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How does the Norwegian NOTC system work?

1. How does the NOTC system work for the securities dealers?

The NOTC system is an information system for unlisted shares and must not be confused with a stock exchange. To put it briefly, the system functions by the securities dealers entering buy and sell interests in the system if they have customers who want to buy or sell shares in a company on the NOTC-list. Other securities dealers can see these interests on their computer monitors and can phone the securities dealer to agree on a possible transaction if they have a customer who has entered a reciprocal order. If the trade comes about, the buying securities dealer must register the transaction in the system. The highest buy interest (share price) and the lowest sell interest (share price) and the actual trading prices are published continuously while the system is open, i.e., between 09:00 a.m and 04.30 p.m. Several distributors of information subscribe to the share price information, so that interested parties can monitor the development in the prices of unlisted shares throughout the day. In addition, closing prices are published in some newspapers and on our website (at 04.30 p.m. every day).

The securities dealer is not bound to carry out the trade at the indicated buy or sell price that he/she has entered in the system. Similarly, securities dealers are not bound to trade with the securities dealer that is at the "top of the list" when several securities dealers have entered an interest in the same company at the same share price. In this way, the system is different from a stock exchange, where the securities dealers are bound by the share prices which are entered in the stock exchange's trading system and where automatic matching takes place according to stipulated prioritisation rules.

Once the trade has been completed, the buying securities dealer has a duty, as previously mentioned, to register the transaction in the system. The selling securities dealer has a duty to check that the buying securities dealer registers the transaction. Any failure to register the transaction automatically leads to a fine of NOK 5,000.

2. How does the notification system work for the companies?

The companies on the NOTC-list have accepted NOTC rule-book according to which they undertake to publish accounting information and other price-relevant information. The company itself publishes the information. Once a company has entered information in the system, an exclamation mark will appear after the company's name on the securities dealers' computer monitors and the news can be read by clicking on a separate link on the screen he/she uses to enter interests. All the information the company has previously published can also be seen under this link. Information distributors can also obtain this information in a separate feed but the way in which this information is presented varies. For example, at *www.hegnar.no* you can click on the company name in the list of NOTC companies and find news published during the past month.

On NOTC website (www.notc.no), the news are presented chronologically. There are two links: one to the 20 latest news items and one where the news are sorted according to each company.

The NOTC companies' agreement-based duty to provide information differs from the statutory duty to provide information to which listed companies are subject. The duty to provide information is more comprehensive and specific in relation to listed companies. You can read more about the companies duties in the NOTC rule-book: NOTC Continuous Obligations for companies registered on NOTC.

As previously mentioned, securities dealers have access to all the information the companies have put into the NOTC system. This information may be very important to the advice provided by the securities dealers to clients. A lack of information will lead to the advisory services being cautious. Without active advisory services from securities dealers, the company's shares will be less liquid. An increased liquidity risk normally leads to lower prices because investors want "compensation" for increased risk in the form of lower share prices.

3. How does a company get registered on the NOTC-list?

Companies themselves do not apply to be registered on the NOTC-list. The invitation must come from a brokerage house. The brokerage houses base their invitations on their knowledge of which companies investors are interested in and of whether the volumes of the company's shares that are bought and sold are, or will be, interesting to the market's players.

4. When is a company removed from the NOTC-list?

Companies that are floated on the Oslo Stock Exchange are automatically removed from the list. Companies that are taken over are removed if the acquiring company achieves an ownership share of more than 90 per cent, but the acquiring company must request this. Companies may also be removed if the company itself so requests. In such case, the request for removal must have been dealt with by the company's general meeting and the resolution must have been passed with a 2/3 majority. Companies which go into liquidation are removed when the company's shares are stated to be worth zero by the Norwegian Central Securities Depository.

Companies in whose shares trading is only sporadic are not removed from the NOTC-list. The NOTC-list which is presented in the media states the number of days since the last trade. The reason for such companies not being removed is that, if they were, important information would be deleted – namely, the share's liquidity. In addition, there is sometimes renewed interest in shares that have not been traded very much during a certain period.

Companies which do not comply with the agreement-based duty to provide information also risk being removed from the list.

The reason for being restrictive about removing companies from the list is that removal affects the company's shareholders, since the shares are then more difficult to sell.

5. The regulation of the market for unlisted shares

Trading in unlisted shares is not unregulated. The legal rules which apply are described in further detail by the lawyer Frede Aas Rognlien in an article entitled "*Is the unregulated regulated?"* This article is published on the Norwegian Securities Dealers Association's website (only in Norwegian).

For the ***brokerage houses***, there are no major differences in the regulations which govern these enterprises' operations relating to trading in and advice regarding listed and unlisted shares. The Norwegian Securities Trading Act and business practices standards do not differentiate between listed and unlisted shares. In relation to non-professional investors, however, there will be a duty to provide greater guidance.

For the ***investors***, slightly less stringent rules of conduct apply. The Norwegian Securities Trading Act's prohibitions against insider trading and market manipulation do not apply to trading in unlisted shares, but such trading may be affected by other provisions of the Securities Trading Act and Penal Code. In addition, the notification duty rules stipulated in the Securities Trading Act do not apply, i.e., the provisions which impose a duty on primary insiders to make their acts public and to give notice when they buy shares so that they are above, or sell so that they are below, a notification threshold (5, 10, 20, 33, 50, 67 or 90 per cent). The provisions regarding the duty to make an offer do not apply either, i.e., the provisions which impose a duty on a shareholder to offer to buy out the other shareholders if he/she acquires more than one third of the votes in the company.

The investors will have a slightly greater independent duty to carry out investigations regarding the companies in which they invest since they are moving into a market where relevant information will normally be slightly more difficult to obtain.

For the ***companies***, as previously mentioned, less stringent requirements apply regarding their continuous information to shareholders and the market in general. This is slightly different for those companies that have entered into an agreement to use the notification system. A statutory provision has imposed a greater duty to provide information on companies which have applied to be listed on a stock exchange. Most of the companies on the NOTC-list are Norwegian public or private limited companies. These are regulated by Norwegian company law and accounting law. Foreign companies on the NOTC-list are regulated by the legislation of the country where they are registered.

6. Supervision and control

The brokerage houses are subject to the supervision of Finanstilsynet (the Financial Supervisory Authority of Norway), and this also applies to trading in unlisted shares. The Norwegian Securities Dealers Association, which administers and operates the NOTC system through its subsidiary, checks that the securities dealers comply with the trading rules stipulated for reporting transactions.

In addition NOTC supervises that the companies comply with the agreement-based duty to provide information. This supervision takes place differently to in the stock exchange. The listed companies' duty to provide information is stipulated in public regulations and the stock exchange has been authorised to impose strict sanctions. The Oslo Stock Exchange has a large staff and electronic equipment that continuously monitors the market and market players.

NOTC's control of the NOTC market takes place by "following the market" each day and by periodically checking that accounts and other relevant information have been published in the notification system. If the accounts are not published, the company will receive a reminder and so far this has resulted in the information being provided more or less immediately. The securities dealers that use the NOTC system are also part of the supervision system. According to the Securities Trading Act and the Association's ethical standards, the securities dealers undertake to provide good, relevant advice to their clients. The securities dealers must be able to obtain the best possible decision-making basis in cooperation with the client. The securities dealer must check what information the company has notified to the NOTC system if the advice concerns a company that the securities dealer does not know much about or whose shares are rarely traded. If the securities dealer assumes that a company has not complied with the duty to provide information, he/she must notify us so that we can investigate this issue further.

In our opinion, there is another very effective supervision and sanction system operating alongside our own administrative supervision system - namely the market itself. Companies which do not provide adequate information to the market or which do not comply with the duty to provide information are not paid much attention by securities dealers or investors. These companies' shares are not traded to any great extent and their prices are lower than they could otherwise have been. This makes it more expensive for the company to obtain new capital in the market.

NOTC has agreement-based sanctions for companies that do not comply with the duty to provide information. Depending on the frequency and seriousness of the breach of regulations, companies may be warned, have to pay a fine for contravention (limited to three times the annual fee) and/or may have their user access suspended.

The use of private-law sanctions is not subject to the Norwegian Public Administration Act's provisions regarding procedures and publicity like the use of sanctions against listed companies.

Our policy is otherwise to provide guidance to companies on the duty to provide information. The companies on the NOTC-list are mainly small and most of them do not have an IR-department like the listed companies do. Their IR-function is on the whole carried out by one person who has other administrative or operational tasks as his/her main work.