



Money laundering

General

The object of money laundering is to conceal the origin of proceeds of criminal acts. Money laundering integrates such proceeds into the lawful economy and therefore appears legitimate. Terrorist financing denotes participation in terrorist activities or provision of monetary support to a terrorist organisation. Many reporting entities under the anti-money-laundering legislation are supervised by Finanstilsynet.

Supervised entities are required to combat and bring to light transactions connected to the proceeds of criminal acts or terrorist financing. Finanstilsynet monitors compliance with the rules in place to prevent money laundering – the anti-money-laundering (AML) legislation – at a number of on-site inspections. This applies in all areas of supervision. The supervisory matters recounted below are pure anti-money laundering inspections or inspections where Finanstilsynet has identified clear-cut shortcomings in the entities' compliance with the rules. Inspections where money laundering has been one of a number of themes are also referred to.

Supervisory follow-up

Banks

Compliance with the AML legislation was checked at three out of four general on-site inspections in 2017. Issues related to the identification and updating of ultimate beneficiaries and uncovering of funds' origin were taken up with several banks. The banks were also urged to take the risk of money laundering into account when considering loan applications. Finanstilsynet has drawn attention to shortcomings in banks' risk analyses and in reports to the board of directors on compliance with the AML legislation.

Finanstilsynet conducted an AML inspection at DNB Bank ASA in December 2016. The inspection covered the bank's correspondent banks and transaction monitoring systems. Finanstilsynet found the bank's compliance with the AML legislation to be deficient and censurable.

Finanstilsynet has had a meeting with Nordea's Norwegian branch on follow-up of the criticism levelled at Nordea Bank AB by the Swedish FSA regarding compliance with the AML legislation. The need for any further measures will be considered in 2018.

Investment firms

On-site inspections at investment firms have focused on the control function and its organisation. Customer due diligence processes and oversight of actual compliance with the AML legislation was also examined.

Following an inspection at Sbanken (formerly Skandiabanken), Finanstilsynet concluded that the bank's customer due diligence measures fell short of the requirements of the AML Act. Finanstilsynet considered the bank's AML checks to be seriously deficient, showing a lack of AML awareness and priority-setting. Sbanken has announced its attention to strengthen its procedures and control measures to ensure correct and complete customer identification checks.

Payment institutions

In 2016/2017 on-site inspections were conducted at two payment institutions to assess their compliance with the AML legislation. In both cases serious flaws and deficiencies were brought to light, resulting in criticism of International Money Transfer and withdrawal of Iftin Express Michael Duale's licence.

Electronic money institutions

One on-site inspection at the e-money institution Schibsted e-payment in 2016/2017 which addressed the entity's combating of money laundering and terror financing through manual and electronic customer and transaction checks. Some deficiencies were brought to light which were rectified by the entity.

Estate agency

In November–December 2016 Finanstilsynet conducted a thematic inspection of compliance with the AML legislation at 11 estate agency firms. The inspection uncovered wide variation in the nature and scope of AML measures. Some entities had neither considered the risk of being exploited for money laundering purposes nor established any form of control procedures to assure compliance with the AML legislation. These entities will be followed up on in 2018. An assembled report with final comments dating from March 2017 is available at Finanstilsynet's website.

Auditing

Ordinary on-site inspections of audit firms reveal their assessment of the risk that their clients may be involved in money laundering to be inadequate. Deficiencies have also been brought to light in audit firms' checks of corporate clients' compliance with the AML procedures.

External accountants

Finanstilsynet conducted a thematic inspection of appointed external accountants' compliance with the obligation to assess risk and check the identity of clients under the AML legislation. The report from the inspection will be finalised in 2018.

New AML framework

The amendments to the AML body of rules became effective on 1 July 2017. A limit of NOK 40,000 was imposed on any cash payment to dealers in goods, and a licensing and supervisory arrangement was established



for trust and company service providers. Finanstilsynet is the licensing authority and will oversee such providers' compliance with the AML legislation. Finanstilsynet has published information on the new rules on its website pending finalisation of the application form. A deadline for applying for a licence to provide trust and company services will be set in 2018.

Guidance

Finanstilsynet refined its thematic webpage on money laundering at Finanstilsynet.no in 2017. Reports from

inspections of entities' compliance with the AML legislation are published consecutively. In addition, letters are published setting out the obligations resting on entities when customer relationships are established.

In addition to the general circular on the AML legislation and the circular on the obligations of estate agent firms, Finanstilsynet published in 2017 two circulars on the obligations of auditors and audit firms, and external accountants and external accounting firms, under the AML legislation.



Information and communication

Information and communication are one of four strategic instruments of the supervisory regime. The other three are (1) supervision, monitoring and control, (2) licensing and (3) regulatory development. The information effort is directed in the first instance at entities and sectors under supervision but also the media and the general public.

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

Communication directed at entities and sectors

Finanstilsynet is dependent on the confidence placed in it by supervised entities and by the wider society. High quality supervision and clear and consistent communication are therefore imperative. Good communication with market actors, trade organisations, various government authorities, the media and the wider society is vital if Finanstilsynet is to properly discharge its role in society.

A key channel of communication with supervised entities and individuals is letters written and distributed by Finanstilsynet each year. A total of 20,040 letters (outgoing documents) were sent in 2017 (18,378 in 2016). A central aim is to communicate and inform in a clear and comprehensible language.

Rule clarifications, report-filing requirements and matters which entities and sectors are required to take on board are usually communicated in the form of circulars. Finanstilsynet issued 17 circulars in 2017 (24 in 2016). Finanstilsynet's circulars are also published on Lovdata Pro, operated by Lovdata (Norway's law database).

Seminars and presentations

Seminars and presentations are an important part of Finanstilsynet's communication with sectors under supervision. Managers and staff at Finanstilsynet give presentations at seminars and conferences under the auspices of supervised entities, trade organisations et al.

Collaboration

Finanstilsynet has an extensive network of contacts, and meets regularly with collaborating public authorities in Norway and elsewhere, and with trade and professional organisations. See an overview of Finanstilsynet's key relations on page 25. Finanstilsynet conducts user surveys at regular intervals, and a new user survey of supervised entities was conducted in autumn 2017. See an account of the results on page 24.

General information activity

Twenty-one press releases were issued in 2017 (28 in 2016). Three press conferences were held, which were broadcast on internet TV. Finanstilsynet presented the June and November editions of *Risk Outlook 2017*. These reports analyse and review trends and risk in the financial market and potential sources of future stability problems in the Norwegian financial sector. In April Finanstilsynet presented the report *Risk and Vulnerability Analysis* on the use made of information and communication technology in the financial sector, and in October it published a thematic inspection report on listed companies' use of alternative performance measures and compliance with the guidelines.

Media coverage of Finanstilsynet in 2017 reflected the strong increase in consumer lending and in the number of banks offering such credit. References to household debt, house prices and the mortgage lending regulations continued throughout 2017. The situation of the paid-up policy company Silver Pensjonsforsikring AS, which was placed into public administration in February 2017, also attracted much media attention. Finanstilsynet fielded many questions from the press on virtual currencies, crowdfunding and FinTech activities. The media monitoring company M-Brain registered 4,391 media entries in 2017 in which Finanstilsynet received mention (6,385 in 2016).



Document access at Finanstilsynet

Finanstilsynet received a total of 3,379 requests for document access in 2017. 873 documents were not released since their entire content was barred from publication. Most access requests are received via the public electronic mail journal elnnsyn.no, used by all central government agencies.

Table 4: Requests for document access

	2015	2016	2017
Orders placed	2,615	2,116	3,379
Not released	520	714	873

Finanstilsynet's website

Finanstilsynet's website, Finanstilsynet.no, is the main channel for information from Finanstilsynet, containing information on rules, licensing requirements, reporting etc., applying to the various areas of business. Reports, analyses, rules and matters of topical interest are published on the website along with circulars and press releases etc. Key laws and regulations in English are also available on the website.

A newly developed version of the website was launched on 19 April 2017, somewhat later than planned launch

date of 1 November 2016. The new website is a modern, secure, mobile-friendly website that makes it easier for users to find relevant information thanks to an improved search capability and simpler navigation, structure and clearer entry to the respective topics and areas of supervision. Work on upgrading the website builds on input from users and continues in 2018.

Visits to the previous website and the new one in 2017 totalled 583,000. About 21 per cent of visits were by users registered in countries other than Norway. The most used service on the website is Finanstilsynet's registry. This is a searchable register of all institutions and individuals supervised by Finanstilsynet.



User survey 2017

Kantar TNS (formerly TNS Gallup) conducted a new user survey on commission from Finanstilsynet in autumn 2017. The survey results will provide a basis for developing the supervisory effort.

1,326 institutions were invited to participate. 819 responded to the survey, i.e. a response rate of 62 per cent.

What did the survey focus on?

The survey focused on the following factors:

- Administrative procedures and enforcement of laws and regulations
- Finanstilsynet's on-site inspections
- Finanstilsynet's reporting and analyses
- Information provided by Finanstilsynet
- Communication with Finanstilsynet
- Competence of Finanstilsynet

Main results

The results are summarised for Finanstilsynet as a whole, but also analysed for various groups of entities. The answers to the first four questions in the survey indicate that the entities are broadly satisfied with Finanstilsynet. Nine out of ten entities consider Finanstilsynet to be *fairly good, very good or exceptionally good*. Almost nine out of ten entities have *high confidence or very high confidence* in Finanstilsynet. Overall, Finanstilsynet is considered to be at about the same level as in 2013.

The results are presented on a so-called TRI*M Index. An index value above 75 signifies a strong customer relationship (irrespective of the type of customer relationship), a value between 50 and 75 as average, and an index value below 50 as weak. Finanstilsynet's overall score is 73. Finanstilsynet scores well compared with other public institutions, particularly with regard to the fact that its users are firms and professional entities.

Users are more satisfied with Finanstilsynet in 2017 than they were in 2013 in the following areas, among others (an increase of 4 percentage points or more based on average scores):

- Range of analyses published
- Reporting to financial statistics
- Stress testing for pension funds
- The report Risk Outlook
- Finanstilsynet's annual report
- The report *Risk and Vulnerability Analysis of Financial Institutions' Use of ICT*

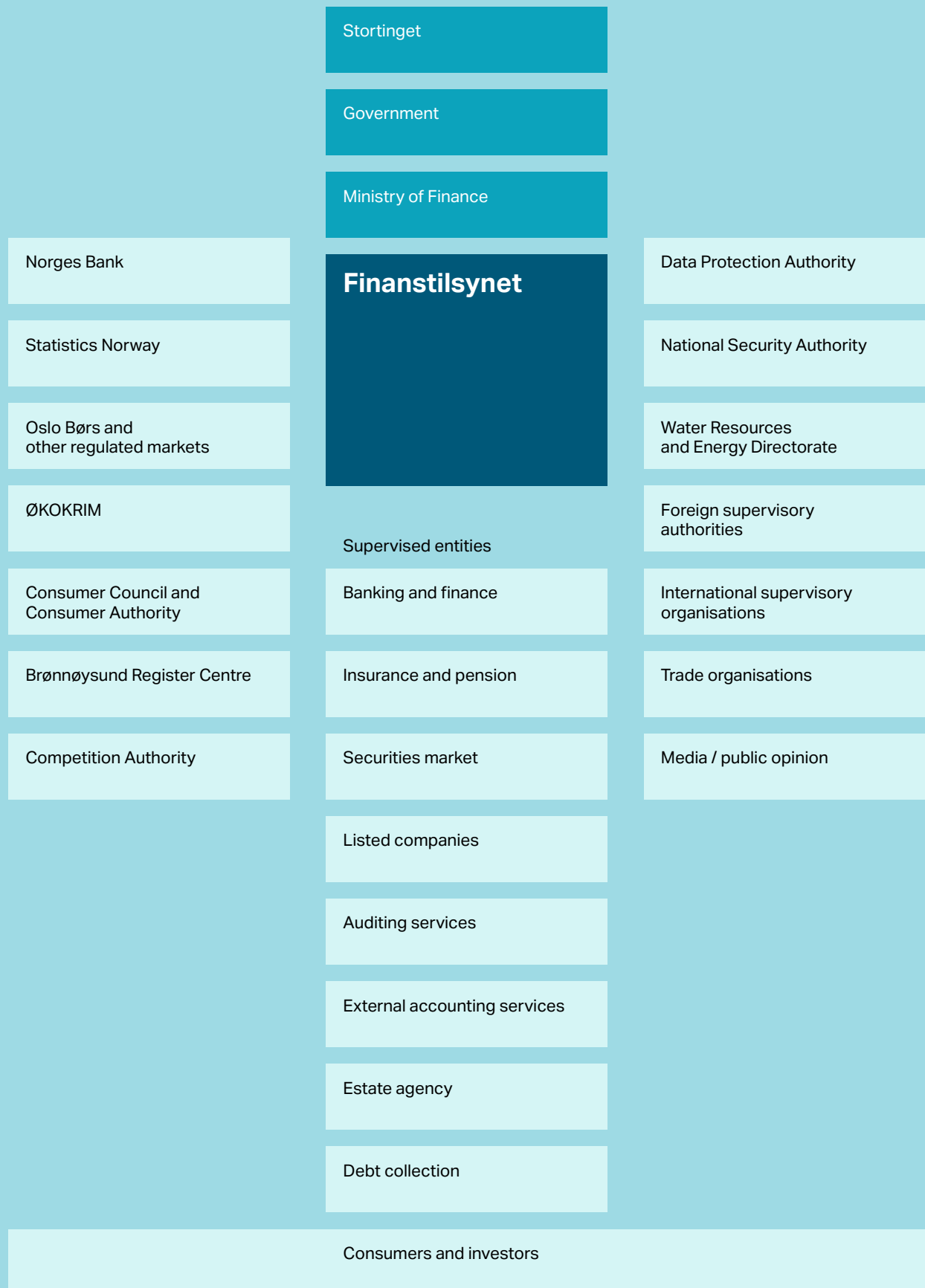
In the following areas users are less satisfied with Finanstilsynet than in 2013 (a decline of 4 percentage points or more based on average scores):

- The utility value of the on-site inspection for the institution
- Time allowed for preparations following notice of an on-site inspection
- Finanstilsynet's knowledge and understanding of the market situation and the institution's situation and business
- The time taken for the preliminary report / observations to be finalised
- The relationship between the issues to be examined at the on-site inspection, and the volume of documentation required
- Type of reporting / technical solution (user friendliness, security etc.)
- Guidance on completing returns, forms etc. (individual, by telephone, e-mail or the like)
- Other regular reporting
- Clear communication of the purpose of the reporting
- Relevance and usefulness of letters from Finanstilsynet
- The extent to which senior staff at Finanstilsynet are available

The report also contains detailed overviews of strong and weak aspects of the relationship between Finanstilsynet and supervised entities and makes detailed recommendations about what can be done to improve the supervisory effort, based on the analysis tool of Kantar TNS.



Finanstilsynet's key relations





International cooperation

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

Global collaboration

Global collaboration brings together countries and authorities to develop principles for regulation and supervision. After the financial crisis global institutions, headed up by the G20 countries, took the initiative towards and coordinated principles for financial market reforms. The Financial Stability Board (FSB) monitors the implementation of the reforms. In Europe the FSB has established the advisory body FSB Regional Consultative Group for Europe in which Finanstilsynet participates together with the Ministry of Finance and Norges Bank.

For several years Finanstilsynet has also played its part in the development of principles for regulations and supervision established by the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors (IAIS) and the International Organization of Securities Commissions (IOSCO). Where audit supervision is concerned, Norway participates in the global collaboration under the International Forum of Independent Audit Regulators (IFIAR) where Finanstilsynet also sits on the Board. With regard to combating money laundering and terrorist financing, Norway participates together with the Ministry of Finance in an extensive international collaboration under the auspices of the Financial Action Task Force (FATF).

Finanstilsynet hosted a conference of integrated financial supervisors in Oslo in autumn 2017 drawing participants from a total of 14 countries, all with integrated financial sector supervision.

Framework for financial supervisory collaboration across the EEA

The principles underlying legislation and supervision that are agreed at the global level are acted on in Europe through the EU and EEA collaboration. Legislative

and supervisory work in the financial area is largely coordinated by the EU financial supervisory authorities:

- EBA – European Banking Authority
- ESMA – European Securities and Markets Authority
- EIOPA – European Insurance and Occupational Pensions Authority
- ESRB – European Systemic Risk Board (macroprudential supervision)

The four authorities and the national financial supervisors in the EEA member states engage in close collaboration designed to promote financial stability and well-functioning financial markets in Europe. The EU financial supervisory authorities help to coordinate the member states' exercise of financial supervision, monitor and manage risks, develop common supervisory practices, draft proposals for legal acts and coordinate the enforcement of those rules.

The EBA, ESMA and EIOPA each monitor their respective sectors, while the ESRB (Systemic Risk Board) has overarching responsibility for macroprudential surveillance of the EU's financial system. Its mission is to ensure that risk build-up in the financial system does not threaten financial stability.

Finanstilsynet is a member of the EU's financial supervisory authorities. Since Norway is an EEA/EFTA member state, the Norwegian representative on the boards of the EU financial supervisory authorities cannot vote when decisions are to be made. Nor can the EU financial supervisory authorities adopt decisions with binding effect for authorities and market actors in EEA/EFTA member states. Supranational decisions affecting EEA/EFTA member states can be adopted by the EFTA Surveillance Authority (ESA).

In autumn 2017 the EU Commission presented a proposal for revision of the European System of Financial Supervision (ESFS). The proposal is under consideration by the European Parliament and the European Council.



If adopted, the proposal will give the EU financial supervisory authorities an even larger role in harmonising supervisory practices. The European Commission also proposes that ESMA should supervise directly a wider range of those institutions and products that are currently supervised by national supervisory authorities. Further, the European Commission recommends a different in-house organisation of the EBA, ESMA and EIOPA. Such a change in the organisational set-up will give the heads of national financial supervisory authorities, who are currently members of those authorities' Boards of Supervisors, less opportunity to influence the work of the EU financial supervisory authorities. The proposal also addresses the question of how the EU financial supervisory authorities are to be funded. The Ministry of Finance provided input in the EU public consultation on the matter in May 2017. Finanstilsynet contributed to that input and shares the ministry's assessment that several of the proposals will not contribute to better supervision.

Where audit supervision is concerned, Norway participates as an observer and in various sub-groups of the Committee of Audit Oversight Bodies (CEAOB). The EU Committee was established in 2016 as a result of the new Audit Regulation.

In 2017 Finanstilsynet attended meetings of a number of sub-groups of the EU financial supervisory authorities and the CEOB together with other national supervisory authorities. Altogether Finanstilsynet attended about 270 meetings connected to the EU's four financial supervisory authorities, the CEOB and other related EEA activity.

Supervisory collaboration in the EEA

The supervisory collaboration with the EBA, ESMA and EIOPA involves gathering and analysing information from institutions and markets, preparing guidelines and participating in supervisory colleges that oversee large cross-border conglomerates.

The EU financial supervisory authorities adopted several general guidelines regarding supervisory practices in 2017. Finanstilsynet considered each guideline and confirmed to the above bodies whether or not the guidelines would be followed in Norway. The guidelines are published on Finanstilsynet's website.

Finanstilsynet played its part in the peer reviews conducted by the national supervisors in the EEA and coordinated by the EU financial supervisory authorities. The reviews examine the national authorities' supervisory practices with the overarching aim of harmonising such practices.

The CEOB Inspection sub-group registers the findings of inspections in the audit area in a Europe-wide database, which is a useful basis for communication with standard setters and in the supervision of the largest audit firms.

Regulatory development in the EEA

The EBA, EIOPA and ESMA consider the need for regulatory development in the financial area and provide input to the EU Commission in that regard. They communicate their views on rules to be drafted at the level of primary legislation, and they draft technical standards that the EU Commission can subsequently adopt as regulations. Finanstilsynet participated in the EBA's, EIOPA's and ESMA's regulatory development in 2017 as previously.

EU legislation in the financial area is normally incorporated in the EEA Agreement and implemented in Norwegian laws or regulations. A number of EEA-relevant directives and regulations in the financial markets area are not yet part of the EEA Agreement. Work on reducing the backlog started in autumn 2016, and Finanstilsynet played its part in this process on Norway's behalf in 2017.

Topical regulatory matters receive further mention in the chapters covering the respective areas of supervision in this annual report.

Nordic and Nordic-Baltic cooperation

The Nordic region has an integrated financial market, and a number of financial institutions offer services in other Nordic countries through subsidiaries and branches. The Nordic countries meet annually at director general level, and hold regular meetings at departmental level for the various areas of supervision.

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

Finanstilsynet also participates in the Nordic-Baltic Macroprudential Forum (NBMF) and NBMF sub-groups. The forum brings together the top management at central banks and financial supervisors and discusses macroprudential surveillance and other supervisory work in the Nordic-Baltic area.

Finanstilsynet attended a total of about 30 meetings at the Nordic level in 2017. Finanstilsynet hosted a Nordic meeting of director generals in autumn 2017, attended by all Nordic director generals.



Table 5: International organisations and EU/EEA related committees in which Finanstilsynet participates or attends as an observer

Cross-sectoral meetings

- Financial Stability Board (FSB) – Regional Consultative Group for Europe
- European Systemic Risk Board
- EU Commission Expert Group on Banking, Payments and Insurance
- EFTA Working Group on Financial Services
- Nordic-Baltic Macroprudential Forum
- Nordic-Baltic Stability Group
- FinCoNet – Financial Consumer Network
- Project Link, the UN's annual macroeconomic meeting
- Integrated Financial Supervisors Conference
- Nordic collaboration

Banking and finance

- Basel Consultative Group (Basel Committee)
- Macroprudential Supervision Group (Basel Committee)
- International Conference of Banking Supervisors (ICBS) – arranged by the Basel Committee every two years
- OECD's Financial Markets Committee
- European Banking Authority (EBA)

Insurance

- International Association of Insurance Supervisors (IAIS)
- European Insurance and Occupational Pensions Authority (EIOPA)
- International Forum of Insurance Guarantee Schemes (IFIGS) – Finanstilsynet attends as secretariat for the Guarantee Scheme for Non-Life Insurance

Securities and prospectuses

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

Accounting and auditing

- International Forum of Independent Audit Regulators (IFIAR)
- Committee of European Auditing Oversight Bodies (CEAOB)
- European Securities and Markets Authority (ESMA)

Combating of money laundering and financing of terrorism

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

ICT supervision

- Information Technology Supervision Group (ITSG) – global supervisory collaboration on IT risk in the financial sector
 - Financial Information Sharing and Analysis Center (FI-ISAC) – forum where the banking sector, prosecuting authorities and computer emergency response teams (CERTs) share information on cybercrime in the financial sector
 - European Central Bank – SecuRe Pay (retail payment security)
 - European Banking Authority – project groups
-



Banking and finance

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

Developments

Growth in the global economy is picking up. Improved real economic prospects and continued low interest rates in most major economies have stimulated investors' risk appetite. Stock prices and property prices have risen markedly in many economies, and risk premiums in the bond markets are low. Stock and bond market volatility has on the whole been very low. It is possible that the increase in stock and property prices cannot be explained by changes in fundamentals alone.

After weak growth in Norway's mainland (non-oil) economy since the oil price fall in 2014, the cyclical downturn now appears to be over. Low interest rates, a weak krone and expansionary fiscal policy have helped to quicken the growth rate in the mainland economy. Unemployment has fallen. The largest forecasting institutions expect growth between 2 and 2.5 per cent in Mainland Norway's GDP in 2018.

High property prices and a heavy household debt burden render the Norwegian economy vulnerable to a setback. House prices and the household debt burden are at historically high levels, also by international standards. House prices rose strongly in 2016. Since April 2017 prices have fallen and in December were somewhat lower than at the start of the year. The decline is not dramatic, and the price level remains high. The onward path of the housing market is uncertain. Household debt growth continues to outstrip growth in household incomes. The turnaround in the housing market has thus far not been reflected in appreciably lower credit growth, and the household debt burden accordingly grew by a further margin in 2017. Households' interest burden is nonetheless low due to the low interest rate level. Inasmuch as Norwegian borrowers have long preferred variable rate residential mortgages, households in Norway will be rapidly affected by an interest rate hike, and a strong increase in interest expenses could bring a marked decline in household consumption.

Prices in some commercial property segments have risen markedly for several years, and at a faster rate than the economy in general. Price growth has been particularly rapid in the case of upmarket properties in major urban areas across the country. Interest shown by foreign investors in recent years has been substantial. Commercial property is more in the nature of an investment object than are dwellings, and commercial property prices are influenced to a greater extent than house prices by the economic cycle and interest rates. Norwegian banks are heavily exposed to commercial property companies. In recent years banks have tightened lending practices by imposing stricter requirements on pre-sales and pre-leases as well as on equity capital when financing development projects. This has helped to reduce the risk of losses. Even so, a steep fall in prices would impair commercial property company earnings, reduce the value of banks' collateral and thus increase banks' risk of loss on these companies.

Supervision, monitoring and control

Monitoring and analyses

Finanstilsynet conducts regular analyses of developments in the financial industry, the markets and the real economy. Finanstilsynet performs analyses of capital positions and of credit and liquidity risk for finance companies, mortgage companies, individual banks and the banking sector as a whole. Quarterly press releases summarise the main results of these analyses, which are also published in *Report for Financial Institutions* (Norwegian only) on Finanstilsynet's website. In macroeconomic surveillance importance is attached both to the risk facing banks as a result of macroeconomic developments and the risk that the banks as a whole pose to the financial system and the economy. Each spring and autumn Finanstilsynet publishes analyses of trends in the real economy, markets and financial institutions along with other developments which could pose a risk for financial stability in Norway. In 2017 the analyses were published in the June and November



editions of the report *Risk Outlook*. These reports with press releases are available on Finanstilsynet's website.

Reporting

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

Reporting under CRD IV, which is fully harmonised across the EU, was introduced in Norway in 2014. CRD IV covers – in addition to capital adequacy reporting – financial reporting (FINREP) along with reporting of liquidity ratios (LCR, NSFR and ALMM), large exposures, leverage ratios and encumbered assets. The reporting requirements are constantly changing, and new reporting areas are added. This requires continuous adaptation and further development of the reporting material and the reporting systems.

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

Ongoing impact studies, in which Norwegian institutions participate, are conducted under EU auspices to assess the effect of the new regime and identify any need for changes or transitional provisions.

Facts and figures

At the end of 2017, 126 banks, 33 mortgage companies and 24 finance companies were licensed to operate in Norway. In addition Norwegian credit institutions had 18 branches abroad and foreign credit institutions operated 39 branches in Norway. 32 savings bank foundations and one financial foundation, 19 payment institutions and 7 electronic money institutions held a licence at year-end.

Financial soundness and profitability of Norwegian banks

The banks posted good earnings in 2017. Relative to average total assets (ATA), pre-tax profit rose from 1.1 per cent in 2016 to 1.2 per cent in 2017, and return on equity rose from 10.6 per cent to 11.3 per cent.

Lower loan losses in 2017 were the main explanation for the profit growth. Several of the largest banks made large write-downs on exposures to oil-related industries in 2016, while losses on these industries were substantially lower in 2017. For the banks as a whole, the level of losses fell by more than half compared with the previous year, to 0.16 per cent of the loan volume. Banks' net interest income was on a positive path and at its highest level relative to ATA since 2005. Part of the increase is explained by some banks' strong growth in consumer loans, which in many cases carry very high interest. At 7.9 per cent, overall growth in lending to personal borrowers remained high in 2017 despite the weaker trend in house prices.

Recent years' good results have helped to improve banks' financial position. Substantial growth in lending in 2017 also brought an increase in risk weighted assets. Even so, there was a stronger increase in bank's equity capital owing to profit retention and some stock issues. As a result, the banks' overall CET1 capital ratio rose by 0.5 percentage point in 2017 to reach 16.3 per cent at year-end.

Liquidity monitoring

Large Norwegian banks and mortgage companies obtain much of their funding in international money and credit markets, whereas most institutions rely on the Norwegian fixed income market. Institutions' market funding consists of senior bonds, subordinated loans, covered bonds (OMF) and short-term market funding including interbank debt. In recent years, market funding as a share of overall funding has been relatively stable at just under 50 per cent.



Conditions in the securities markets are liable to change rapidly, and refinancing during a crisis of confidence may be both costly and difficult. Finanstilsynet accordingly has a tight focus on liquidity and funding risk. Increased liquidity buffers and a larger element of long-term funding have put Norwegian banks in a better position to cope with potentially scarcer liquidity.

In September 2017 a liquidity coverage ratio (LCR) requirement in foreign currency was introduced for institutions having significant currencies other than the Norwegian krone, i.e. debt in another currency that constitutes more than 5 per cent of the institution's overall debt. By holding liquid reserves in currencies to which they are exposed, institutions reduce their vulnerability to turbulence in international markets. Liquidity reserves lessen institutions' dependence on a well-functioning currency swap market to service their foreign currency commitments.

Financial institutions that breach the minimum LCR requirement, or otherwise report weak liquidity and funding indicators, are monitored by Finanstilsynet. The institutions' own assessment of liquidity and funding risk is reviewed as part of the supervisory assessment of risk and capital needs (SREP); see the account below, and liquidity and funding risk are covered at on-site inspections of the institutions.

Norges Bank and Finanstilsynet have collaborated in developing an internal model for stress testing of liquidity. This framework will be an important supplement to liquidity monitoring. The stress test can be used to compare liquidity risk across various banks and groups of banks. The test can also be used to assess a bank's vulnerability to various balance sheet effects for various time horizons.

Implementation of the supervisory review process (SREP)

Assessment of institutions' risk and capital has been an important part of the supervisory effort in recent years. The SREP process includes setting of individual Pillar 2 requirements. In 2017 Finanstilsynet made 53 Pillar 2 decisions, compared with 29 in 2016. The two systemically important institutions, DNB and Kommunalbanken, and institutions dealt with by international colleges, have their Pillar 2 requirements set each year. The decisions are published consecutively on Finanstilsynet's website. Three institutions have appealed against the Pillar 2 requirements set. The Ministry of Finance has upheld Finanstilsynet's decision in two of the appeals, while the third is under consideration by the Ministry.

The Pillar 2 requirements cover risks that are not, or are only partially, covered under Pillar 1. The Pillar 2 requirements set refer mainly to credit risk, including concentration risk, and market risk. Several banks issued equity or retained profit over the course of the year in order to meet the overall capital requirements, including the Pillar 2 requirements.

On-site inspections

On-site inspections are important in identifying problem institutions and problem areas within institutions. The combination of a tight resources situation and a wider remit resulting from international legislation, has necessitated stricter assignment of priorities. In 2017 Finanstilsynet conducted a total of 21 on-site inspections at banks, mortgage companies and finance companies, of which five were follow-up visits addressing the banks' offshore exposure. In addition, 11 on-site inspections targeted ICT infrastructure, disaster recovery solutions and preparedness and 10 on-site inspections followed up on IRB approvals.

Finanstilsynet kept a close watch on the credit area with a view to early identification of increased risk and short-comings in terms of loss and write-down assessments and exposure follow-up.

Supervisory collaboration

Supervision of major banks operating in two or more countries in Europe is coordinated through supervisory colleges in which the various countries' supervisory authorities are represented. Finanstilsynet is the coordinating authority for the supervisory college for the DNB Group in which eight other financial supervisors participate. The work of the college follows guidelines set by the EBA.

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

Risk assessment of large banks

The DNB Group is one of 20 European banking groups that are subject to special follow-up by the EBA, and the EBA evaluates each year Finanstilsynet's stewardship of the college comprising the supervisory authorities of the countries in which the Group operates. The college's most significant processes comprise its Joint Decisions on DNB's risk level and capital, liquidity and recovery plan. This work covers both the Group and its subsidiaries. DNB is also included in the EBA's stress testing programme. In addition to the collaboration in the DNB College, Finanstilsynet maintains direct contact with the supervisory authorities of some of the other countries in which DNB operates.

In the case of the other largest banking groups in Norway, a comprehensive, overall risk assessment is carried out each year. This provides a basis for Finanstilsynet to assess the banks' capital needs and to assign inspection priorities. In 2017 seven on-site inspections were conducted at the regional banks, of which four were follow-up visits addressing the banks' offshore exposures. One of the ordinary inspections was of a general nature, while two addressed liquidity and market risk and one addressed credit risk. After the inspections attention was drawn inter alia to flaws in the particular bank's risk management and control system, including inadequate involvement by the board of directors, absence of limit setting and poor control functions.



Risk assessment of small and medium-sized banks and finance companies

Supervisory follow-up of small and medium-sized banks and finance companies is strictly risk based. An important basis for selection of entities for inspection is the SEBRA analysis of credit risk in banks' commercial portfolios, which utilises reported figures and public accounting data. In the course of 2017 seven inspections were conducted at medium-sized and small entities, compared with 11 in 2016. All the inspections were general in nature, covering credit risk, liquidity risk, market risk and operational risk along with governance and control.

Some of the supervisory reports drew attention to elevated credit risk resulting from low equity capital, large exposures, exposure outside the primary area or exposure to the offshore industry. Further, several supervisory reports pointed to the absence of, or inadequate, in-house loss guidelines, inadequate compliance with the lending regulations or inadequate documentation of write-down assessments. Management and control in the credit area are impaired at many of the inspected entities by the absence of, or by inappropriate, limit setting and by limits that do not reflect actual risk appetite, or limits that permit increased risk-taking.

Inspections at medium-sized and small entities also focused on overarching governance and control, and some supervisory reports point to shortcomings in terms of organisation and capacity of the entities' risk control function.

Control of compliance with the anti-money laundering legislation was checked at three quarters of the ordinary inspections conducted in 2017.

Follow-up of systemically important branches

The EBA's board of supervisors adopted in October 2017 guidelines for supervision of systematically important branches. The guidelines emphasise the need to broaden host country supervision of such branches. Finanstilsynet regards the branches of Nordea Bank, Handelsbanken and Danske Bank as systemically important in Norway. Finanstilsynet drew up in 2017 a template for risk assessment of these branches based on the minimum requirements of the EBA guidelines regarding risks to be assessed by the host country. The template requires assessment of business model, risk posed to the financial system, conduct risk, the macroeconomic situation and compliance with national legislation (general good). Finanstilsynet will in addition analyse the quality of the branches' commercial portfolios in Norway and assess their IRB system, ICT systems and liquidity situation.

Against the background of the conversion of Nordic subsidiaries in the Nordea Group into branches of the Swedish bank, a memorandum of understanding (MoU) was negotiated by Finanstilsynet and the supervisory

authorities of Sweden, Denmark and Finland along with the European Central Bank (ECB). The MoU entails greater involvement by the host country authority in the supervision of the bank and branch concerned.

Finanstilsynet also obtains reports on compliance with the residential mortgage lending regulations from the branches of Nordea Bank, Danske Bank and Handelsbanken.

Follow-up of particular themes

IRB supervision

Between early November 2017 and end-January 2018 Finanstilsynet conducted on-site inspections at nine of the ten banks authorised to use internal models to determine capital requirements (IRB approach), while one inspection was conducted in spring 2018. The banks validate their IRB systems annually, and review of the validation reports is a key aspect of IRB supervision. A key theme of IRB oversight in 2017/2018 was banks' IRB parameters for exposures secured on commercial property. Credit exposures and analyses from the banks were examined to see whether the risk of a fall in value of the banks' collateral is properly taken into account in the IRB models. In addition Finanstilsynet conducted in 2017 a comparative analysis of the banks' models for determining entities' probability of default.

Follow-up of banks' offshore exposure

Finanstilsynet examined banks' exposure to the offshore sector in 2017, as previously. The survey, run for the first time in autumn 2015, covers the five banks with the highest offshore exposure. A key aspect of the survey is to map banks' assessment of the need for write-downs. At the end of the second quarter of 2017 the five banks' offshore portfolio accounted for 5.5 per cent of their combined corporate portfolio, and overall write-downs had risen to 10.1 per cent of overall exposure to the offshore industry.

Follow-up of consumer lending

Finanstilsynet regularly surveys the operations of a selection of banks and finance companies that are engaged in consumer finance. The selection comprises 27 entities and covers the bulk of the Norwegian market. Both Norwegian entities and foreign branches in Norway are included in the selection. Consumer lending to Norwegian borrowers came to just over NOK 100 billion at the end of the third quarter of 2017. This accounts for about 3 per cent of aggregate household debt. Growth in consumer lending in recent years has far outstripped the general growth in credit to households. Twelve-month growth in the Norwegian market was 15.3 per cent at the end of the third quarter of 2017, while growth in households' aggregate debt was 6.5 per cent in the same period. Non-performance for consumer loans is generally higher than for other loans, and has risen over the past year.



Finanstilsynet adopted in June 2017 guidelines for prudential consumer lending practices and announced that entities' compliance would be monitored as from the fourth quarter of 2017. The guidelines contain provisions on debt-servicing capacity, maximum overall debt-income ratio and instalment repayments. The guidelines apply to all Norwegian financial institutions and branches of foreign financial institutions. See the chapter entitled Consumer Protection, page 18, for further details of the guidelines.

Recovery plans

As a preventive measure against solvency crises, all banks are required to draw up a recovery plan indicating what steps the bank can take to restore its financial position in a severely stressed situation. Recent recovery-and-resolution legislation requires Finanstilsynet to consider whether each bank's recovery plan is of adequate quality and realistic and implementable. The Recovery and Resolution Directive has yet to be incorporated into the EEA Agreement. Draft legislation on the Banks' Guarantee Fund and on amendments to the Financial Institutions Act 2015, which will transpose the directive's provisions into Norwegian law, are being considered by the Storting.

Financial reports meetings

In 2017 Finanstilsynet held semi-annual meetings with the managements of the largest banking groups at which the banks presented their results along with updates on key risk factors. They also briefed Finanstilsynet on trends in the markets in which the banks operate and on organisational matters and strategic considerations. The meetings are seen as a useful channel for communication and as a link between Finanstilsynet's and the banking groups' management teams.

Compliance with the residential mortgage lending regulations

In 2017 Finanstilsynet obtained reports on compliance with the residential mortgage lending regulations received by the board of directors of 23 banks and branches. The report shows the share of mortgages granted that do not meet the regulatory requirements on debt-servicing capacity, debt-income ratio, loan-to-value ratio or instalment repayments. As from the first quarter of 2017 the debt-income ratio was capped at five times gross income, and a flexibility quota for mortgages secured on properties in Oslo was introduced. In the first quarter of 2017 one bank overstepped the 10 per cent cap on mortgages secured on properties outside Oslo, and two banks overstepped the 8 per cent cap on mortgages secured on properties in Oslo. No bank exceeded the flexibility quotas for the rest of the year. The average (weighted) rate of non-compliance nationwide excluding Oslo is at about the same level as prior to the introduction of the new requirements whereas the rate of non-compliance for mortgages secured on properties in Oslo, which initially rose, has since subsided.

Residential mortgage lending survey 2017

In the residential mortgage lending survey conducted in autumn 2017, the 30 largest banks (Norwegian and foreign) in terms of share of the mortgage lending market reported data on almost 8,000 new repayment mortgages and lines of credit secured on residential property granted after 15 August 2017. The banks participating in the survey hold a combined market share of about 90 per cent of residential mortgages in Norway. The survey thus provides a reliable impression of banks' lending practices in Norway in the period concerned.

The survey is designed to capture trends and developments in banks' residential mortgage lending. In the survey Finanstilsynet obtains data on several relevant variables able to contribute to an assessment of households' vulnerability. Monitoring compliance with the regulations is done through on-site inspections and by reviewing reports submitted to the banks' board of directors.

The survey findings indicate tighter credit practices on the part of the banks. Compared with the 2016 survey, a smaller proportion of repayment mortgages with a high loan-to-value ratio was granted and a smaller proportion of repayment mortgages was granted to borrowers with unsatisfactory debt-servicing capacity. The decline was particularly evident in the case of young borrowers (below age 30), although this group still showed a substantially higher proportion of mortgages with a high loan-to-value ratio than other borrowers. The survey also shows a substantial reduction in mortgages with a very high debt-income ratio, and in the share of interest-only repayment mortgages; see table 6. The proportion of lines of credit granted with a loan-to-value ratio above 85 per cent was somewhat higher than in the previous year; see table 7.

The average (weighted) loan-to-value ratio for repayment mortgages was 66 per cent (62 per cent when additional collateral is included), which is marginally lower than in the previous year's survey. In the case of new lines of credit where additional collateral is included, the weighted average loan-to-value ratio fell from 52 per cent in 2016 to 46 per cent in 2017. The average debt-income ratio was considerably higher in the 2017 survey than in the surveys conducted in the years 2013–2015, but somewhat lower than in 2016.

**Table 6: Breakdown of repayment mortgages, in per cent**

	2014	2015	2016	2017
LTV ratio above 85 per cent	19	16	15	12
LTV ratio above 85 per cent incl. additional collateral	10	7	5	3
Insufficient debt servicing capacity (5 pp interest rate increase)	4	2	4	1
Interest-only above 60 per cent	12	9	7	4
Debt-income ratio above 500 per cent	8	6	9	2

Table 7: Breakdown of lines of credit, in per cent

	2014	2015	2016	2017
LTV ratio above 60 per cent	12	13	11	12
LTV ratio above 60 per cent incl. additional collateral	8	6	4	5
Insufficient debt servicing capacity (5 pp interest rate increase)	2	1	1	1
Debt-income ratio above 500 per cent	5	4	6	1

Licensing

Licence applications in 2017

Over the course of 2017 Finanstilsynet granted several licences to set up banks intending to provide consumer finance and to cater to the SMB segment.

Finanstilsynet does not permit banks to set up business at margins too close to the established minimum requirements and buffer requirements. There is reason to believe that banks specialising in consumer lending may be particularly vulnerable to a setback in the economy. In the past year new consumer lending banks received a 6 percentage point add-on to their capital requirements. Established consumer lending banks have received higher capital requirements under Pillar 2.

Bank establishments

BB Bank ASA was granted a licence to operate as a bank in December 2016 and permission to commence trading in August 2017. The bank offers consumer finance.

DeBank ASA was granted a licence to set up business as a commercial bank in December 2016 and to commence trading in February 2017. The bank offers mainly operations finance to small and medium-sized businesses.

Optin Bank ASA was granted a licence to operate as a bank in August 2015 and to commence trading in September 2017. The bank offers consumer finance.

Næringsbanken ASA was granted a licence to operate as a bank in April 2017 and to commence trading in November 2017. Næringsbanken's main target group is small and medium-sized businesses and larger farm customers in Hedmark, Oppland and Buskerud counties.

Tellus Bank ASA was granted a licence to operate as a bank in June 2017. The bank will provide consumer finance. The licence will not become valid until

Finanstilsynet receives confirmation that the licence terms and conditions are met.

Nordsjøbanken ASA was granted a licence to operate as a bank in August 2017. The bank intends to cater to the small and medium-sized business segment. The licence will not become valid until Finanstilsynet receives confirmation that the licence terms and conditions are met.

Langler Bank ASA was granted a licence to operate as a bank in October 2017. The bank will mainly offer operations finance to small and medium-sized businesses. The licence will not become valid until Finanstilsynet receives confirmation that the licence terms and conditions are met.

Kraft Bank ASA was granted a licence to operate as a bank in December 2017. The bank will refinance loans carrying high credit risk and defaulted loans granted by other financial institutions. This applies especially to unsecured consumer loans and secured residential mortgages. The licence will not become valid until Finanstilsynet receives confirmation that the licence terms and conditions are met.

Mergers in the savings bank sector

SpareBank 1 BV and SpareBank 1 Nøtterøy-Tønsberg were given permission to merge in 2016. The merger was carried out in January 2017. The two banks' operations are continuing under the name SpareBank 1 BV.

Bamble Sparebank and Kragerø Sparebank were given permission to merge in 2016. The merger was completed in January 2017. The two banks' operations are continuing under the name Skagerrak Sparebank.

Sparebanken Hedmark merged with its wholly-owned subsidiary Bank 1 Oslo and Akershus AS in April 2017. The two banks' operations are continuing under the name SpareBank 1 Østlandet.



Vestre Slidre Sparebank and Vang Sparebank merged in August 2017. The banks' operations are continuing under the name Valdres Sparebank.

Gjerstad Sparebank and Vegårshei Sparebank merged in October 2017. The banks' operations are continuing under the name Østre Agder Sparebank.

Orkdal Sparebank and Meldal Sparebank merged in October 2017. The banks' operations are continuing under the name Orkla Sparebank.

Bud Fræna and Hustad Sparebank and Nettet Sparebank were given permission to merge in 2017. The merger was completed in January 2018. The banks' operations are continuing under the name Romsdal Sparebank.

Vipps

Vipps AS was founded against the background of a collaboration agreement between a number of Norwegian banks. In this connection the payment product Vipps was detached from DNB Bank ASA and incorporated in Vipps AS. The Ministry of Finance granted Vipps a licence as a payment institution in September 2017. The licence was in accordance with Finanstilsynet's recommendation.

After Vipps was given the go-ahead by Finanstilsynet in September 2017, other banks also entered into agreements with Vipps AS to distribute Vipps' products. Vipps AS, BankID Norge AS and BankAxept AS announced merger plans in November 2017.

Loan-based crowdfunding

Finanstilsynet explained by letter of February 2017 to the Ministry of Finance its assessment of the market for, and regulation of, crowdfunding with a basis in Norwegian financial market regulation. Finanstilsynet gives an overview of the licensing requirements as regards crowdfunding in circular 10/2017.

EU Capital Markets Union

See an account of the Capital Markets Union in the chapter entitled Securities Area, page 46.

Regulatory development

Basel Committee on Banking Supervision finalises Basel III reforms

Basel III was adopted in 2010 in response to the international financial crisis. The new standards set tighter requirements on own funds, and introduced capital buffers and liquidity requirements. The Basel Committee has since produced several stand-alone standards, among them a standard for large exposures, total loss absorbing capacity (TLAC), disclosure (Pillar 3) and a new standard for market risk (FRTB). The final package of revisions of the Basel III framework was adopted on 7 December 2017. These standards include new standard approaches to credit risk and operational risk, a new output floor equivalent to 72.5 per cent of risk weighted assets based on new standard approaches, and restrictions on the use of IRB models.

Changes to CRR and CRD IV

The European Commission published in November 2016 proposed amendments to Directive 2013/36/EU and Regulation (EU) No. 575/2013 on capital requirements for banks and investment firms. The proposals, currently under consideration by the European Parliament and the European Council, contain elements from Basel III such as requirements on long-term funding and leverage ratio. The amendments are expected to take effect in 2019 at the earliest.

The European Commission proposes:

- a Pillar 1 leverage ratio requirement of 3 per cent
- a net stable funding ratio (NSFR) requirement of 100 per cent
- new methods for calculating capital requirements for market risk, counterparty risk and exposures to central counterparties (CCPs) that follow the Basel Committee's new standards, but permitting use of current methods of calculation
- changes to the Pillar 2 rules with a view to harmonising international practices
- changing the capital target for large exposures (from own funds to CET1 capital)

Requirements as to consolidation of ownership interests in collaborating entities

The obligation to consolidate under the Financial Institutions Act was widened in 2017. Financial institutions participating in a collaborative grouping (owner institutions) shall, in the application of rules governing capital requirements and other prudential requirements, consolidate holdings in jointly owned entities on a pro rata basis irrespective of the size of the holding. This requirement applies as from 1 January 2017 to institutions with holdings between 10 per cent and 20 per cent in jointly-owned financial institutions. As from 1 January 2018 the obligation is widened to include holdings below 10 per cent. The change affects among others a number of banks with holdings in residential mortgage companies.

Leverage ratio

The leverage ratio supplements the capital adequacy charge calculated on risk weighted assets. Basel III sets the leverage ratio requirement at 3 per cent as from 1 January 2018. Global systemically important banks are in addition required to maintain a buffer of 50 per cent of the risk weighted buffer requirement for systemic importance as from 2022. The European Commission has proposed a leverage ratio requirement of 3 per cent, and has opened the way for buffer requirements for systemically important institutions. The proposal is under consideration by the European Parliament and Council.

Norwegian banks, mortgage companies, finance companies and financial holding companies that are not insurance groups and investment firms that are licensed to provide specified investment services have since 30 June 2017 been subject to a leverage ratio requirement of 3 per cent. All banks are required to maintain a further buffer of at least 2 per cent. Systemically important banks are required to maintain, in addition



to this, an unweighted buffer of at least 1 per cent. Institutions falling short of the leverage ratio requirement must submit to Finanstilsynet a plan for increasing that ratio.

New rules governing accounting treatment of loan losses

The International Accounting Standards Board (IASB) finalised in July 2014 a new standard, IFRS 9, containing a new model for loan write-downs. The standard applies as from 2018. Insurers are permitted to defer application of the standard until 2021. For European institutions (including listed Norwegian institutions) the standard will become mandatory at the same point in time; see Commission Regulation 2016/2067.

According to current accounting rules (based on IAS 39), loans can only be written down where there is objective evidence of impairment as a result of a loss event. Objective evidence of impairment includes significant financial difficulties on the part of a debtor. The new standard also requires loss provisioning of new and "healthy" loans by requiring write-down of expected credit loss as a result of expected defaults in the course of the coming twelve months. Any loan whose credit risk has risen significantly since its establishment must be written down by an amount corresponding to the expected credit loss over the loan's lifetime.

The EU has established transitional rules in the CRR enabling the effect of the transition from IAS 39 to IFRS 9 on capital adequacy to be phased in over a five-year period. The Ministry of Finance established transitional rules mirroring the EU rules on 18 December 2017.

Covered bonds (OMF)

The Ministry of Finance asked Finanstilsynet in February 2017 to consider various aspects of the legislation on covered bonds. According to Finanstilsynet's assessment, which was sent to the Ministry of Finance in September 2017, the Norwegian body of rules is robust and is largely compliant with the EBA's guidelines on covered bonds. Finanstilsynet recommended deferring any changes in the rules on covered bonds until a new body of rules is adopted by the EU. It also recommended that no change be made to the over-collateralisation requirement or mortgage companies' capital requirements. With regard to the risk posed by the interconnectedness of parent banks and mortgage companies, a new provision – regulating requirements on parents banks' disclosures – was recommended to enable quantification of the risk to which parent banks are exposed. The Ministry of Finance circulated the recommendation for comment with the deadline for response set at 12 January 2018.

Revised Payment Services Directive (PSD 2)

The revised Payment Services Directive (Directive 2015/2366, PSD 2) entered into force on 13 January 2018 across the EU, replacing the first payment services directive (Directive 2007/64/EC, PSD 1).

The overarching object of PSD 2, along with the Regulation on interbank fees and the SEPA (Single Euro Payments Area) Regulation which set pan-European rules for payments in euro, is to assure up-to-date, efficient and cheaper payment services, and to protect customers. Approval has been given for two new payment services which will initiate payments on behalf of the customer and provide the customer with an overall view of their payment accounts with various payment service providers. Both services presuppose the offeror being allowed to hook up to the customer's payment accounts with other payment service providers. In extension, PSD 2 regulates the interaction between the various account servicing payment service providers, and the relationship between payment service provider and customer.

Finanstilsynet was commissioned by the Ministry of Finance to draw up a consultation document for implementation of PSD 2 in Norwegian law. The ministry circulated the matter for comment in April 2017, setting the deadline for response in August 2017. The ministry's assignment omitted those parts of the Directive affecting the Financial Contracts Act as these are addressed in the *Ministry of Justice and Public Security's proposal for a new Financial Contracts Act*.

PSD 2 has yet to be incorporated into the EEA Agreement, and it is unclear when provisions implementing PSD 2 will be adopted into Norwegian law.

Crisis management

The EU Banking Recovery and Resolution Directive entered into force on 1 January 2015. The directive requires all banks to draw up recovery plans setting out specific, implementable measures for dealing with financial crisis situations. The plans must be evaluated by the respective national supervisors. National resolution authorities will draw up resolution plans for financial institutions headquartered in their home country.

The Government's Proposition to the Storting 159 L (2016–2017), presenting a bill on the Banks' Guarantee Fund and a bill on amendments to the Financial Institutions Act 2015 (dealing with deposit guarantees and bank resolution and recovery), will implement the EU's Bank Recovery and Resolution Directive (BRRD) and changes in the EU's Deposit Guarantee Directive. The proposal builds on the Banking Law Commission's report (NOU 2016: 23).

The proposition recommends Finanstilsynet as the resolution authority in Norway, while decisions of significance for financial stability will rest with the Ministry of Finance.

In preparation for subsequent drafting of regulations, the Ministry of Finance asked Finanstilsynet in June 2016 for a report on certain matters related to the BRRD's rules on minimum requirements on eligible liabilities (MREL). Finanstilsynet replied to the approach by letter and memorandum to the ministry in February 2017.



Supervision of ICT and payment systems

Developments

A number of ICT incidents affected Norwegian banks' service offering in 2017, including their provision of payment services. After a decline in recent years, 2017 saw a slight increase in the number of incidents due to operational failures. There were few reports of fraudulent attacks.

Developments in the first half of 2017 indicate that losses due to misuse of payment cards are falling for the first time since loss figures were first compiled in 2010. This includes losses known as Card Not Present (CNP). Finanstilsynet's assumption is that tighter requirements from card issuers and user sites as regards cardholder authentication in online transactions involving use of global security tools such as 3-D Secure et al. have contributed to the reduction.

Many entities outsource their ICT services. Finanstilsynet noted growing use of outsourcing to cloud service providers in 2017.

Incident reporting

Finanstilsynet received 190 incident reports in 2017, an increase of some 25 per cent over 2016. The increase is due in part to operational incidents at a joint provider which affected many banks simultaneously. Some operational incidents were extremely serious and affected several banks' service offering for up to an entire 24-hour period.

Failures of banks' customer-oriented systems receive close follow-up. Finanstilsynet places emphasis on the individual institution's handling of incidents to ensure recovery, and to the implementation of relevant preventative measures.

Financial institutions note a steady increase in undesired activity targeting their system solutions, but reported few events where undesired activity resulted in security incidents.

A number of small investment firms were victim to CEO fraud in 2017.¹

Supervision, surveillance and control

Supervision of ICT and payment services

Finanstilsynet conducted 23 on-site inspections of IT and payment services in 2017. Eleven were conducted at banks, five at insurance companies, five in the securities area, one at an audit company and one at an external accounting firm. The on-site inspections cover inter alia management and control of ICT services, outsourcing of services, compliance with laws and regulations, access control, crisis management planning and testing of emergency preparedness solutions, along with management and control of ICT security, including cyber security. Some on-site inspections also assessed a number of the inspected entity's suppliers.

As regards supervision of cyber security, Finanstilsynet drew attention to flaws in defences that expose systems and networks to an unnecessarily high degree to malicious attacks. Finanstilsynet has in connection with outsourcing pointed to the absence of, or deficient, risk assessments of global outsourcing. With regard to supervision of access control, Finanstilsynet notes that policies and procedures for users with administrative rights at some entities are inadequate.

Three on-site inspections were conducted at banks in 2017 addressing compliance with requirements on the computer systems used to report to the Norwegian Banks' Guarantee Fund.

International ICT supervisory collaboration

In June 2017 Norway hosted the annual meeting of the Information Technology Supervisors Group (ITSG). The themes addressed were cyber security, FinTech and emergency preparedness planning.

Outsourcing

Finanstilsynet received 24 notifications of outsourcing of ICT operations in 2017. Most concerned outsourcing to cloud service providers such as Microsoft and Google, and changes concerning sub-suppliers. Institutions have full responsibility for their outsourced ICT services. Finanstilsynet checks that financial institutions have in place agreements entitling both the institution and Finanstilsynet to inspect the provider with a view to verifying the outsourced activity.

¹ CEO fraud: impersonating a company executive in order to trick an employee in the company's accounts department into transferring money to anomalous accounts.



In one instance in 2017, where ICT services crucial for payment transmission were outsourced to a foreign actor, Finanstilsynet required that emergency preparedness capability should match that which could be established in Norway.

Payment systems

Finanstilsynet received 17 notifications from supervised entities of changed or new payment services in 2017. DNB's mobile payments service, Vipps, was transferred to a separate company, Vipps AS. Several Norwegian banks have bought into Vipps, see the account on page 35, and distribution agreements have been established with other banks that are not Vipps shareholders. As a consequence of Vipps' dominant position, MobilePay chose to terminate its activity in Norway. SpareBank 1 Mobilbetaling, which operated the mCASH solution, was taken over by Vipps.

Risk and vulnerability analysis (RAV)

Finanstilsynet's *RAV analysis* of financial institutions' use of ICT, published in April 2017, points up findings and observations made in the course of its supervisory activities. It bases its account of the institutions' own assessments on the latter's responses to a questionnaire survey and on interviews with institutions. In May 2017 Finanstilsynet organised, together with Norges Bank, a seminar at which the *RAV analysis* and Norges Bank's yearly report "Financial Infrastructure 2017" were presented.

Emergency preparedness

Finanstilsynet heads, and is secretariat to, the Financial Infrastructure Crisis Preparedness Committee (BFI). The BFI held two meetings and two emergency preparedness exercises in 2017.

Finanstilsynet provided a consultative statement on a document entitled "National Framework for Managing Digital Incidents" and outlines a framework for the role of sectoral response body² as regards those parts of the financial sector that are included in Finanstilsynet's remit.

² The Norwegian National Security Authority (NSM) describes sectoral response bodies as information flow nodes between the responsible government ministry and the NSM in connection with ICT security incidents.



Insurance and pensions

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

Developments

Since life insurers and pension funds invest much of their managed assets in securities markets, developments in these markets are of great significance to their profits and solvency position. Although the share of defined contribution pensions is growing, the bulk of pension providers' liabilities still comprise contracts providing an interest rate guarantee which may be difficult to fulfil in the event of persistent low interest rates.

The introduction of Solvency II in 2016 brought challenges to life insurers, mainly because the new framework requires fair valuation of liabilities and to a greater degree than previously sets capital charges that reflect risk in the portfolio. Entities have nonetheless, with one exception, thus far handled the transition to Solvency II through cost reductions, portfolio composition adjustments and changes in capital structure.

Global equity markets rose substantially in 2017. After the upturn in long-term interest rates in autumn 2016, rates changed little. Risk premiums in the bond markets fell and are now at historically low levels.

The Norwegian ten-year government bond yield fell by 0.05 percentage points in 2017 to 1.65 per cent at year-end. The swap rate, employed as the discount rate under Solvency II, showed a similar development. Shares on Oslo Børs climbed 23 per cent, and the Norwegian kroner depreciated by 4.7 per cent in terms of the import-weighted exchange rate index.

Supervision, monitoring and control

Monitoring and analyses

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

Finanstilsynet prepares quarterly reports on the profitability and balance sheet composition of life insurers and non-life insurers, while reports for pension funds are half-yearly. Quarterly press releases summarise these analyses, which are also published in *Report for Financial Institutions* (Norwegian only) on Finanstilsynet's website. Overall assessments of the situation in the financial sector and of various risks faced by Norwegian financial institutions were published in June and November 2017 in the report *Risk Outlook*.

Reporting

The reports filed by institutions are an important basis for analyses and on-site inspections. Solvency II brought a further, new, reporting setup. In addition to their use by Finanstilsynet for supervision and analysis purposes, data from the Solvency II reporting are passed on to the European Insurance and Occupational Pensions Authority (EIOPA). Compilation, revision and organisation of data involved a wide-ranging effort in 2017 which will continue in the years ahead.

Solvency II does not apply to pension funds. However, pension funds have based their stress test reporting on the Solvency II valuation principles since 2012, and semi-annual reporting of these stress tests by small pension funds and quarterly reporting by the largest pension funds will continue. Finanstilsynet has recommended that estimated loss potential employed in the stress



test should be introduced as a binding capital charge for pension funds. The matter is being considered by the Ministry of Finance.

Norwegian insurers' and pension funds' solvency position and profitability

Interest revenues account for a significant portion of insurers' overall financial revenues and are traditionally a relatively stable revenue source. However, the current low interest rate level has contributed to falling interest revenues in recent years. Life insurers have none the less recorded good overall returns due to the trend in equity markets.

Life insurers recorded somewhat higher unrealised gains on financial assets in 2017 than in 2016 due to the equity market upturn. Realised gains on financial assets were somewhat lower than in 2016.

Solvency II, which is considerably more risk sensitive than the previous solvency framework, posed a particular challenge to insurers inasmuch as its introduction in 2016 coincided with unprecedentedly low interest rates. The new regime accordingly included transitional arrangements to ease the challenges faced by institutions in complying with the requirements in the short term, and to allow time for adjustments. Norwegian institutions have in the main coped well with the transition to Solvency II.

Pension funds have a larger share of equities in their balance sheets than life insurers. Over time this has resulted in wide fluctuations in return. In recent years the equity market upturn has contributed to higher return at pension funds than at life insurers. The equity market upturn continued in 2017, and value-adjusted return was somewhat higher than in the previous year.

Non-life insurers recorded poorer results in 2017 than in 2016, due mainly to an increase in insurance-related operating expenses. Their profitability in terms of the combined ratio was somewhat lower in 2017 than in 2016.

Non-life insurers' financial position in aggregate is sound, and the introduction of Solvency II has posed a lesser challenge to non-life insurers than to life insurers.

Facts and figures

At the end of 2017 12 life insurers, 58 non-life insurers (including 15 fire insurers) and six marine insurance associations were licensed to operate in Norway. A further 13 branches of Norwegian insurers were operating abroad (in the EEA area) and 29 branches of foreign insurers in Norway. 131 insurance intermediaries¹ were listed in Finanstilsynet's registry at the end of 2017. Of these, 67 were insurance intermediaries, 40 were insurance agent firms and 24 were entities engaged in accessory insurance agent business. 47 private pension funds and 37 municipal pension funds held a licence at year-end.

On-site inspections

On-site inspections were conducted at four life insurers in 2017. Three of the inspections focused on the calculation and validation of technical provisions and capital charges under Solvency II. They examined inter alia models and central assumptions underlying the institutions' solvency calculations that are important in ensuring the quality of the calculations. Finanstilsynet has conducted such inspections at the six largest life insurers, and an assembled report from these thematic inspections will be published on Finanstilsynet's website.

On-site inspections were conducted at three pension funds in 2017, selected on the criterion of size. The inspections reviewed the pension funds' management and control systems as well as their risk exposure and capitalisation.

On-site inspections were conducted at eight non-life insurers. The inspections addressed management and control. In addition, on-site inspections were conducted at five insurance intermediaries. Final reports from these inspections will be available in 2018.

¹ The figures for insurance intermediaries do not include agent activities of insurers that keep their own agent registers. This applies to Norwegian insurers and Norwegian branches of foreign insurers.



Sale of individual life insurance products

Finanstilsynet has for several years monitored Norwegian life insurers' sale of individual life insurance products, including capital insurance, where the customer makes the investment decisions. As early as in 2012 Finanstilsynet conducted the first survey to ascertain how institutions ensure the customer's receipt of mandatory information and advice on the insurance contract, investment options and costs, and that recommended products are suited to the customer's needs.

In 2016 Finanstilsynet conducted a new survey based on information on the websites of eight Norwegian life insurers. In addition to checking compliance with instructions and recommendations issued after previous surveys, Finanstilsynet was prompted by several other countries' awareness of institutions that had sold unit linked products with complex underlying investments which may be difficult to understand and which potentially entail high risk and low liquidity. The survey showed that the Norwegian institutions that were investigated did not offer such products.

However, Finanstilsynet has subsequently initiated supervision of several insurance agents of foreign insurers that intermediate such products. Inspections revealed that customers have invested in some cases substantial amounts in these products, several of which feature a complex cost structure and very high costs. Finanstilsynet investigates whether agents have met the requirements as to information and advice, and the requirements on risk management and internal control. One of the cases has reached completion, and the supervisory comments are available on Finanstilsynet's website. The institution in question lost its licence and was deleted from Finanstilsynet's registry.

Financial reports meetings

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

Supervisory cooperation

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

Finanstilsynet has participated in supervisory colleges for the following foreign insurance groups operating in Norway:

- Danica pensjonsforsikring, Tryg A/S and Alpha Forsikring A/S (Denmark)
- If and Nordea Life and Pensions (Sweden)
- Help Forsikring (Arag) (Germany)

Silver Pensjonsforsikring AS under public administration

Silver Pensjonsforsikring AS was placed, as the first Norwegian life insurer, into public administration in February 2017. This was done to assure equal treatment of policyholders' insurance claims and to protect policyholders' best interests. Silver's portfolio represents a relatively small proportion of the overall paid-up policy portfolio in Norway, and the entity's insolvency has not led to general unease in the Norwegian insurance market.

Silver Pensjonsforsikring was granted a life insurer's licence on 30 June 2005. Silver's business consisted in the management and administration of insurance contracts emanating from collective pension schemes (paid-up policies and pension rights certificates), and paid-up individual pension agreements. By taking over paid-up policies from other life insurers, Silver assumed commitments to pay lifelong future benefits.

In 2014 life insurers were instructed to strengthen their pension capital (increase their technical provisions) in light of the population's increased longevity. The scale of the need for technical provisioning, combined with the rate of return prospects and Silver's potential earnings left the company in a vulnerable position.

In July 2015 Silver applied for dispensation from the forthcoming capital requirements of the Financial Institutions Act. The Ministry of Finance allowed Silver one year's grace as from 1 January 2016. The period of grace was subsequently extended to 15 February 2017. On the same date the Ministry of Finance rejected Silver's application for extended dispensation from the capital requirements with reference to the institution's failure to present evidence of significant progress towards finding a solution. When the existing dispensation expired, Silver was non-compliant with the capital requirements for insurers, and the Ministry of Finance resolved on 17 February 2017 to place Silver into public administration.

Finanstilsynet appointed an administration board on the same date. Under the provisions of the Financial Institutions Act the administration board was required as rapidly as possible to find arrangements (1) enabling the institution's business to continue on a viable financial basis, (2) to merge the institution with, or have its business transferred to, other financial institutions, or (3) to wind up the institution. The administration board drew up a recommended solution for Silver's customers based on the assumption that paid-up policies would be strengthened in keeping with the K2013 mortality base, and a maximum guaranteed rate of return of 2.75 per cent. The recommendation also required retirement pensions to switch from defined benefit to unit linked. Other pension rights were to remain unchanged.

The solution formed the basis for a bid process which attracted bids from four Norwegian life insurers. The administration board considered the bid from Storebrand Livsforsikring AS to be the best for Silver's policyholders. Storebrand's consideration of NOK 520 million, together with Silver's book equity and excess value meant that the



insurance claims (including interest) to cover retirement pensions were written down by a mere 0.7604 per cent.

Silver's policyholders were duly informed and given the opportunity to voice objections to the proposed solution. By the expiry of the deadline only 26 objections had been received from policyholders, far below the statutory threshold of one-fifth. On 19 December 2017 Finanstilsynet gave permission for Silver and Storebrand to formalise the conveyancing contract. The contract has accounting effect as from 1 January 2018. The contract will be implemented in the first quarter of 2018.

Finanstilsynet resolved on 30 January 2018 to order resumption of ordinary operations and to lay down requirements in that connection. The decision brought to completion the public administration of Silver Pensjonsforsikring AS, and set the stage for implementation of the final part of the conveyancing contract with Storebrand.

Licensing

Licence applications

In May 2017 Finanstilsynet granted permission for the transfer of the shares of OBOS Forsikring AS to the Danish insurer Tryg Forsikring A/S. OBOS' insurance business was transferred to Tryg's Norwegian branch with effect from June 2017. On the same date licensable business at OBOS Forsikring AS ceased. The two entities have initiated a collaboration to offer tailored insurances to OBOS members.

In September 2017 Standard Garanti AS was granted a licence to engage in credit insurance activity. This was subject to a requirement of start-up capital of a minimum of NOK 225 million. The licence must be put to use within one year of authorisation.

In November 2017 Finanstilsynet gave permission for the non-life insurer Insr Insurance Group ASA to acquire 100 per cent of the shares of NEMI Forsikring AS. NEMI Forsikring was previously owned by the Danish insurer Alpha Insurance A/S. The permission was granted on condition that Insr Insurance Group and NEMI Forsikring merged by the end of May 2018.

The marine insurance association Teisten Gjensidige Båtforsikring was merged with the marine insurer Nordlys Forsikring Gjensidig with effect from January 2018. This brings the number of entities licensed as marine insurance associations to five.

In September 2017 the intermunicipal pension fund Akershus interkommunale pensjonskasse applied for permission to extend the deadline for putting to use its licence as an intermunicipal pension fund. The permit was originally granted in June 2014, and the entity has subsequently been permitted to defer start-up of the business without putting the licence into use. Finanstilsynet was unable to grant the application. The pension fund's licence as an intermunicipal pension fund accordingly lapsed, and the entity changed name to Akershus fylkeskommunale pensjonskasse, a county municipal pension fund, as from 1 January 2018.

Insurance Complaints Board

Finanstilsynet acts as secretariat to the complaints board for insurance broking activities and reinsurance broking activities. The board handles disputes between principals and brokers. Two complaints were referred to the board for decision in 2017.

EU Capital Markets Union (CMU)

See an account of the EU Capital Markets Union on page 46.



Regulatory development

Insurance Distribution Directive (IDD)

The Insurance Distribution Directive regulates all distribution of insurance. The directive entered into force on 23 February 2016 and was transposed into EU member states' domestic legislations as from 23 February 2018 with implementation scheduled for 1 October 2018. The directive is EEA-relevant but has yet to be incorporated in the EEA Agreement. In August and September 2017 the EU adopted three regulations supplementing the IDD.

The directive is designed to increase consumer protection, strengthen policyholders' confidence, strengthen the EU single market and promote competition on equal terms between all distribution channels.

On commission from the Ministry of Finance, Finanstilsynet drafted a consultation document in June 2017. Finanstilsynet proposed inter alia a new act on insurance intermediation, amendments to the insurance intermediation regulations and amendments to the Financial Institutions Act with regulations.

Finanstilsynet's consultation document has been circulated for comment, and is under consideration by the Ministry of Finance.

Finanstilsynet recommended that all agents, including sub-agents, should be registered in Finanstilsynet's registry. Where agents of Norwegian insurers are concerned, the insurer will retain responsibility for checking that the terms and conditions for registration are met, and that the agent is registered with Finanstilsynet.

Finanstilsynet recommends that insurance agent firms should not be permitted to operate agreements with sub-agents numerically exceeding 50 per cent of the number of insurance agents employed by the insurance agent firm. The reason is that some insurance agent firms operate agreements with many sub-agents, and in some cases the business of the sub-agent is larger in scope than the business of the agent both as regards the number of insurance intermediaries and the mediated premium.

Finanstilsynet has not recommended requirements for mandatory advice beyond those set forth in current law.

The IDD introduces tighter rules on the right to accept consideration from, or pay consideration to, parties other than the customer when distributing insurance-based investment products, and scope is allowed for setting rules stricter than those of the directive, including prohibition of such consideration. Finanstilsynet does not recommend such a prohibition at this stage, preferring to await the impact of the stricter rules, which will apply to the distribution of insurances on a broad front.



Solvency II – the European solvency framework for insurers

The Solvency II framework brings new requirements on fair valuation of technical provisions and new risk-sensitive capital requirements, new requirements on insurers' system of risk management and internal control, and new requirements on reporting to the supervisory authorities and information disclosure. The new framework is implemented in Norway in the Financial Institutions Act, the Solvency II Regulations and regulations supplementing the Solvency II Regulations. In addition, technical standards and recommendations have been established in the EU containing more detailed rules and clarifications that also apply in Norway.

The new requirements on technical reserves and capital have brought substantial changes in prudential requirements. Requirements on life insurance products with a guaranteed return, in particular paid-up policies, are tightened. This is partly because technical provisions have increased since they are now valued using the market interest rate, and partly because the solvency capital requirement will now cover market risk related to the insurer's investments and liabilities. However, a transitional arrangement for life insurers means that the

increase in technical provisions upon the switch to the new framework can be phased in gradually over a period of 16 years.

In May 2017 insurers delivered their first ordinary reports under the Solvency II regime. The reporting requirements are wide-ranging and required substantial resources on the part of institutions and Finanstilsynet alike in 2017. In addition to the quantitative reporting, institutions delivered a qualitative report to Finanstilsynet, including a self-assessment of risk and solvency (ORSA). In 2017 institutions disclosed for the first time qualitative and quantitative information under the requirements of the Solvency II framework in their solvency and financial condition reports (SFCRs).

Internal models

Solvency II permits insurers to use their own models to calculate the solvency capital requirement. This requires permission from the supervisory authorities. In 2016 Finanstilsynet received applications from three insurers wishing to use such models. Consideration of the applications has yet to reach completion.

New capital requirements for pension funds

The Ministry of Finance has commissioned Finanstilsynet to draft regulations on a new capital requirement for pension funds. A draft was forwarded to the ministry in September 2016, and circulated for comment with the deadline for comment set at January 2017. The proposed capital requirement has its basis in Finanstilsynet's stress test 1, and is a simplified version of the solvency capital requirement under Solvency II. The proposal is under consideration by the Ministry of Finance.

New occupational pensions directive for pension providers

The revised Institutions for Occupational Retirement Provision Directive, IORP II, was adopted in December 2016. The directive brings new and expanded requirements on management and control, disclosure and reporting (Pillar 2 and Pillar 3) of activities, and measures to simplify cross-border activities. Member countries have until January 2019 to conform their national legislations.

Accounting rules for insurance and pensions

The international accounting standard for recognition and measurement of financial instruments (IAS 39) is superseded by IFRS 9 with effect from 2018. The requirements on disclosures under IFRS 7 have been revised in conjunction with IFRS 9. Special transitional rules are in force for insurers allowing deferral of the date by

which IFRS 9 must be applied. In its consultation document of September 2017 Finanstilsynet recommended continuation of the rules on accounting for financial instruments (IAS 39) as regards life insurers' and pension providers' company accounts up to and including the financial year 2020. For the company accounts of non-life insurers the recommendation is that entities should be entitled to choose between IAS 39 and IFRS 9 up to and including the financial year 2020. From 2021 onwards it is recommended that all insurers and pension providers should be obliged to apply IFRS 9.

New scheme for tax-favoured individual saving

In conjunction with the passage of the Revised National Budget for 2017, it was voted to replace the previous arrangement for tax-favoured individual pension saving (IPS) with a new scheme. Little use had been made of the previous arrangement. The pension saving schemes are at base pure savings agreements but offer the opportunity to incorporate an insurance element. There are no restrictions on the customer's choice of investment medium or requirements on portfolio diversification. This will impose substantial demands on the customer's understanding of the risk inherent in a portfolio, and heighten the need for information and advice. A separate provision on the obligation to provide information and advice on this product applies. The new rules entered into force on 1 November 2017.



The securities area

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

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

Developments

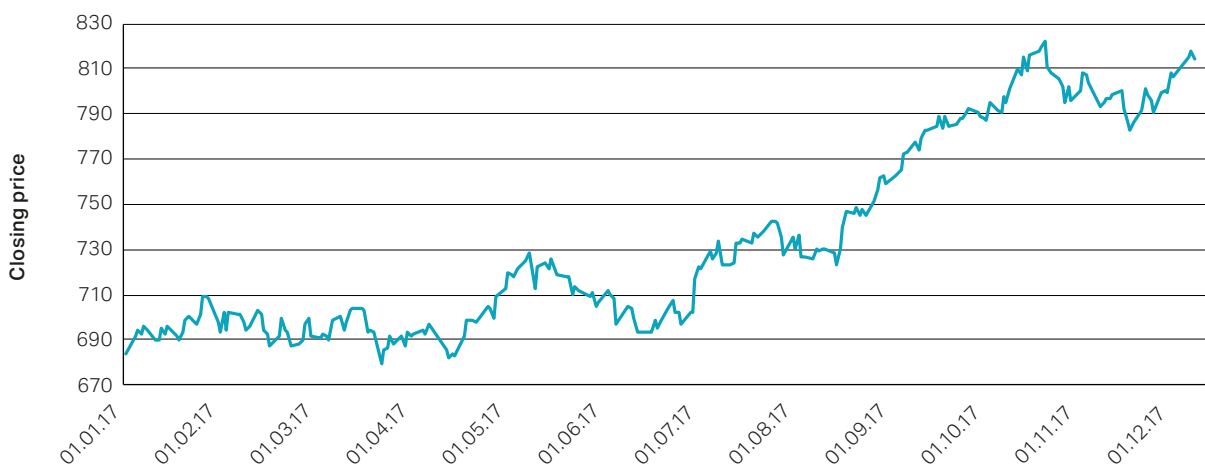
Stock market

At the start of 2017 the Oslo Børs Benchmark Index was at 684 points. The year's highest value, the highest ever, was 822 points recorded on 8 November. The lowest was

680 points, on 27 March. At the end of 2017 the benchmark index stood at 814.5 points, an increase of 19.1 per cent for the year.

Chart 2: Oslo Benchmark Index

Source: Thomson Reuters



Companies where a low Norwegian interest rate and low krone exchange rate are important factors in the market in which they operate showed a positive development on Oslo Børs. This is true for example of the finance industry and the commodities industry (Norsk Hydro, Yara etc.), which rose by 25.8 and 31.6 per cent respectively in 2017. Oil service and drilling shares, on the other hand, experienced another challenging year, but an increase

in the oil price through the second half of 2017 helped to support these sectors, which fell by a mere 3 per cent and 1.3 per cent.

Oil service and drilling shares account for a smaller portion of the market value of shares quoted on Oslo Børs.



In the last two years this portion has stabilised at about 33 per cent of overall market value. This is higher than at the end of 2015, when it was 27 per cent, but well under the value of this sector prior to the oil price fall in 2014 when it measured about 50 per cent of market capitalisation at Oslo Børs.

In 2017 equities worth NOK 1,102bn changed hands, up about 6 per cent from 2016. An average of 100,156 trades were transacted daily, some 8,000 more than in 2016 and 2,000 fewer than in 2015 when the highest ever number was recorded.

Oslo Børs' market share of order book turnover in equities that are also traded on other marketplaces (equities included in the OBX index) was in the range 59–62 per cent, an increase from 57–60 per cent in 2016.¹

In 2017 equity capital worth NOK 46.8bn was raised on Oslo Børs and Oslo Axess², and about 22.4 per cent of the equity capital was raised in connection with new listings. In all, 18 new entities were admitted to Oslo Børs / Oslo Axess in 2017.

¹ Source: Cboe Global Markets

² Source: Oslo Børs

³ Source: Stamdata

⁴ Source: Oslo Børs

Bond market

In 2017 bonds worth a total of NOK 368bn were issued (exc. government bonds), with banking and finance accounting for NOK 199.2bn, corporates for NOK 127.7bn and municipal and county authorities for NOK 41.1bn.

Total outstanding volume in the Norwegian bond market, including government bonds and unquoted bonds, came to NOK 1,850bn at year-end. Of this, NOK 869bn was issued by banks and other financial institutions, NOK 546bn by the central government sector (including government bonds and Treasury certificates worth NOK 407bn) and NOK 435bn by non-financial firms.³

The bulk of the Norwegian bond market is listed on Oslo Børs or Nordic ABM. The outstanding volume of listed bonds at the end of 2017 was NOK 1,700.9bn. This broke down to NOK 390bn in government bonds, NOK 237bn in corporate bonds and NOK 637bn in other bonds on Oslo Børs (exc. government bonds), and NOK 44.8bn in corporate bonds and NOK 392.1bn in other bonds on Nordic ABM. In 2017 bonds worth NOK 5,102bn were traded on Oslo Børs, and NOK 544bn on Nordic ABM. Trades on the stock exchange are in principle bilateral, and are reported for publication in the exchange's systems.⁴

Bonds listed on Oslo Børs and Nordic ABM are owned mainly by life insurers and private pension funds, banks, foreign companies, mutual funds and the social security administration.

Regulatory development

Capital Markets Union (CMU)

The capital markets union is an initiative put in place by the European Commission and designed to strengthen a single market for capital across the EEA. The capital market will supplement the traditional market for bank funding to a larger degree. It will facilitate long-term and sustainable investment, cross-border investment and increased funding opportunities for European business and industry in general, and for SMBs in particular. A further goal is to strengthen banks' lending capacity.

To attain all these objectives, the European Commission created an action plan in 2015. A number of the initiatives in the action plan have already been implemented, such as revision of the prospectus legislation and legislation on European venture capital funds. In addition, new legislation is proposed that lays the basis for simple, transparent and standardised securitisation. The aim is to implement all the initiatives in 2019 at the latest.



MiFID II and MiFIR

Finanstilsynet adopted on 4 December 2017 regulations on investment firms, regulated markets, data reporting services and trade in commodity derivatives and emission quotas (the MiFID II Regulations) as well as regulations corresponding to the Markets in Financial Instruments Regulation (the MiFIR regulations). The Norwegian regulations implement MiFID II (Directive 2014/65/EU) and MiFIR (Regulation 600/214/EU). On 20 December 2017 Finanstilsynet adopted regulations to supplement the Norwegian MiFID II and MiFIR regulations. The regulations lay down rules corresponding to 48 Commission Regulations that supplement the MiFID II Directive and the MiFIR Regulation, and rules corresponding to the Commission Directive that supplements MiFID II (level 2 rules). Following the adoption of these regulations, Norwegian investment firms and trading venues are subject to the same requirements as entities in the EU.

The regulations enable Norwegian entities, which are part of the single market by virtue of the EEA Agreement, to operate under the same regulatory framework as, and to be treated on a par with, EU entities. The Norwegian regulations entered into force on 1 January 2018.

As a result of the introduction of the MiFID II framework, Finanstilsynet also adopted regulations on position limits for commodity derivatives. The regulations were adopted on 20 December 2017, and entered into force on 1 January 2018. The regulations set limits to the size of net positions that can be held by natural or legal persons at any time in commodity derivatives that are traded on trading venues in Norway and in economically equivalent OTC contracts.

Further, MiFID II brings providers of data reporting services under the supervision of Finanstilsynet.

Investment firms

MiFID II strengthens consumer protection. It introduces a stricter trading obligation to prevent conflicts of interest, and stricter requirements on assessments of suitability and appropriateness of investment services and financial

instruments. In addition, new product handling requirements are introduced for investment firms that produce financial instruments. The object of the rules is to ensure that the instruments are designed in a way that meets the needs and investment strategy of the customer.

MiFID II also imposes stricter requirements on information to the customer. Further, it entails stricter rules on consideration to/from parties other than the customer. Institutions that provide independent investment advice and active management services cannot accept consideration from parties other than the customer. Analysis services are regarded as consideration from parties other than the customer, unless the analysis is paid for directly out of the investment firm's own funds, or from a separate analysis account controlled by the institution. Investment firms that offer both analysis services and order execution must price the latter separately. Institutions offering other investment services are subject to stricter rules as regards consideration that can be regarded as improving the quality of a service, and that can be provided under the rules.

Infrastructure

MiFID II and MiFIR introduce further, and more detailed, requirements on trading venues, in addition to a new category of trading venue called organised trading facilities (OTFs).

An important change brought by MiFIR is to require trading venues to disclose information on orders and transactions in all financial instruments they have admitted to trading, and investment firms to publish information on their OTC transactions. Finanstilsynet may, in specified cases, exempt trading venues and investment firms from these obligations. In addition, investment firms that are systematic internalisers (firms which "in an organised, frequent and systematic manner deal on own account by executing client orders outside a regulated market or multilateral trading facility") are obliged to disclose prices and make them available to their customers.



EMIR

Regulation (EU) No. 648/2012 on OTC derivatives, central counterparties and trade repositories (EMIR) entered into force in Norway on 1 July 2017. Many of the Securities Trading Act's provisions on central counterparties were concurrently rescinded. EMIR is supplemented by a number of Commission Regulations, not all of which had been incorporated in the EEA Agreement or transposed into Norwegian law by the turn of 2018. However, Finanstilsynet expects entities under supervision and other relevant entities to abide by the EMIR framework as it applies in the EU at any time. This expectation has been communicated to the entities in Finanstilsynet's circular 6/2017 on the implementation of EMIR.

Regulation on money market funds

The EU adopted in June 2017 a Regulation on money market funds that are established, managed or marketed in the EEA area. The MMF Regulation specifically addresses all types of funds targeting the money market. The licensing requirement under the Regulation is additional to the authorisation needed as a securities fund or alternative investment fund. The Regulation

imposes detailed requirements as to diversification, sufficiently liquid assets, independent credit rating and stress testing. The Regulation is designed to safeguard against future systemic risk and to strengthen investor protection by rendering money market funds more robust to massive redemption requests in times of crisis. In autumn 2017 Finanstilsynet drew up, on commission from the Ministry of Finance, a consultation document on the Regulation and its implementation in Norwegian law.

UCITS V

Amendments to the Securities Fund Act and the Securities Fund Regulations that implement UCITS V entered into force on 1 January 2018. The amendments concern the assessment of violation charges, and are based on a proposal from Finanstilsynet in 2017.

In 2017 Finanstilsynet also framed a proposal on the implementation of a supplementary Regulation to UCITS V on new, expanded provisions governing a depository's control and custodial functions. The Securities Fund Regulations do not thus far include provisions that implement the Regulation on depository obligations.



Investment firms

Supervision, monitoring and control

Finanstilsynet oversees investment firms' compliance with the requirements of the Securities Trading Act and associated regulations. The requirements of the Act as regards the handling of conflicts of interest and maintaining good business practices are at centre-stage in this area with a view to ensuring a high level of investor protection in the securities market and to promoting market integrity. The supervision of investment firms also aims to encourage investment firms to maintain sufficient internal controls and to promote an informed attitude to risk.

Based on Finanstilsynet's risk-based approach, seven on-site inspections were conducted in 2017 at Norwegian investment firms and one on-site inspection at a Norwegian branch of a foreign investment firm. Two further inspections specifically targeted investment firms' ICT solutions.

The firms' investment advice was in focus in the inspections. Themes investigated were whether the recommended financial instruments were suitable for the customers, whether the firms had given the customers balanced, correct and understandable information on risk and costs, whether the firms have a clear stance as regards identifying and handling conflicts of interest, whether the firms' customer due diligence and anti-money laundering efforts were adequate and whether the firms' internal control function was adequately resourced, structured and formalised. Advice regarding pension assets and pension saving were also examined in the case of three firms which also held a banking licence.

Finanstilsynet has also reviewed investment firms' control function and their structure and organisation with a view to curbing conflicts of interest.

Two on-site inspections that started prior to 2017 led to withdrawal of the licences in 2017. In both cases the licence withdrawal was prompted by the firms' sale of own shares to customers. This practice is incompatible with the requirements as to good business practices and handling of interest conflicts.

Finanstilsynet conducted in 2017 five different off-site investigations of selected investment firms. The investigations covered the following themes: (1) Norwegian entities with tied agents, (2) Foreign firms conducting cross-border activity into Norway via a tied agent, (3) Survey of shareholder structure in all investment firms, (4) Firms whose main business is corporate finance and (5) Firms with the potential to switch activity

Facts

At the end of 2017 106 investment firms were operating in Norway, of which 23 also held a banking licence. In addition, 19 foreign investment firms operated branches in Norway.

from investment advice to discretionary asset management. The investigations have given Finanstilsynet with a basis for further monitoring of individual firms.

Monitoring of firms' financial development

Finanstilsynet registered and brought to light a total of eleven firms that breached the capital requirements in 2017. The firms concerned were followed up on, and several received warnings of possible licence withdrawal. The breaches were in the main rectified by cash deposits or by adjustments to group structure. At the end of 2017 four investment firms were required to report their capital adequacy position each month due to low capital adequacy, negative profit growth and/or poor quality reporting.

Finanstilsynet registered and brought to light breaches of the rules governing large exposures at 20 investment firm in 2017. The firms in question were monitored, and several were ordered to bring large exposures into line with the regulations. The orders were in all cases complied with.

Finanstilsynet publishes half-yearly press releases, based on investment firms' half-yearly returns, in which trends in these entities' business are presented and commented on. In 2017 the operating revenues of investment firms not integrated into banks were 23 per cent higher than the previous year. Operating profits were 24 per cent higher. In 2017, as in most previous years, investment firms' largest revenue source was their corporate finance business. Their next largest revenue source was investment advice, followed by secondary market trading of stocks and bonds.



Licensing

Six new investment firms (Beaufort AS, Beringer Finance AS, Colliers International Corporate AS, Exordium Capital AS, Kron AS and Spiff AS) were granted a licence to provide investment services in 2017. In addition Kepler Chevreux S.A. and BNP Paribas S.A. established branches in Norway. Seven existing firms (Bergen Capital Management AS, Forum Securities AS, Griff Kapital AS, Norse Securities AS, Oslo Finans AS, Pareto Wealth Management AS and Sissener AS) were granted an expanded licence enabling them to provide additional investment and ancillary services.

Finanstilsynet also receives a large number of notifications of cross-border activity from investment firms headquartered in other EEA states. The majority of notifications concern provision of services directly from the home state, without any establishment in Norway. Some notifications of provision of services through establishment of a tied agent in Norway were also received. The agents provide investment services under the investment firm's licence, and the investment firm is responsible for the agent's activity. In 2017 Finanstilsynet turned down three establishments of tied agents who did not meet the statutory fitness and propriety requirements.

Investigation of property companies possibly involved in illegal activity

In 2017 Finanstilsynet investigated several companies that were operating without a licence and were marketing real estate investment opportunities to non-professional investors. In some cases the companies were revealed to have provided investment services on an unlawful basis. The investigations also covered possible unlawful management of alternative investment funds. A number of associated property companies and some stand-alone companies were also investigated. Five companies were instructed to halt unlawful provision of investment services, and market warnings against these companies were published on Finanstilsynet's website. The investigations also showed a substantial asymmetry in the distribution of rate-of-return potentials and risk between the founders and the new investors to whom the property projects were sold.

Market warnings

Five warnings were published against Norwegian entities and five warnings against foreign entities that provided investment services in Norway in 2017 without the requisite licence. Finanstilsynet also published 315 warnings issued by foreign supervisory authorities against entities providing investment services in the EU/EEA without the requisite licence. Finanstilsynet's website also provides information on investment fraud and advice to investors on how to protect themselves against fraudsters. Finanstilsynet's market warnings are also available at Finansportalen.no.



Mutual funds and collective investment schemes

Supervision, monitoring and control

Mutual fund management companies

A mutual fund is a regulated savings product offering a high degree of investor protection through the legislation. Supervision in this area is largely geared to ensuring that consumer interests are protected, so that mutual funds can be suitable savings products for non-professional investors.

Net subscription in Norwegian management companies' mutual funds rose from NOK 39.2 billion in 2016 to NOK 59.7 billion in 2017, of which fixed-income funds accounted for NOK 34.7 billion and equity funds for NOK 16.4 billion. Of the overall net subscription in mutual funds, Norwegian private individuals accounted, directly or indirectly through defined contribution pension plans, for NOK 46.2 billion in 2017, compared with NOK 17.7 billion in 2016. The introduction of the share savings account (ASK) and individual saving for retirement (IPS) is assumed to have contributed to high net subscription by private individuals in autumn 2017. Overall net subscription, combined with a net rise in value over the year, brought aggregate managed assets at mutual funds to NOK 1,138.3 billion at the end of the year.¹

Overall, management companies retain good profitability. No breaches of the capital requirements were recorded in 2017.

Management companies are required to report breaches of the investment limits to Finanstilsynet. For their part, depositaries are required to inform Finanstilsynet on a quarterly basis of breaches brought to light. The number of reported breaches in 2017 was on a par with previous years.

No ordinary on-site inspections were conducted at management companies in 2017. Based on an overall risk assessment, and the precept of optimal utilisation of supervisory resources, thematic inspections were given priority. In 2017 Finanstilsynet focused on following up on earlier thematic inspections of active management of equity funds (closet index funds) and balanced funds. Finanstilsynet also conducted investigations of management companies' practices as regards swing pricing, i.e. adjusting the net asset value of a fund to ensure that remaining unit holders are not charged the costs of portfolio adjustments resulting from substantial subscription volumes or redemptions by other unit holders.

¹ Source: Norwegian Fund and Asset Management Association

Facts

At the end of 2017, 28 fund management companies were operating in Norway along with one branch of a Finnish management company. Of these, 21 were also licensed to provide the investment service "active management of investors' portfolios of financial instruments". Three Norwegian management companies ceased trading or moved their business abroad in the course of 2017. At the end of 2017 the companies managed 415 mutual funds under licence from Finanstilsynet. UCITS investment funds make up the largest group of Norwegian mutual funds.

The practice of holding contact meetings with trade associations and management companies was continued, and seven contact meetings were held in addition to a number of meetings at which themes of a more specific nature were discussed. Regular contact with market actors contributes to an effective and targeted supervisory activity.

Managers of alternative investment funds (AIFMs)

In autumn 2016 Finanstilsynet conducted an inspection at an AIF manager with one alternative investment fund. A number of law violations were brought to light and in autumn 2017 it was decided to withdraw the manager's licence. The decision was appealed, and the appeal is under consideration by the Ministry of Finance.

Finanstilsynet's effort in this area of supervision focused largely on processing applications filed under the new regulation, providing guidance to the actors concerned and setting up reporting solutions in accordance with pan-European arrangements. Reports received are an important contribution to off-site supervision in the AIF area. No breaches of the capital requirements were brought to light in 2017.



Licensing

Fund management companies

No new licences were granted to engage in mutual fund management in 2017, but authorisations were given for existing management companies to provide ancillary services. In autumn 2017 Storebrand acquired a majority shareholding in the management company Skagen AS.

In 2017 licences were granted for the establishment of 15 new mutual funds, while eight mutual funds were liquidated. Over the course of the year a number of approvals were given to change mutual fund rules. A number of mutual funds have introduced unit classes and performance-based management fees. Finanstilsynet's circular 11/2001 on asymmetric management fees no longer reflects Finanstilsynet's view on such fees, and it was accordingly withdrawn in 2017.

A number of UCITS funds established in other EEA states have been passported for marketing in Norway, in particular UCITS funds from Luxembourg, Ireland, the United Kingdom and the Nordic countries. Some Norwegian managers have passported mutual funds for marketing in other EEA member states. Finanstilsynet's overview of foreign UCITS funds marketed in Norway is available in Finanstilsynet's registry.

Finanstilsynet provided the Ministry of Finance with various assessments regarding the implementation of MiFID II. The assessments, which also affect management companies, cover the question of whether amendments to the Securities Trading Act are needed as a result of the requirement to separate analysis costs from transaction costs. Finanstilsynet also participated in a working group looking into the rules governing, and the organisation of, the new share savings account scheme (ASK) which entered into force on 1 September 2017. Good consumer protection through information and the opportunity to switch provider were important considerations in designing the scheme.

Facts

In 2017 two new licences were granted for the management of alternative investment funds (AIFs), while one entity's licence application was rejected. At year-end, 37 AIF managers were subject to ordinary supervision. In addition, 25 new AIF managers were registered, and at year-end 89 AIF managers featured in Finanstilsynet's registry. Funds managed by registered AIF managers cannot be marketed to non-professional investors.

Managers of alternative investment funds (AIFs)

The number of applications to market AIFs to non-professional investors was on a par with the previous year. 18 such licences were granted in 2017. Many AIFs catering to the mass market are structured as feeder funds to a single master fund which is effectively closed to non-professional investors due to a high minimum subscription amount. Fund structures are often difficult to follow, and fee models are challenging to explain fully. Finanstilsynet does not approve a fund per se, but reviews its documentation.

In 2017 Finanstilsynet granted 40 licences to market AIFs to professional investors in Norway, where either the manager, the fund or both are established outside the EEA.

A number of AIFs established in other EEA member states have been passported for marketing to professional investors in Norway. This is true above all of funds established in Ireland, the United Kingdom or Luxembourg. Some Norwegian AIF managers have notified provision of cross-border services out of Norway.

Regulatory development

New unit classes proposed

Finanstilsynet prepared in 2017 a consultation document proposing an amendment to the Securities Trading Regulations to enable provision of currency-hedged unit classes in mutual funds with differing issue currencies. The amendment has no direct link to EU law. The Ministry of Finance circulated the proposal for comment with the deadline for response set at 15 January 2018.



Securities market infrastructure

The securities market infrastructure comprises trading venues operated by Oslo Børs ASA (Oslo Børs, Oslo Axess, Oslo Connect and Merkur Market). Oslo Børs ASA also owns the trading venue Fish Pool ASA, and operates an Approved Publication Arrangement (APA). Other trading venues included are Norexco ASA and Nasdaq Oslo ASA. Further, up to year-end a multilateral trading facility was operated by the investment firm ICAP Energy AS. Due to a change in the rules, this entity chose to surrender its licence. In its place the UK investment firm ICAP Energy Ltd., which runs an organised trading facility, established a Norwegian branch. Verdipapirsentralen ASA (VPS), which runs a central securities depository and operates the central securities settlement system in Norway (VPO NOK), is another key actor in Norway's infrastructure.

Supervision, monitoring and control

The ongoing supervision of infrastructural entities comprises inter alia fitness and propriety assessments of the management team, approval of entities' internal rules and assessment of risk factors and capital. Regular meetings are held with the entities. In collaboration with Norges Bank, Finanstilsynet evaluates the VPS's depository and settlement functions in light of the CPSS-IOSCO principles for financial market infrastructures. This evaluation receives further mention in Norges Bank's yearly report on financial infrastructure.

There were no reports of ICT incidents at infrastructural entities in 2017 with significant impacts on the market.

Licensing

Central counterparties

The following foreign central counterparties – SIX x-clear AG, Nasdaq Clearing AB, European Commodity Clearing AG (ECC), LCH Ltd and European Central Counterparty N.V. (EuroCCP) – are important components of Norway's securities market infrastructure, although they no longer hold a Norwegian licence. The termination of the Norwegian licences is the result of an amendment, effective as from 1 July 2017, to the Securities Trading Act's provisions on central counterparties. The amendment transposed EMIR into Norwegian law. Central counterparties were now entitled to operate in Norway under their home country licence granted pursuant to EMIR. The same applies to third-country central counterparties that are recognised as such by the EU.

The amendment also removes foreign central counterparties from direct supervision by Finanstilsynet. However, EMIR presupposes the establishment of supervisory colleges for central counterparties in the EEA drawing representatives from the competent authorities supervising the trading venues concerned and associated central securities depositories. Hence Finanstilsynet retains some level of supervision of Nasdaq Clearing, ECC, LCH and EuroCCP by virtue of its participation in these supervisory colleges. Since SIX x-clear AG is Swiss it has no supervisory college, in contrast to the situation for central counterparties in the EEA. This entity's significance for Norway's securities market has nonetheless prompted collaboration between Finanstilsynet, Norges Bank, the Swiss national supervisor (FINMA) and the Swiss central bank on information exchange et al.

Verdipapirsentralen ASA (VPS)

VPS has started the process of transferring those parts of its business that address mutual funds to its Swedish subsidiary Centevo AB. Closely following the process, Finanstilsynet has set conditions to the effect that services that are part of the company's licensable activity under the Securities Register Act shall not be transferred to Centevo AB. Finanstilsynet also requires VPS to continue to offer central securities depository services for mutual funds.

Finanstilsynet may permit VPS to provide researchers with confidential information, on condition that the request is considered reasonable and does not entail disproportionate inconvenience to other interests. Finanstilsynet granted two requests from VPS regarding researchers' access to information.

Licence to operate an approved publication arrangement

As from 1 January 2018 investment firms are required under MiFIR to publish information on their transactions in financial instruments that are traded on a trading venue. This obligation applies only to OTC transactions (trades outside a trading venue). Publication must take place through an approved publication arrangement (APA), which is a new type of licensable activity under MiFID II. Finanstilsynet granted Oslo Børs's application for such a licence on 22 December 2017.

Exemption from the obligation to publish information on orders and transactions in financial instruments that are traded on a trading venue

Trading venues are required as from 1 January 2018 to publish bid and offer prices, and order depth for all types of financial instruments that are traded on them. They are also required to publish the price, volume and time of executed transactions. Trading venues were previously only



required to publish order and transaction information on equities. The extended requirement is a result of the entry into force of MiFIR.

Finanstilsynet is empowered in specific cases to entitle trading venues to refrain from publishing order information. Finanstilsynet can only make such a decision after informing the European Securities and Markets Authority (ESMA) and national supervisory authorities in the EEA about the planned exemption. ESMA shall thereafter issue a non-binding statement to Finanstilsynet giving its assessment of whether the exemption is compatible with the requirements of MiFIR.

In 2017 Finanstilsynet considered 38 applications from the following institutions for exemption from the obligation to publish order information: Oslo Børs ASA, Nasdaq Oslo ASA, Norexeco ASA and ICAP Energy AS. In view of a heavy workload and issues related to the EEA Agreement, ESMA has only commented on two of the 38 exemptions applied for. Hence the majority of Finanstilsynet's decisions have been taken subject to a proviso that they can be reversed should ESMA consider them to be counter to the requirements of MiFIR, and Finanstilsynet concurs.

Seven of Oslo Børs' applications for exemption from the obligation to publish order information were not finalised in 2017. In four cases this was because the applications need to be modified to meet the requirements of MiFIR, based on how the Regulation appears to be interpreted by ESMA. The other three were, in consultation with Oslo Børs, given lower priority in favour of other matters since the exemptions that had already been granted meet Oslo Børs' current needs.

Finanstilsynet may also, in special cases, give trading venues the right to defer publication of information on executed transactions. Such decisions are made without prior submission to ESMA. Oslo Børs ASA, Nasdaq Oslo ASA and Norexeco ASA applied for, and obtained in 2017, permission from Finanstilsynet to defer such publication.

Change in Oslo Børs rules

Finanstilsynet asked Oslo Børs ASA to revise its rules for listed entities to make it clear that such entities must publish inside information immediately, regardless of whether or not the regulated market concerned is open. Oslo Børs introduced this change with effect from 1 April 2017. Finanstilsynet also asked Oslo Børs to revise its circular no. 5/2012 such that issuers are required to notify disclosable securities trading when the exchange's news service is staffed, i.e. from 0800 to 1730 hours, allowing them to publish notices, and not depending on the opening hours of the stock exchange's trading system, which are 0900 to 1630 hours. Oslo Børs has complied with Finanstilsynet's requests.

Order to suspend quoted shares

Finanstilsynet ordered Oslo Børs ASA in spring 2017 to suspend trading in the shares of a company that had failed to publish its annual report. Complying with the order, Oslo Børs suspended trading in the shares in question with effect from 3 March 2017.

Exemption for intra-group derivative contracts under EMIR

The introduction of EMIR brought a requirement to clear certain OTC derivative contracts. The clearing obligation applies to financial counterparties, and to non-financial counterparties having derivative positions in excess of specified threshold values. As regards derivative contracts that are not cleared, the counterparties mentioned must instead exchange adequate collaterals. These requirements also apply at outset to intra-group derivative contracts, subject to important exemptions. However, applying these exemptions from the requirements as to clearing and as to exchange of collaterals presupposes that the intra-group companies concerned send advanced notification, and in some cases an application, to Finanstilsynet.

In autumn 2017 Finanstilsynet processed notifications from financial counterparties intending to utilise the exemption from the clearing obligation in respect of intra-group derivative contracts. The application form and further information about the applications are available on Finanstilsynet's website along with further details of the body of rules in general.

Establishment of a position regime for commodity derivatives

MiFID introduced a new regime for commodity derivatives which includes the setting of limits on the size of positions that can be held in commodity derivatives, as well as reporting of positions in commodity derivatives. Finanstilsynet adopted on 20 December 2017 regulations on position limits for commodity derivatives. The position limits apply to commodity derivatives that are traded on trading venues that are supervised by Finanstilsynet, and to OTC contracts considered to be economically equivalent to commodity derivatives traded on those trading venues. At the time the regulations were adopted, 54 commodity derivatives were traded on Norwegian trading venues, of which nine were liquid and 45 were illiquid.

The manner in which the limits are set differs for liquid and illiquid commodity derivative contracts. In the case of illiquid contracts the limit is set at an absolute figure expressed in the unit in which the contract is traded. In the case of liquid contracts the limits are set based on an assessment of the characteristics of the commodity derivative concerned and the underlying market. Finanstilsynet has been in close dialogue with the trading venues to obtain information needed to set the limits. Finanstilsynet has notified the position limits set to ESMA and ESMA will issue a statement as to whether it considers the limits to be compliant with the requirements on calculations set out in MiFID II and underlying legislative acts.

The reporting obligation following from MiFID II covers both weekly and daily reporting of positions held in commodity derivatives. In collaboration with the Dutch supervisory authorities, Finanstilsynet has developed an IT system to receive the daily position reports. The system opened for reporting on 3 January 2018.



Market conduct rules

Supervision, monitoring and control

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

The rules on unlawful insider trading, market manipulation and due care in handling inside information are at centre-stage. Finanstilsynet also oversees compliance with the rules on the preparation of insider lists, the duty to investigate, the prohibition of unreasonable business methods, notification rules and rules requiring the disclosure of acquisitions of large shareholdings. Finanstilsynet works closely with the National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM) and Oslo Børs in this sphere.

The majority of cases investigated by Finanstilsynet in 2017 were reported by investment firms and investors. Many were referred by Oslo Børs or initiated by Finanstilsynet itself in response to market events. Finanstilsynet's own surveillance system, SKADI, has triggered many alarms prompting further investigation.

Many cases of insider trading and market manipulation are time consuming, above all where investigation requires detection of foreign investors who have traded ahead of particular market events. This entails extensive contact with foreign fund managers and supervisory authorities.

The following were investigated in 2017:

- 108 cases of unlawful insider trading and/or breaches of confidentiality or breaches of the obligation to maintain insider lists
- 39 new cases of market manipulation / unreasonable business methods
- 568 alarms triggered by Finanstilsynet's surveillance system, SKADI
- 25 cases of failure to disclose securities trading requiring disclosure
- 768 alarms triggered by failure to disclose changes in qualifying holdings
- 43 cases of securities trading requiring notification

Finanstilsynet received a total of 90 reports from investment firms under obligation to report transactions giving rise to suspicion of insider trading or market manipulation.

Administrative fines

Over the course of 2017 Finanstilsynet imposed four administrative fines for breaches of the disclosure requirement and two administrative fines for breaches of the notification requirement. Fines imposed for breaches of the disclosure requirement are published on Finanstilsynet's website. Finanstilsynet attaches importance to the deterrent effect of such fines.

Notifications to the prosecuting authority

Finanstilsynet reported two cases of suspected unlawful insider trading and/or breach of confidentiality to the prosecuting authority in 2017. One case of market manipulation was reported.

Follow-up of reported cases

Finanstilsynet collaborated usefully with ØKOKRIM and local police authorities on reported cases in 2017. Finanstilsynet provided assistance to the prosecuting authority in the form of a range of different analyses. Several of Finanstilsynet's staff assisted police preparations for main hearings in court and also gave evidence in criminal proceedings.

Finanstilsynet provided assistance to foreign supervisory authorities in a number of court cases relating to market conduct, and received such assistance in some instances. This is in keeping with obligations under international agreements.

Short selling register

The Short Selling Regulation was implemented in Norway as from 2 January 2017. The reporting obligation applies to all investors holding short positions in shares or government debt that exceed set thresholds. Short positions are reported and published via a dedicated portal (ssr.finanstilsynet.no). In 2017 about 2,140 positions were published from 94 investors who reported holdings above the threshold value of 0.5 per cent. Positions that are not published are also received via the portal. These are positions below 0.5 per cent and positions in government debt. Over the course of the year there were 1,830 correspondences in writing via the portal's e-mail system (ssr@finansstilsynet.no). Since many approaches were by telephone, a dedicated line for was opened in 2017 for questions regarding reporting required by the Regulation. Finanstilsynet forwards short positions in equities and government debt to ESMA on a regular basis. In 2017 one report on exemption for market makers and four reports on exemption for primary dealers were approved. The early part of the period was especially resource-demanding since many investors experienced start-up problems.



New transaction reporting

As a result of Regulation (EU) No. 600/2014 on Markets for Financial Instruments (MiFIR), Finanstilsynet developed in 2017, in collaboration with the other Nordic countries and the Netherlands, a new transaction reporting system (TRS). This is an electronic system designed to receive reports from investment firms and trading venues of transactions in financial instruments. Transaction reporting was established by regulations entering into force on 1 January 2018.

The new system is a major extension of the previous version, introduced by MiFID in 2007. Entities and trading venues are now required to report many more data fields per transaction; individuals and entities in all transactions must be identified; and trading venues also have to report on behalf of members that are not investment firms. ESMA has drawn up comprehensive guidelines for reporting by investment firms and trading venues. Finanstilsynet has organised technical and legal seminars to inform the industry, and a dedicated page on Finanstilsynet's website has been set up to provide information about the system.

Court rulings

The following court rulings were delivered in 2017 in cases which Finanstilsynet investigated and reported to the prosecuting authority:

- In May 2017 the Borgarting Court of Appeal delivered judgment in a case involving gross corruption, money laundering, market manipulation and insider trading et al. The board chairman of a company listed on Oslo Børs had been involved in long-lasting business cooperation with a foreign company. Through another company he contributed to an agreement to purchase shares in the company listed on Oslo Børs. With the aid of confidential information and inside information, as well as by means of market manipulation, he set the stage for sale of the shareholding at the highest price possible. The board chairman received a consideration and gained other advantages for his contribution. He was sentenced to four years' imprisonment, confiscation of NOK 6.5 million and loss of rights for five years for the criminal offence. The judgment was appealed, but appeal was denied by the Supreme Court's appeals committee on 30 October 2017. The judgment is therefore final and unappealable.

- In April 2017 Oslo City Court handed down judgement in a case of market manipulation and insider trading. The indictment, which addressed circumstances related to the development and launch of a computer game, was filed against three earlier senior employees and the previous board chair of a company listed on Oslo Børs. The company's managing director was acquitted of market manipulation, but was sentenced to 11 months' imprisonment for insider trading. The previous chairman of the company was acquitted of incitement to insider trading, but was sentenced to one year's imprisonment for insider trading. One further previous senior employee was sentenced to a brief period of imprisonment for insider trading. Three of the accused were also subject to a confiscation order, and two were subject to loss of rights. The company's sales and marketing director was however acquitted of insider trading since the city court found that insufficient evidence had been presented. The judgment was appealed.
- On 7 June 2017 Oslo City Court delivered judgment in a case of insider trading at an oil company listed on Oslo Børs. The accused was the general manager of an investment company that owned 18 per cent of the shares of the oil company. The judgment cites that the accused, who also owned a shareholding in the oil company, sold his holding upon learning of the decision to sell the investment company's holding. In the judgment the accused was sentenced to a brief period of imprisonment for his own insider trading. He was also sentenced to confiscation of NOK 216,000. The accused was however acquitted of incitement to share trading. The judgment was appealed by both parties. The appeals were referred to the court of appeals.



Prospectus control – transferable securities

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

Prospectus vetting in 2017

A larger number of share prospectuses were approved in 2017 than in the previous year. The number of prospectuses issued in connection with initial public offerings (IPOs) on Oslo Børs or Oslo Axess totalled 15 compared with eight in 2016.

2017 was a good year for raising equity capital, and the next best year ever in the Norwegian securities market. Only in 2010 was activity higher. High activity was also noted in the case of IPOs in Norway, for example for Borr Drilling, SpareBank 1 Østlandet and Evry. Several savings banks also raised capital in 2017.

Finanstilsynet discontinued nine vetting processes after capital raising and/or admission to listing were discontinued. Further, a large number of documents related to passported prospectuses were notified to competent authorities in the EU/EEA area and vice versa.

Finanstilsynet started vetting of 22 prospectuses related to new share issues. Of these prospectuses, 15 were for IPOs on Oslo Børs or Oslo Axess. A total of 59 prospectuses for listed limited companies were vetted. Seven prospectuses for share issues by unlisted companies were also vetted.

The number of bond prospectuses in 2017 was higher than in 2016, and there are signs that the bond market has picked up after a couple of weak years in the wake of the oil price fall in 2014. Issues included the first high-yield unsecured bond in the oil sector since 2014, placed by DOF Subsea with a coupon rate of 9.5 per cent.

An overview of prospectuses vetted by Finanstilsynet in 2017 is given in table 8.

Table 8: Vetted documents

	2013	2014	2015	2016	2017
Shares (quoted shares in parenthesis)	60 (52)	53 (47)	58 (53)	52 (46)	66 (59)
Bonds	178	194	99	118	145
Total	238	247	157	170	211

New prospectus rules

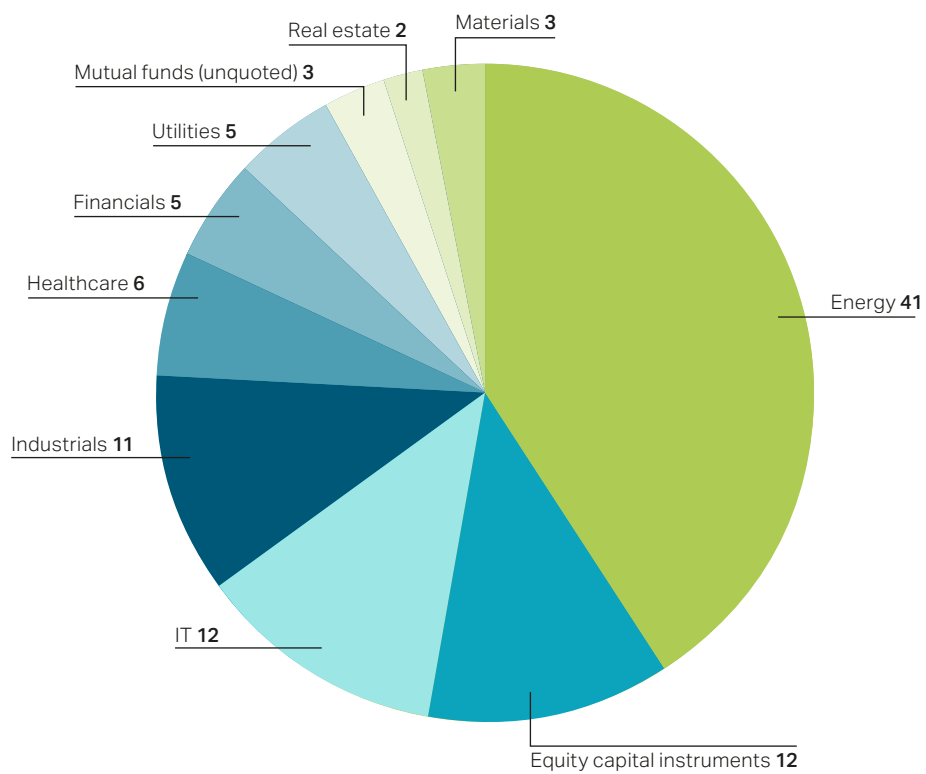
The EU adopted in June 2017 a new Prospectus Regulation as a part of its work on a capital markets union. Key objectives of the Regulation are to ensure investor protection and promote more efficient markets,

reduce listed companies' administrative burden and fine-tune the rules applying to small and medium-sized businesses. The Securities Law Committee will recommend rules to transpose the Regulation into Norwegian law in the first half of 2018.



Chart 3: Share prospectuses approved by Finanstilsynet in 2017 – by sector

Source: Finanstilsynet





Financial reporting enforcement – listed companies

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

At the end of 2017 260 companies were subject to Finanstilsynet's supervision of financial reporting. Of these, 35 were foreign. 195 were issuers of shares and other equity capital instruments (equity certificates). Several issuers of shares and equity certificates also issued bonds that are quoted on Oslo Børs. Over the course of the year 14 new companies were admitted to Oslo Børs, three to Oslo Axess. Three of the admissions to Oslo Børs had transferred from Oslo Axess. A total of 11 issuers were delisted, seven from Oslo Børs and four from Oslo Axess.

Enforcement of financial reporting

Selection

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

Results of the enforcement

In 2017 Finanstilsynet reviewed all or parts of the financial reporting of 40 entities. Particular attention was focused on issuers of shares and equity certificates, but also on some bond issuers. Finanstilsynet also reviewed the audit reports of all listed companies. Eight cases were given closer scrutiny, and six had yet to be finalised at year-end.

Finanstilsynet received reports from two auditors indicating that the financial reporting of the issuers concerned failed to provide a true and fair view. These reports were acted upon.

An account of the most important cases brought to completion in 2017 follows below.

Statoil ASA

Statoil ASA wrote down production facilities, facilities under construction and goodwill by a total of NOK 57.7 billion in 2015. The write-downs related mainly to reduced expectations as regards commodity prices. Further, observable quoted market prices for oil and gas for the two to three years ahead were utilised as short-term commodity prices. The long-term price assumption is based on internal assessments. The internal price assumptions applied in the annual financial statements for 2015 are not made clear.

Finanstilsynet was of the view that Statoil should have provided quantitative information about the long-term price assumptions for oil and gas that it utilised in the impairment tests at the end of 2015. Statoil opted to incorporate its long-term price assumptions in its annual report for 2016.

DNO ASA

The review of DNO ASA focused largely on two matters. One was revenue accounting, and recognition and measurement of the claim on the Kurdish regional government (KRD) arising from outstanding settlements for local sales in Kurdistan. Finanstilsynet has also assessed and observed that the entity has not taken adequate account of country risk in the discount rate applied to write down oilfields in Kurdistan.

DNO took the above into account and decided to adjust its financial reporting from and including the fourth quarter of 2016. The company has discounted its claim on KRG, entailing an expense of USD 6.7 million. Further, DNO raised the discount rate applied in its impairment assessments in order to reflect to a greater degree country risk affecting the business in Kurdistan. This brought a write-down of USD 26.7 million on the Erbil oilfield.

Gaming Innovation Group Inc.

This company's accounting for business combinations and acquisitions of groups of assets was considered. A feature common to these acquisitions was the



company's failure to identify certain intangible assets with a limited useful life, and its consequent allocation of an excessive share of the consideration either to goodwill, or to other intangible assets with an indefinite useful life.

The company took note of Finanstilsynet's assessment, resulting in an increase of about EUR 3.2 million in the company's write-offs and expenses, which amounted to 50 per cent of earnings before interest, taxes, depreciation and amortisation (EBITDA).

Oceanteam ASA

The company's auditor expressed a reservation in the audit report for 2015 regarding valuation of goodwill due to the lack of sufficient and appropriate evidence to substantiate the valuation. Finanstilsynet asked the company to review its impairment test and to provide sufficient evidence to support the assumptions employed in the impairment test for 2015 in order to enable the company's auditor to audit the balance sheet value of goodwill. As a consequence of this review, the company decided to write down goodwill by USD 3.7 million. The write-down was accounted for as a correction of an error in the company's interim accounts for the fourth quarter of 2016.

Thematic inspection of alternative performance measures

Finanstilsynet has completed a thematic inspection designed to ascertain listed companies' use of alternative performance measures and their compliance with the relevant guidelines.

A company's financial reporting should provide relevant and useful information to users of the company's financial information as a basis for their decisions. Over time, companies have presented a growing number of adjusted figures in their financial reporting as an alternative to accounting data. The guidelines are designed to promote consistency in the information given in financial reporting over time and balanced information to users.

The report from the thematic inspection, published in October 2017, provides companies listed on Oslo Børs and Oslo Axess with useful information on the use of alternative performance measures.

Administrative fine for late publication of periodic financial reports

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

Administrative fines were imposed on three issuers in 2017 for late publication of their annual reports.

Expert Panel on Accountancy

The Expert Panel met three times in 2017. Matters are taken up either with a view to discussion or to the issue of a statement. The panel's statements are sent with an accompanying letter to the companies concerned, and the letters are thereafter published on Finanstilsynet's website.

The Expert Panel in the period 1 January – 31 December 2017

Stig Enevoldsen
chair

Signe Moen
deputy chair

Frøystein Gjesdal
member

Gry Kjersti Berget
member

Kjell Magne Baksaas
member

Nina Rafen
member

Geir Moen
member

Karina Vasstveit Hestås
alternate

Roar Inge Hoff
alternate

Reidar Jensen
alternate



Auditing

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

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

Developments

The audit industry reflects the dominant position of the largest audit firms. According to the latest off-site supervision data (2017), the five largest audit firms’ market share is 72.5 per cent in terms of statutory audit fees based on figures from the financial year 2016. There remain a number of small audit firms, although the number of firms with just one statutory auditor has fallen in recent years. The number of audit firms that audit public interest entities continues to fall, and stood at 12 at year-end.

The periodical quality assurance reviews are coordinated with reviews conducted by the Norwegian Institute of Public Accountants (DnR) of its members. Should the DnR bring to light circumstances that may prompt revocation of an auditor’s licence, the matter is referred to Finanstilsynet for further action. The DnR’s report for 2017 is presented on page 64. Where public interest entities are concerned, all supervision is carried out by Finanstilsynet. Supervision of auditors that audit public interest entities takes place at least every third year. Public interest entities that are audited by small audit firms are for the most part local savings banks and small insurers.

Supervision, monitoring and control

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

In 2017 Finanstilsynet received some 80 reports of possible audit deficiencies from the DnR, the tax authorities, bankruptcy administrators, the police and other parties. All reports are reviewed and assessed for further action on the part of Finanstilsynet. Cases not given priority by Finanstilsynet are likely to conclude with the auditor being asked to conduct a self-evaluation. Failings in the conduct of the audit that emerge in the self-evaluation must be assessed and measures needed to enhance audit quality must be set out. The self-evaluation must be documented.

Table 9: Revocation of auditors’ licences

	2013	2014	2015	2016	2017
State authorised auditors, licences revoked	0	0	2	1	0
Registered auditors, licences revoked	0	2	0	1	2
Audit firms, licences revoked	0	0	0	3	0



Forty-one on-site inspections were conducted in 2016. Five were at firms that audit public interest entities. The remainder were part of thematic inspections, or prompted by reports filed. Some of these matters will be finalised in 2018.

Supervision of audit firms

Eight inspections of audit firms were conducted in 2017, of which five concerned firms that audit public interest entities. Audit firms which audit companies listed on a US stock exchange are also subject to oversight by the Public Company Accounting Oversight Board (PCAOB) in the US. One inspection was conducted jointly with the PCAOB and was headed by Finanstilsynet.

Weaknesses of a number of audit firms' policies and procedures typically involve insufficient independence from the audit client and inadequate measures in place to ensure that the audit firm's own quality controls are carried out in a proper manner. In Finanstilsynet's view the specific assessment of risk of clients' involvement in money laundering has been poor.

Other individual cases

Finanstilsynet received an increased number of reports of poor audit performance in 2017. Several of the reports prompted on-site inspection. Some of the inspections have yet to be finalised. Those that have been finalised all resulted in censure of the auditor concerned. Revocation of the auditor's licence was ordered in three cases.

Finanstilsynet has reviewed the audit of licensable entities where the auditor has failed to acquire sufficient knowledge of special legislation. Shortcomings have been identified in the audit of small businesses engaged in debt collection and marketing of financial instruments.

Moreover, many firms subject to the risk management regulations were found to have failed to obtain auditor confirmations as required by law.

In one case Finanstilsynet levelled particular criticism at the auditor on account of the latter's absence of professional scepticism when auditing valuation items, including goodwill.

Thematic inspections

A thematic inspection of auditors' use of random sampling when performing audit procedures was conducted in 2016, and an assembled report was published on Finanstilsynet's website in April 2017.

Finanstilsynet conducted two thematic inspections in 2017. One addressed the audit of state-sponsored private schools. Finanstilsynet's thematic inspection showed that the audit of such schools had not been performed in accordance with the Auditors Act, due in part to the auditor's failure to acquire sufficient knowledge of the special legislation applying to state-sponsored private schools. An assembled report will be published in the first half of 2018.

The second thematic inspection addressed the quality control review of certain audit engagements prior to signing of the audit report. A quality control review must be performed where the audit client is a listed company and in other cases where called for by the audit firm's own risk assessment, for example in the case of other public interest entities. The thematic inspection was prompted by Finanstilsynet's experience showing that where serious errors and deficiencies have been brought to light in the performance of the audit, the quality control review has failed in its purpose.

The thematic inspection showed that the five large audit firms have improved their policies and procedures, and their compliance with the latter, compared with a few years ago. A majority of the remaining audit firms that audit public interest entities were found to have shortcomings both in their policies and procedures and in their quality control review of audit engagements. An assembled report will be published in the first half of 2018.

Off-site supervision

An off-site supervision of auditors and audit firms was conducted in 2017. The supervision covered all audit firms and auditors that are statutory auditors. The responses will be followed up on in 2018. A report collating the responses will also be drawn up.

Licensing

Table 10: Number of approved auditors and audit firms at 31.12.2017

	2013	2014	2015	2016	2017	Licensed in 2017
State authorised auditors	3,544	3,729	3,888	4,044	4,233	187
Registered auditors	3,429	3,462	3,492	3,526	3,574	71
Of which: statutory auditors	1,799	1,625	1,584	1,560	1,532	86
Audit firms	563	533	516	494	447	21



Matters referred to the Board of Appeal for Audit and Accounting Matters

Four audit matters were referred to the Board of Appeal for Audit and Accounting Matters in 2017. Two appeals were filed against withdrawal of a state authorised and a registered auditor's licence respectively, and two were filed against refusals to grant an auditor's licence. The Board of Appeal's rulings are in the public domain and available at Lovdata, Norway's law database.

The Board of Appeal settled two auditor appeals in 2017, in one of which Finanstilsynet's order was overturned.

Finanstilsynet authorises auditors as either registered or state authorised auditors. In 2017 238 candidates enrolled for, and 217 passed, the practical test. When processing applications for an auditor register number

(which is needed in order to become a statutory auditor) Finanstilsynet checks that the auditor meets the statutory continuing education requirement and has the required indemnity insurance.

Regulatory development

In October 2015 the government appointed a committee to recommend changes in the legislation on auditing, auditors and external accountants. Finanstilsynet has one member on the law committee. The recommendation for amendments to the auditing legislation was presented to the Ministry of Finance in June 2017. See NOU 2017: 15 *Auditors Act – proposed legislation on auditing and auditors* (Norwegian only).



Finanstilsynet
Postboks 1187 Sentrum
0107 Oslo

Oslo, 25 January 2018
Our ref.: TML/KMH

Quality Assurance Review of Auditors – Annual Report 2017

According to the *Guidelines for periodic quality assurance reviews of auditors and audit firms*, The Norwegian Institute of Public Accountants (DnR) is appointed by Finanstilsynet to conduct the periodic quality assurance review of auditors who perform statutory audits of the annual financial statements of entities other than public interest entities. The Board of DnR hereby presents a summary of the quality assurance reviews conducted in 2017.

Organisation of the quality assurance review

The quality assurance review is described in *Details of the quality control programme for statutory auditors 2017* as posted at www.revisorforeningen.no. It is designed to test compliance with the audit legislation and with good auditing practices, including International Standards on Auditing, in addition to compliance with the provisions of the Act on Auditing and Auditors concerning the auditors' capabilities to fulfil their obligations related to financial status, independence, indemnity insurance and continuing professional education. In addition, last year's review included a separate check of compliance with the anti-money laundering legislation.

The reviews were conducted by a review team comprising 32 state authorised and registered auditors, all with a broad professional background.

Selection of auditors for quality assurance review

In 2017 the quality assurance programme covered 825 statutory auditors. 132 of these were selected for ordinary quality assurance review. Upon being notified that they had been selected for review, nine statutory auditors announced that they would discontinue their business or retire as statutory auditors in the course of 2017. Thus 123 statutory auditors had ordinary quality reviews in 2017. In addition to the ordinary reviews, 11 statutory auditors were subject to follow-up reviews, resulting in a total of 134 conducted reviews in 2017.

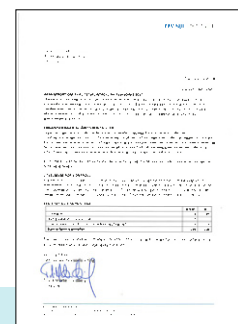
Results of the quality assurance reviews

	Number	%
Approved	119	89
Not approved – new review	9	7
Referred to Finanstilsynet for further action*	6	4
Total number of reviews conducted	134	100

* Reason for referrals: Continuing education deficiencies (1), audit deficiencies (4), failure to make oneself available for review (1).

Yours sincerely

Trond Martin Lindberg (sign.)
Chair
The Norwegian Institute of Public Accountants





MW

MANAGEMENT AND CONTROL OF FINANSTILSYNET'S OPERATIONS



MANAGEMENT AND CONTROL OF FINANSTILSYNET'S OPERATIONS

Management structure and reporting

Finanstilsynet's Board of Directors, which is appointed by the Ministry of Finance for a four-year term, has the overarching responsibility for Finanstilsynet's activities. The Director General, who is appointed by the King in Council for a term of six years (with a possible extension of a further six years), is in charge of the day-to-day management. The Director General confers with his management team which alongside the Director General comprises the Directors of the two supervisory departments and the Administration Department, the General Counsel and the Communications Director.

Finanstilsynet is divided into two supervisory departments¹ and one administration department, each headed by a department director (Deputy Director General). The departments are divided into sections, each headed by a head of section. The 'legal quality assurance' and 'international coordination' functions are assigned to the Director General's staff. A communications unit reporting directly to the Director General is responsible for external and internal communication.

Finanstilsynet's activity is regulated by the Financial Supervision Act. This Act is supplemented by special laws governing the respective supervisory sectors. Every fourth year Finanstilsynet draws up a strategy document which together with the Ministry of Finance's letter of allocation is the basis for annual action plans adopted by the Board of Directors (see chapter II, page 7). The action plans are the basis for the ongoing management and for reporting to both the Board of Directors and the Ministry of Finance.

The Board of Directors meets each month to deal with important supervisory matters such as draft regulations and licensing matters, budget and action plans. The Board receives regular reports on Finanstilsynet's activities. Finanstilsynet meets with the Ministry of Finance on a quarterly basis. The agency also reports annually to the Ministry by way of its annual report and a supplementary short report. In all these contexts there is a tight focus on ensuring a high level of mission achievement through effective and efficient resource use.

Finanstilsynet bases its supervisory activity in all areas on risk assessments and each year draws up risk analyses with regard to its own operations. These analyses are closely linked with the Board of Directors through the latter's consideration of the action plan

and are communicated to the Ministry of Finance which follows up on the assessments in its management dialogue with Finanstilsynet.

Where risk assessments providing a basis for the supervisory activity are concerned, the *Risk Outlook* report is a key basis document. Since 1994 Finanstilsynet has systematically analysed and assessed potential stability problems in the Norwegian financial market against the background of developments in the Norwegian and international real economies and markets. Much of the assessment of individual institutions' profitability, financial strength and risk needs to be carried out in light of the general state of the economy and the markets. As from 2003 Finanstilsynet has given its view of the state of the financial market in special reports which also cover financial institutions' earnings, financial strength and liquidity position. The reports assess potential sources of future stability problems in the Norwegian financial system. *Risk Outlook* is published in June and November. A further basis for risk assessments is Finanstilsynet's annual analysis of risks related to the use of ICT in the financial sector (*Risk and Vulnerability Report*).

Finanstilsynet is subject to audit by the Office of the Auditor General. See chapter VI, Annual accounts, page 71.

Internal control

Internal control at Finanstilsynet is a line management responsibility, and is thus a part of the agency's internal management. Guidelines for procedures, for example for budget allocation etc., clarify responsibilities and authority and contribute to effective control.

The management regularly follows up on the action plans of all departments and sections. It does so to ensure that resource input, mission achievement and results are in keeping with priorities and expectations, and that any divergences are identified, explained and addressed. Such follow up also ensures a coordinated approach and a holistic perspective across the agency.

Finanstilsynet continued its work on information security in 2017. Efforts to improve information security involved exercises and attitude-shaping initiatives.

Work has started on preparing Finanstilsynet for new requirements laid down in the General Data Protection Regulation and the new Personal Data Act, and Finanstilsynet appointed an in-house data protection officer in 2017.

¹ The Board of Directors of Finanstilsynet resolved in January 2018 to establish a new supervisory department of digitalisation and analysis. The organisation change will take effect in the first half of 2018.



No significant weaknesses, faults or deficiencies were brought to light by Finanstilsynet's internal control system in 2017.

The internal control system at Finanstilsynet provides a sound basis for ensuring purposeful, efficient operations, reliable reporting and compliance with relevant rules and internal policies and procedures. The agency is characterised by a high degree of stability, and faults or significant failure of procedures are rare. After an overall assessment in 2013 Finanstilsynet saw no need to establish an internal audit function, but was ready to review the issue if the risk position or other aspects of the agency changed significantly. A new assessment in 2016 brought to light no new risk factors or changes calling for the establishment of an internal audit function. The issue will be reappraised in 2020 at the latest.

Finanstilsynet has an internal controller who reports to the Board of Directors annually.

An internal control regime in respect of IT operations was established in 2016, and an internal control procedure was performed in 2017.

Security and preparedness

Finanstilsynet attaches much importance to security and to maintaining preparedness for possible crises in individual institutions, financial infrastructure and markets. The agency also maintains preparedness for possible incidents in its own organisation. Exercises with a view to crises in institutions and markets and in Finanstilsynet's own organisation are conducted on a regular basis. Finanstilsynet uses the CIM support system in its work on preparedness. Fire and evacuation drills are conducted twice yearly in conjunction with Norges Bank.



ASSESSMENT OF FUTURE PROSPECTS



ASSESSMENT OF FUTURE PROSPECTS

Finanstilsynet monitors key macroeconomic variables and conducts stress tests of banks' ability to withstand a negative outturn. It is important that the banks remain well capitalised and maintain sufficient liquidity buffers to face a potentially weaker trend in the Norwegian and international economies and renewed turbulence in international financial markets. Growth in household indebtedness remained high in 2017. High property prices and a heavy household debt burden render the Norwegian economy vulnerable in the event of a turn-about.

New rules on banks' loan loss provisioning (IFRS 9) were introduced with effect from 2018 (in the first instance solely for banks listed on Oslo Børs). Finanstilsynet will need to consider whether the methodology applied meets the requirements of the new framework, and whether the banks' loss provisioning is adequate.

The new Payment Services Directive (PSD 2) brings changes to the electronic payments value chain and paves the way for new, technology-based services. Finanstilsynet will oversee that security and customer data protection are properly attended to by payment service providers. Payment solutions that are likely to play a key role in the market will require particular supervisory attention. A significant volume of cross-border activity is anticipated, requiring collaboration with supervisory authorities in other countries. An increased volume of activity is also expected at the outer edge of the licensing obligation, for example on crowdfunding platforms, which Finanstilsynet will need to take a position on. In addition, cryptocurrency is increasingly used as an equity finance instrument in order to circumvent regulatory requirements. Cryptocurrency is also increasingly a medium of speculation.

Digitalisation spurs frequent change in processes and products in the financial area. A number of countries have established regulatory sandboxes to enable companies to test technological solutions in the financial area under guidance from the supervisory authorities.

Finanstilsynet considers it important to provide guidance to market participants in need of information prior to setting up business that may require licensing. A high degree of innovation could bring a rush of enquiries and raise regulatory issues.

Complexity and vulnerability are growing in step with developments in the ICT area and are heightened by the entry of new market participants. This places demands on Finanstilsynet, which needs to understand the risks attending the various solutions and systems. Operational risk alludes on the one hand to the risk of increased complexity leading to internal faults at supervised institutions due to technical or human failure. It also alludes

to the increased risk of supervised institutions or infrastructure systems becoming victim to cyberattack from external sources.

High cost levels and stringent requirements on customer protection and documentation mean that institutions are finding that it pays less and less to offer face-to-face individual customer services. A challenge to Finanstilsynet ahead will be to ensure that internet-based solutions meet requirements as regards customer data protection, identification, documentation and technical security.

In the pensions area recent years have seen a gradual transition from defined benefit pensions to defined contribution unit-linked pensions. The new products require professional and balanced advice. In both the insurance area and the securities area Finanstilsynet must see to it that institutions comply with sound business practices in their sales and advisory activities. For their part, institutions are responsible for ensuring that marketing material contains balanced information to policyholders on risk and costs. While new pension agreements are mainly contributory, life insurers will in the coming years continue to face a substantial residual risk as regards existing defined benefit policies, including paid-up policies offering a guaranteed return.

A strong increase is noted in personal pension saving, including saving in mutual funds. Indeed, the introduction of the share savings account (ASK) and individual pension saving (IPS) is designed to promote such saving. Finanstilsynet will need to ensure that entities offering such products safeguard their customers' interests.

Given the continued high pace of introduction of new European regulation and supervisory convergence in the coming years, Finanstilsynet will continue to devote substantial resources to regulatory development. This will mainly comprise assignments from the Ministry of Finance related to the implementation of directives and regulations pursuant to Norway's EEA obligations. Finanstilsynet will also need to devote substantial resources to regulation and supervision under the auspices of the European supervisory authorities – EBA, ESMA and EIOPA. This will continue to make heavy demands on Finanstilsynet's resource management.

Another aspect of the regulatory changes requiring further system development and processing capacity is the increasing volume of reporting called for by EBA, ESMA and EIOPA. This involves obtaining fairly wide-ranging data from Norwegian financial institutions for inclusion in the overarching surveillance of the financial sector in Europe, and reporting of Finanstilsynet's compliance with European supervisory standards.



The implementation and enforcement of the EU's Bank Recovery and Resolution Directive, inter alia overseeing compliance with requirements for annual preparation and follow-up of bank-specific recovery and resolution plans, will take up much of Finanstilsynet's resources in the years ahead. The new framework requires all banks to draw up recovery plans setting out concrete and implementable measures for dealing with financial crisis situations. In its law proposal currently being considered by the Storting (parliament), the Ministry of Finance recommends Finanstilsynet as the resolution authority for the banking sector. The banks' recovery plans will be subject to Finanstilsynet's quality assurance and approval. Finanstilsynet will in addition set a minimum requirement for eligible liabilities for each individual bank (MREL).

New EU regulations have widened Finanstilsynet's remit by bringing trading in commodity derivatives, and thereby new non-financial institutions, under regulation and supervision. Institutions trading in commodities, including power companies, will for example be subject to the same regulation as investment firms. Finanstilsynet will accordingly be responsible for processing licensing and supervision. The scope of Finanstilsynet's tasks in this field reflects important Norwegian derivatives markets in a number of commodity segments, such as fish and energy, and appurtenant market platforms for commodity derivatives. As from 2017 Finanstilsynet similarly assumed new responsibilities arising from the transposition of the European Market Infrastructure Regulation (EMIR) into Norwegian law. Both financial and non-financial firms' derivative trading is now subject to a reporting and clearing obligation, and Finanstilsynet

will monitor firms' compliance. Moreover, the legislation on markets in financial instruments (MiFID II and MiFIR) is extensive and sets substantial customer protection and transparency requirements in relation to trading in financial instruments. These requirements are likely to prompt changes in investment firms' business models.

Handling the strong growth in Finanstilsynet's remit has been challenging. The increased resources allocated to Finanstilsynet will improve the agency's ability to discharge that remit in the years ahead. Finanstilsynet has to some degree streamlined its operations by means of digitalisation and changed working processes. However, the most important contribution to efficiency gains is a stricter prioritisation of resources allocated to the respective areas of supervision. Continued growth in the agency's tasks will further sharpen the need for effective use of available resources. This confirms the need for a risk-based approach.

Developments in digitalisation is making demands on Finanstilsynet in several areas. Digitalisation has spurred major changes in the way financial institutions and markets organise their activities, but has also resulted in increased vulnerability which needs to be addressed. New business models and markets based on digital platforms and products, such as payment services and robotics, will require appropriate supervisory methods. Finanstilsynet has established a new department of digitalisation and analysis with a view to handling these tasks and to streamline work processes across the organisation. The organisational change will take effect in the first half of 2018.



ANNUAL ACCOUNTS



ANNUAL ACCOUNTS

Comments from the Director General

The annual accounts are prepared and presented in accordance with the Regulations on Financial Management in Central Government and are in keeping with basic principles for budgeting and accounting enshrined in rules on financial management and in circulars from the Ministry of Finance. The presented accounts with notes provide a true and fair view of Finanstilsynet's disposable appropriations, revenues and expenses, assets and liabilities in 2017.

The Storting determines Finanstilsynet's expenditure budget and revenue budget as part of the government budget. The 2017 operating expenditure budget (item 01) originally totalled NOK 342.9 million. The budget was increased by NOK 2.1 million as compensation for the public sector wage settlement. Including NOK 12.4 million carried forward from 2016, the aggregate disposable operating budget came to NOK 357.4 million.

Parts of Finanstilsynet's budget are allotted over item 45 *Major equipment procurements and maintenance (IT)*. This appropriation is earmarked for an IT development project, and unused funds can be transferred to subsequent budget years independently of operating expenditure. In the 2017 budget this appropriation totalled NOK 19.0 million which, together with NOK 2.3 million carried forward, brought disposable funds to NOK 21.3 million. The funds are used to develop IT systems needed to meet European reporting requirements and to carry out necessary analysis of available information. New requirements on supervision and supervisory methodology also entail a wide-ranging need for adjustments to systems that support the supervisory effort.

Finanstilsynet's expenditure budget was reduced by NOK 11 million as from 2015 as a result of a new VAT (value added tax) netting arrangement in the central government administration. VAT payments on goods and services covered by the arrangement are expensed on a central expenditure item under the Ministry of Finance. VAT payments are however shown in Finanstilsynet's appropriation report, see table 13, and are included in the supervisory levy. Aggregate expenditure in 2017 came to NOK 369.7 million, a decline of 0.8 per cent from 2016. The expenditure under-run for item 01 *Operating expenditure* was NOK 13.9 million, which Finanstilsynet has applied to carry forward to 2018. The expenditure under-run for item 45 was NOK 8.7 million, which Finanstilsynet has also applied to carry forward to 2018. The calculation of under-runs is shown in Note B.

Overall salary expenditure came to NOK 256.8 million – 2.8 per cent less than in 2016. Salaries account for 69 per cent of the total amount expensed in 2017. Annual salary growth in the state sector is put at 2.4 per cent. The decline in salary expenditure is explained by the refund of an excess payment of pension premium to the Norwegian Public Service Pension Fund the preceding year concurrent with a reduction in the pension premium for 2017. As a result Finanstilsynet paid NOK 10.3 million less in 2017 than it did in 2016. The employer's portion of the premium is the basis for the employer's contribution, which was accordingly also lower than in 2016. Salary expenditure apart from social

security costs shows an increase of 2 per cent from 2016. The number of FTEs at the end of 2017 was 271, seven FTEs higher than at the end of 2016. Disbursements for investment and other disbursements to operations (see reporting by natural classification) show an increase of 4.0 per cent from 2016. The increase is due to equipment procurements and IT systems development. Since pension premium costs proved lower than was expected at the start of the year, priority could be given to increased use of digitalisation. Establishment of new systems for reporting to the EU continues, bringing a need for adjustments to existing systems.

Finanstilsynet charges for prospectus control under the Securities Trading Act, for processing applications for a licence to operate as a payment institution and for applications for a licence to engage in debt collection. From and including 2017 all revenues from charges and fees are assigned to item 03 *Administrative processing fees*. Payments of such fees show an increase of 22.4 per cent compared with 2016 inasmuch as more prospectuses were vetted in 2017 than in 2016. Fees totalling NOK 11.2 million were received compared with NOK 9.7 million in 2016. See the chapter entitled Prospectus control – transferable securities on page 57 for further details. Pursuant to section 9 of the Financial Supervision Act, Finanstilsynet's expenses are covered by the institutions under its supervision in the financial year. Thus far, each supervised entity has had its levy calculated, and has paid its levy, in arrears. The Storting has resolved that as from 2018 the apportionment of the overall levy among the various institutional groups is to be based on the expenditure appropriation for the year. The supervisory levy is apportioned on the individual institution under detailed rules set out in regulations.

The Norwegian National Collection Agency annually collects supervision fees and other levies on behalf of Finanstilsynet. This work also includes accounting for and reporting of payments to the central government accounts. In order to provide as complete a picture as possible of Finanstilsynet's annual accounts, these figures have been assigned to a separate column in table 13: Appropriation report for 2017, itemised.

After prior consultation with the trade organisations concerned, Finanstilsynet's expenditure for 2016 was communicated to the institutions for payment in May 2017. The overall claim came to NOK 362.2 million. Supervised entities liable to pay the amount levied numbered 14,706, of which 85 were foreign branches. The largest category of supervised entities is external accountants, numbering 11,182 at the end of 2017.

The Office of the Auditor General audits the activity of Finanstilsynet. The audit report for 2017 is due to be available by 1 May 2018 and will be published on Finanstilsynet's website.

Oslo, 27 February 2018

Morten Baltzersen
Director General, Finanstilsynet



Accounting policies

Finanstilsynet's accounts are kept on a cash basis. Revenues and expenses are recognised as and when paid. The accounts follow the calendar year and contain all reported expenditures and revenues for the accounting year. Expenditures and revenues are entered in the accounts on a gross basis.

Finanstilsynet pays pension premiums to the Norwegian Public Service Pension Fund, but does not follow the provisions laid down in the Ministry of Finance's circular R-118 "Budgeting and accounting for pension premiums for state enterprises as from 2017". Pensions are recognised in the accounts based on the premium calculated for the fiscal year. For 2017 a pension premium of 10.4 per cent is computed on fixed salaries up to 12G¹, compared with 17.5 per cent in 2016. Of this, 2 per cent is withheld from the employee. Pension premiums are paid in arrears in six instalments per year. The calendar year's final instalment falls due the following year. Hence there is a period displacement for the final instalment each year. Employer's contributions are computed and entered in the accounts to show the total salary expenditure.

Finanstilsynet is attached to the central government's consolidated accounts scheme at Norges Bank and has drawing rights equivalent to the Storting's appropriation. At year-end the balance on each settlement account is reset to zero.

Appropriation reporting

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

The Norwegian National Collection Agency is granted a debit authorisation in chapter 4602, items 03 and 86, and in chapter 5580, item 70. Finanstilsynet has been given special authorisation to diverge from the standard appropriation reports as laid down in "Provisions on financial management in the central administration", para. 3.4.2, by adding further columns. Hence the report from the National Collection Agency is shown in the column "Entered by others in accordance with authorisations". The actual difference between appropriation and accounts is shown in the column "Deviation from allocation".

Reporting by natural classification

Reporting by natural classification with notes shows Finanstilsynet's reports to the central government accounts in 2017 based on the standard chart of accounts in the accounting year with comparatives for 2016.

Note 8 shows the difference between the final account and preliminary account with the Treasury. The final account with the Treasury shows the sum of booked amounts of assets and liabilities in Finanstilsynet's account specification, while the preliminary account with the Treasury shows assets and liabilities reported to the central government accounts.

¹ 1G is the basic amount available under Norway's National Insurance Scheme.



Table 13: Appropriation report for the accounting year 2017, itemised

Expenditure chapter	Chapter name	Item	Item text	Note	Total appropriation	Accounts 2017	Expense overrun (-) or underrun	Entered by others in accordance with authorisations	Deviation from allocation
1602	Finanstilsynet	01	Operating expenses	A, B	357,427,000	343,496,005	13,930,995		
1602	Finanstilsynet	45	Major new procurements and maintenance (IT)	A, B	21,251,000	12,581,561	8,669,439		
1633	Govt. VAT netting arrangement	01	Operating expenses		0	13,580,621			
Total expensed					378,678,000	369,658,187			

Revenue chapter	Chapter name	Item	Item text	Note	Total appropriation	Accounts 2017	Expense overrun (-) or underrun	Entered by others in accordance with authorisations	Deviation from allocation
4602	Finanstilsynet	03	Administrative processing fee	A	10,870,000	11,470,400	600,400	409,332	1,009,732
4602	Finanstilsynet	86	Relinquishment of gain, violation penalties etc.	A	500,000			829,239	329,239
5580	Sectoral levies set by Ministry of Finance	70	Contributions from supervised entities	A	361,500,000	1,826,852	-359,673,148	360,215,657	542,509
5700	Employer's contribution (SAP)	72			0	31,397,645			
Total taken to revenue					372,870,000	44,694,897			

Net amount reported to the appropriation account **324,963,290**

Capital accounts

60050601	Norges Bank CA / receipts	25,665,841
60050602	Norges Bank CA / payments	-351,465,459
716106	Change in outstanding account with the Treasury	836,329
Total reported		0

Holdings reported to the capital account (31.12)

		31.12.2017	31.12.2016	Change
716106	Outstanding account with the Treasury	-11,222,138	-12,058,466	836,329

Note A Explanation of overall allocation

Chapter and item	Brought forward from last year	Current year's allocations	Overall allocation
1602 01	12,395,000	345,032,000	357,427,000
1602 45	2,251,000	19,000,000	21,251,000
4602 03		10,870,000	10,870,000
4602 86		500,000	500,000
5580 70		361,500,000	361,500,000

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

Chapter and item	Headword	Expense overrun (-) / underrun	Expensed by others in accordance with debt authorisations (-)	Expense overrun (-) / underrun under debt authorisations	Overall basis for amount brought forward	Max. amount to be brought forward*	Possible amount to be brought forward calculated by Finanstilsynet
1602 01		13,930,995		13,930,995	13,930,995	17,251,600	13,930,995
1602 45	"May be brought forward"	8,669,439		8,669,439	8,669,439	38,000,000	8,669,439

* The maximum amount that may be brought forward is 5% of the year's appropriation on operating items 01-29, with the exception of item 24, or the sum of the last two years' appropriations under the headword "may be brought forward". See circular R-2/2017 for further details on transfer of unutilised appropriations.



Explanation of use of budget authorisations

Debit authorisations received

The Ministry of Finance has authorised Finanstilsynet to place orders over and above appropriations granted on chapter 1602, item 45, of NOK 10 million. Finanstilsynet did not make use of this authorisation in 2017.

By letter of 7 April 2016 the Ministry of Finance authorised Finanstilsynet to post salaries to project managers for IT development programmes on chapter 1602, item 45.

Headword "may be brought forward"

Finanstilsynet's appropriation on item 45 is allocated under the headword "may be brought forward". The appropriation on this item covers IT systems development programmes.

Debit authorisations granted (entered by others)

Finanstilsynet has granted the Norwegian National Collection Agency a debit authorisation on chapter 4602, items 03 and 86, and chapter 5580, item 70.

Authorisation to overstep operating appropriations against corresponding revenue overruns

Finanstilsynet received no revenue overrun authorisation in 2017.

Possible amount to be brought forward

Expenditure underrun on item 01 is calculated at NOK 13,931,000. This figure is below the limit for transfer of 5 per cent of the year's appropriation on item 01, and the entire amount is deemed possible to bring forward to 2017. The entire unutilised appropriation of NOK 8,669,000 on item 45 may be brought forward upon application.



Table 14: Statement of reporting by natural classification, 31.12.2017

	Note	2017	2016
Operating revenues reported to the appropriation account			
Receipts of fees	1	11,470,400	5,486,100
Receipts of grants and transfers	1	0	0
Receipts of sale proceeds and rents	1	0	0
Other receipts	1	0	0
Total receipts from operations		11,470,400	5,486,100
Operating expenses reported to the appropriation account			
Disbursements to salaries	2	256,811,620	264,213,424
Other disbursements to operations	3	95,493,611	91,558,342
Total disbursements to operations		352,305,231	355,771,766
Net reported operating expenses		340,834,831	350,285,666
Investment and financial revenues reported to the appropriation account			
Receipts of financial revenues	4	0	0
Total investment and financial revenues		0	0
Investment and financial expenses reported to the appropriation account			
Disbursement to investments	5	3,772,335	3,850,530
Disbursement to purchase of equities	5	0	0
Disbursement to financial expenses	4	0	0
Total investment and financial expenses		3,772,335	3,850,530
Net reported investment and financial expenses		3,772,335	3,850,530
Collection activities and other transfers to central govt.			
Receipts of taxes, charges, fees etc.	6	1,826,852	687,426
Total collection activities and other transfers to central govt.		1,826,852	687,426
Grant management and other transfers from central govt.			
Disbursements of grants and benefits	7	0	0
Total grant management and other transfers from central govt.		0	0
Revenues and expenses reported on central govt. chapter			
Group life insurance account 1985 (ref. chap. 5309, revenues)		0	0
Employer's contribution account 1986 (ref. chap. 5700, revenues)		31,397,645	32,745,339
VAT netting arrangement account 1987 (ref. chap. 1633, expenses)		13,580,621	13,127,122
Net expenses reported on central govt. chapter		-17,817,024	-19,618,217
Net reported to the appropriation account		324,963,290	333,830,554
Overview of outstanding accounts with the Treasury			
Asset and liabilities		2017	2016
Receivables		46,000	36,753
Cash		0	0
Bank accounts with central govt. funds outside Norges Bank		0	0
Tax withholdings owed		-11,439,035	-11,799,944
Public charges owed		-316,825	-295,275
Other liabilities		487,723	0
Total outstanding account with the Treasury	8	-11,222,138	-12,058,466



Explanation of the substance of "other liabilities"

Account 2997 is an interim account used in the event of payments incorrectly transferred into Finanstilsynet's bank account, and will normally only hold balances for brief periods. The account is included in "other liabilities", and the statement of reporting by natural classification shows that Finanstilsynet has a balance of NOK 487,723

in its favour as at 31.12.2017. An error in a payment order that was transferred to a bank in November caused eight invoices to be paid twice. Account 2997 is used as an interim account for amounts to be refunded. "Other liabilities" shows the amount that has not been refunded as at 31 December 2017.



Note 1 Receipts from operations	31.12.2017	31.12.2016
<i>Receipts from fees and charges</i>		
Prospectus control fees	11,080,400	5,486,100
Fees from payment and e-money institutions	390,000	0
Total receipts from fees and charges	11,470,400	5,486,100
<i>Receipts from grants and transfers</i>		
Total receipts from grants and transfers	0	0
<i>Receipts of sale proceeds and rents</i>		
Total receipts of sale proceeds and rents	0	0
<i>Other receipts</i>		
Total other receipts	0	0
Total receipts from operations	11,470,400	5,486,100

Note 2 Disbursements to salaries	31.12.2017	31.12.2016
Salaries	208,260,427	204,119,393
Employer's contribution	31,397,645	32,745,339
Pension expenses	18,231,149	28,520,285
Sickness benefit and other refunds (-)	-6,556,065	-6,489,358
Other benefits	5,478,464	5,317,766
Total disbursements to salaries	256,811,620	264,213,424
FTEs	271	264

"FTEs" is the number of staff at year-end, adjusted for percentage of FTEs.

The Norwegian Government Agency for Financial Management (DFØ) recommends using another method of calculating FTEs in the above statement, termed "standard effective full-time equivalent", which is taken directly from the salary payments system. It shows 244 FTEs for 2017, which is a considerably lower figure than that produced by Finanstilsynet since it excludes sickness absence, compassionate leave and temporarily vacant positions through the year.

Note 3 Other disbursements to operations	31.12.2017	31.12.2016
Rent	17,975,248	17,362,592
Maintenance of own buildings and facilities	0	0
Maintenance and conversion of rented premises	158,353	45,285
Other expenses on operation of property and premises	6,414,523	6,021,511
Repairs and maintenance of machinery, equipment etc.	1,216,924	690,578
Minor equipment procurements	373,527	467,344
Lease of machinery, furniture etc.	9,072,480	7,358,362
Purchases of external services	34,905,418	34,015,646
Travel and per diem	6,232,070	6,189,247
Other operating expenses	19,145,067	19,407,777
Total other disbursements to operations	95,493,611	91,558,342



Note 4 Financial revenues and financial expenses	31.12.2017	31.12.2016
<i>Receipts of financial revenues</i>		
Interest revenues	0	0
Foreign exchange gain	0	0
Other financial revenues	0	0
Total receipts of financial revenues	0	0
<i>Disbursement of financial expenses</i>		
Interest expenses	0	0
Foreign exchange loss	0	0
Other financial expenses	0	0
Total disbursement of financial expenses	0	0
Note 5 Disbursed to investments and purchase of equities		
	31.12.2017	31.12.2016
<i>Disbursed to investments</i>		
Intangible assets etc.	461,337	2,551,140
Sites, buildings and other real property	0	0
Emergency preparedness acquisitions	0	0
Infrastructure assets	0	0
Machinery and vehicles	0	0
Operating movable property, furniture, tools etc.	3,310,998	1,299,391
Total disbursed to investments	3,772,335	3,850,530
<i>Disbursed to purchase of equities</i>		
Capital contributions	0	0
Bonds	0	0
Investments in equities and participations	0	0
Total disbursed to purchase of equities	0	0
Note 6 Collection activity and other transfers to central govt.		
	31.12.2017	31.12.2016
Contributions from supervised entities	1,826,852	687,426
Total collection activity and other transfers to central govt.	1,826,852	687,426
Note 7 Grant management and other transfers from central govt.		
	31.12.2017	31.12.2016
Total grant management and other transfers from central govt.	0	0



Note 5 Disbursed to investments and purchase of equities		31.12.2017	31.12.2016	
Note 8 Final and preliminary account with the Treasury				
Part A Difference between booked and reported account with the Treasury				
		31.12.2017	31.12.2017	
		Specification of	Specification of	
		booked account	reported account	
		with Treasury	with Treasury	Difference
Financial fixed assets	Investments in equities and participations*	0	0	0
	Bonds	0	0	0
	<i>Total</i>	0	0	0
Current assets	Accounts receivable	11,413	0	11,413
	Other receivables	46,000	46,000	0
	Bank deposits, cash etc.	0	0	0
	<i>Total</i>	57,413	46,000	11,413
Long-term liabilities	Other long-term liabilities	0	0	0
	<i>Total</i>	0	0	0
Short-term debt	Accounts payable	-3,275,921	0	-3,275,921
	Tax deductions owed	-10,800,438	-11,439,035	638,597
	Public charges owed	-333,483	-316,825	-16,657
	Other short-term liabilities	2,775,432	487,723	2,287,710
	<i>Total</i>	-11,634,410	-11,268,138	-366,272
Total		-11,576,997	-11,222,138	-354,859

* Entities which own financial assets in the form of investments in equities and participations also complete Note 8B. Finanstilsynet does not own equities or participations, and Note 8B is therefore not drawn up.

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