

One of the Central Bank of Iceland's roles is to promote sound and secure financial activities.

The Central Bank Financial Supervisory Authority (FSA Iceland or the Authority) carries out monitoring to ensure that the activities of regulated entities are in compliance with laws, regulations, rules, and company statutes governing such activities, and that they are consistent with sound and appropriate business practices. The objective of supervising financial activities is to promote a sound and secure financial market and to reduce the likelihood that the activities of supervised entities will result in losses for the general public.

The purpose of this Financial Supervision report is as follows:

- to explain how FSA Iceland performs the tasks entrusted to it by law and how it followed its supervisory policy and project timetable in the previous year;
- to provide information on key priorities in FSA Iceland's timetable for the current year;
- to explain recent and forthcoming changes in the regulatory framework for the financial market.

In publishing this report, the Central Bank also attempts to ensure an appropriate level of transparency about FSA Iceland's work and priorities and to foster informed discourse about the financial system.

Issuer:

Central Bank of Iceland, Kalkofnsvegur 1, 101 Reykjavík, tel: +354 569 9600, sedlabanki@sedlabanki.is, www.sedlabanki.is

Issue no. 2 – 10 March 2022 ISSN 2772-087X, web-based publication.

Material may be reproduced from Financial Supervision, but an acknowledgement of source is kindly requested.

Table of Contents

I	The FSA's activities	7
	Supervision of financial institutions	7
	Supervision of insurance activities	13
	Supervision of pension funds and third-pillar pension savings custodians	14
	Supervision of business conduct and consumer affairs	15
	Supervision of the securities market	20
	Supervision of UCITS management companies, UCITS funds and alternative investment fund management companies	23
	Supervision of anti-money laundering and terrorist financing measures	25
II	Key priorities in the 2022 project timetable	28
	Key priorities in 2022	28
III	Amendments to regulatory instruments in the financial market	30
	Statutory amendments in 2021	30
	Rules and guidelines issued in 2021	31
	Forthcoming new financial market legislation	32
	Boxes	
	1 On-site inspections	12
	2 Suitability assessments and qualifying holdings	16
	3 Operating licences and other permits	24
	4 Sanctions	27
	Appendices	36
	1 Number of regulated entities as of year-end 2021	36
	2 Activities of foreign entities in Iceland as of year-end 2021	37

Symbols:

- * Preliminary or estimated data.
- 0 Less than half of the unit used.
- Nil.
- ... Not available.
- . Not applicable.

Icelandic letters:

ð/Ð (pronounced like th in English this)

þ/Þ (pronounced like th in English think)

In this report, ð is transliterated as d and þ as th in personal names, for consistency with international references, but otherwise the Icelandic letters are retained.

Foreword by the Governor and the Deputy Governor for Financial Supervision

The effects of COVID-19 on the domestic economy and financial system persisted in 2021. It now appears that the pandemic will soon be over, but the economic repercussions have yet to emerge. It is clear, however, that the impact on the financial system will be less acute than was originally feared. The financial system withstood the shock very well, mainly because of the solid framework now supporting the financial market, well-timed policy action by the Government and the Central Bank, and the economic recovery that took hold in 2021.

But when it rains, it does indeed pour. As soon as the end of public health measures was in sight, war broke out in Europe, with severe and possibly unforeseeable implications for the economy, in view of the sanctions that have been imposed on Russia. First of all, enforcement of the sanctions will fall under the aegis of the Bank's financial supervisory authority, thereby creating a new set of important tasks. In addition, Russia's exclusion from Western financial markets will put strain on European financial institutions – indeed, it has already toppled a few European banks. Furthermore, the sanctions will exacerbate the inflationary pressures already present due to the pandemic, as a result of higher energy prices and supply-chain disruptions. Higher inflation and unavoidable central bank measures aimed at controlling it will foreseeably pose challenges for financial institutions on both sides of the Atlantic.

One characteristic of digital service is that it recognises no borders. This increases the likelihood that financial services will be used for illegal purposes. Money laundering is a violation that the global community has committed to fighting jointly. One part of this fight is the passage of strict laws requiring that firms first assess the likelihood that certain transactions may be an element in laundering ill-gotten gains, and then report any suspected money laundering to the authorities. Financial market entities and other companies are required to take such measures, including assessing the risk in their own activities and carrying out due diligence checks on their customers. Supervision of anti-money laundering and terrorist financing measures in the financial market has been tightened significantly in the recent term, which will facilitate enforcement of financial market sanctions like those mentioned above. But irrespective of war and politics, increased emphasis will be placed on tracing the origins of funds in the near future.

Financial market entities are active and important participants in the attitudinal shift that has taken place in response to the ever clearer consequences of global heating. They play their part by demonstrating social responsibility in deciding how they allocate funding to various projects and how they conduct their operations. But here it is vital to ensure that actions are commensurate with words, and that the companies possess the knowledge to determine which projects are truly environment-friendly or socially beneficial and which are not. Voices of caution urging the prevention of greenwashing can be heard from all directions. Harmonised European groundrules on these matters are to be incorporated into Icelandic law in the near future.

An event as colossal as the outbreak of war in the middle of Europe will trigger a chain of events that are not obvious at this moment. As a result, the Bank's financial supervisory capabilities will be challenged in the coming term, as they were during the pandemic. COVID-19 struck

Iceland a scant two months after the merger of the Central Bank and the Financial Supervisory Authority, forcing the newly merged institution to respond to the severe shock brought on by the pandemic. In the two years since, the merger has proven its worth, and the Bank's financial supervisory authority is resolute in its determination to face the new challenges that war in Europe will inevitably bring.

Ásgeir Jónsson,
Governor

Unnur Gunnarsdóttir,
Deputy Governor for Financial Supervision

The FSA's activities

I

This report describes how the Central Bank of Iceland Financial Supervisory Authority (*FSA Iceland* or the *Authority*) followed its supervisory policy and project timetable in 2021 through regulatory supervision and other monitoring activities. It also explains key financial system variables pertaining to the objective of promoting sound and secure operations among supervised entities.

Supervision of financial institutions

FSA Iceland supervises financial institutions that have received operating licences pursuant to the Act on Financial Undertakings, no. 161/2002, with subsequent amendments. On the one hand, it conducts regular supervision in accordance with its risk-based supervision model, and on the other hand, it conducts proactive checks based on circumstances and risk assessments. The main focus of supervising financial institutions is to ensure that they have the strong capital and liquidity they need in order to respond to unexpected shocks. Supervision of electronic money institutions is subject to the Act on the Issuance and Treatment of Electronic Money, no. 17/2013, and supervision of payment institutions is subject to the Payment Services Act, no. 114/2021.

At the end of 2021, four commercial banks, four savings banks, three credit undertakings, nine investment firms, two electronic money institutions, and one payment institution were supervised by FSA Iceland.

The Bank's Financial Stability Committee (FSN) has designated three commercial banks – Arion Bank hf., Íslandsbanki hf., and Landsbankinn hf. – as domestic systemically important banks (D-SIB). Supervision of systemically important banks is a broad task that involves conducting regular, systematic reviews of data

on the position of the banks, carrying out specific checks and analyses, and taking interviews with selected key employees. Key metrics in the banks' operations are monitored, and an assessment is made of the viability and sustainability of their business plans. In addition, various risks in their operations are examined and analysed on a regular basis – and more frequently than usual if conditions warrant it.

Cooperation with the European Banking Authority (EBA) is a large part of regular supervision of financial market entities, and the EBA's priorities are reflected, among other things, in FSA Iceland's project timetable. The regulatory framework for the banking market is prepared by the EBA, and FSA Iceland keeps close track of this work.

Supervisory review and evaluation process

Every year, FSA Iceland carries out a detailed supervisory review and evaluation process (SREP) on the systemically important banks. In the SREP, FSA Iceland evaluates the key risks entailed in the banks' operations and the methods they use to handle those risks, including risk management and monitoring. The Authority also assesses and determines the banks' capital requirement under Pillar II-R, which indicates how much capital the bank in question must have available in view of the risks it faces or could face. The Pillar II-R capital requirement is in addition to the minimum capital requirement provided for under Pillar I. The SREP is carried out in accordance with the *Guidelines for common procedures and methodologies for the supervisory review and evaluation process* (SREP Guidelines). The guidelines are revised regularly and are in line with the European Banking Authority (EBA) guidelines on the same topic.

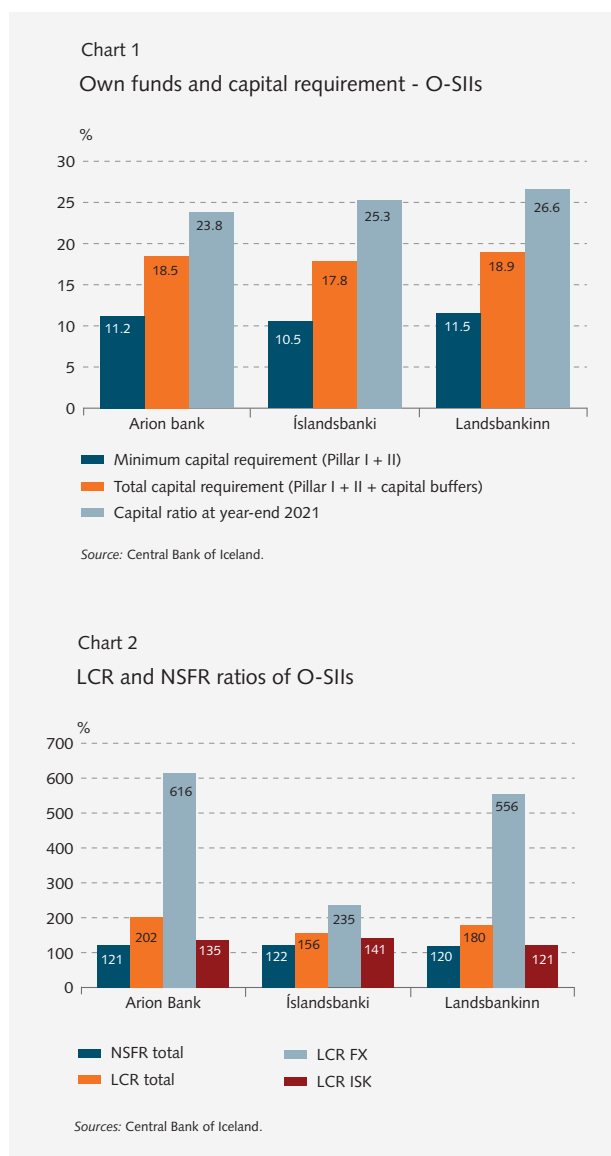
For less significant financial institutions, the SREP is carried out less often than for the systemically important banks; i.e., generally every third year, unless circumstances call for greater frequency. In intervening years, less extensive annual risk analyses are carried out for less significant financial institutions. This accords with the fundamental principle of risk-based supervision: that supervision should be broader in scope when it applies to institutions that could jeopardise financial stability or expose a large group of customers to significant inconvenience or loss.

Capital and liquidity requirements

Because of the uncertainty created by the COVID-19 pandemic, the Central Bank's Financial Supervision Committee (FMEN) decided in April 2020 to postpone its decision on additional capital requirements for systemically important banks, and in September 2020 the Committee decided that the 2019 SREP results concerning additional capital requirements should remain unchanged and should apply for 2020 as well.

Circumstances changed markedly after this decision was taken, however, and in July 2021, the FMEN published the SREP results for Arion Bank hf., Íslandsbanki hf., and Landsbankinn hf. concerning additional capital requirements over and above minimum required own funds and the combined capital buffer requirement. According to the Committee's decision, the additional capital requirement for systemically important banks at the group level lies in the 2.5-3.5% range, bringing the overall capital requirement to 17.8-18.9%. The Committee informed all of the banks that the determination of capital requirements must take into account potential future developments. There was still uncertainty about asset quality, owing to the impact of COVID-19. As a result, it was important that the banks continue to observe the utmost caution in their activities. Their strong capital and liquidity position made the three banks better able to withstand this uncertainty, however.

The countercyclical capital buffer (CCyB), which was previously 2% of the risk base for financial institutions' domestic exposures, was lowered to 0% in March 2020 by decision of the FSN. In September 2021, the FSN decided to raise it again to 2%. In the FSN's opinion, the combination of rapidly rising asset prices and increased household debt had already raised cyclical systemic risk to at least the pre-pandemic level. As a result, the Committee was of the view that the scope granted to financial institutions in March 2020, with the reduction in the buffer, was no longer needed. The increase takes effect twelve months after the decision is taken



and will therefore affect the overall capital requirement from September 2022 onwards.

The liquidity and funding requirements according to Central Bank rules are as follows: 100% liquidity ratio for all currencies combined and for all foreign currencies combined, 50% liquidity ratio for Icelandic krónur, and 100% funding ratio. At the end of 2021, the systemically important banks' liquid assets were well above the required minimum.

Comments in connection with the SREP

The SREP assessment also covers factors such as business plan viability and sustainability, governance practices, operational risk, credit risk, concentration risk, market and fixed interest rate risk, and liquidity and funding risk, as the evaluation of these factors can affect the overall assessment of a bank's capital requirement. Comments relating to internal monitoring and management of these

risks and comments on the stress testing framework were communicated to the banks during the year.

Monitoring operational and credit risk

Operational risk

During the year, continued emphasis was placed on operational risk in assessing risk in the financial market, with particular attention given to outsourcing, in accordance with FSA Iceland's priorities. In view of the EBA's focus on cyberdefence, and owing to the growing threat stemming from cyberattacks, emphasis was also placed on examining financial institutions' cyberdefences and cyber-resilience. Preparation began for the implementation of Directive (EU) 2015/2366 on payment services (PSD2) into Icelandic law, including the use of a new incident reporting system based on EBA guidelines for PSD2. The Directive was implemented in Iceland with the passage of the Payment Services Act, no. 114/2021.

In examining defences against cyberattacks, the Authority checked on financial institutions' handling of regular weakness screening and contingency measures for denial of service (DoS) attacks and possible ransomware attacks. The larger banks' cyberattack testing and test results were examined as well. The results of the checks showed that the systemically important banks' defences against cyberattacks are in good order, while less significant financial institutions rely heavily on tech service providers to ensure cybersecurity.

Financial market entities' use of cloud services has continued to grow. In view of the Schrems II judgment handed down by the Court of Justice of the European Union (CJEU) in 2020, which designated the US an insecure third country as regards personal data protection, particular attention was given to how financial institutions use cloud services hosted outside Europe. It was also stressed that financial institutions should implement new EBA guidelines on outsourcing.

Credit risk

The quality of loans granted by the banks and other credit institutions that have suffered the effects of COVID-19 is monitored closely, and supervision of credit risk has been given greater priority, including with more frequent on-site inspections. The most extensive measure taken domestically in response to borrowers' COVID-19-related difficulties was the grant of general moratoria on payment, although these have now expired. In the wake of the general moratoria, many borrowers have been granted extended moratoria on payments of principal and/or interest. Loans protected by such concessions are no longer classified in the usual manner but are most

frequently classified as forborne. Under these conditions, the fundamental principle of prudence and accounting – i.e., that both long-term and short-term credit risk on credit institutions' balance sheets must be estimated correctly – is put even more to the test. It is important that credit institutions' framework support timely identification of risk, appropriate processing of loans that have been in moratorium, effective handling of loan impairment, and effective oversight of non-performing loans.

There is still some uncertainty about the systemically important banks' loan quality, but their non-performing loan ratio as defined by the EBA was historically low at the end of 2021, or close to 2%. At the same time, the share of forborne loans in Iceland has been well above the European average, although it is declining. Furthermore, the banks' optimistic forecasts concerning loan quality have caused impairment to be reversed to an extent. This, plus rapidly rising mortgage lending, explains much of the decline in their impairment ratios in 2021.

FSA Iceland will continue to monitor developments in credit risk closely, and continued supervisory measures relating to credit risk are planned.

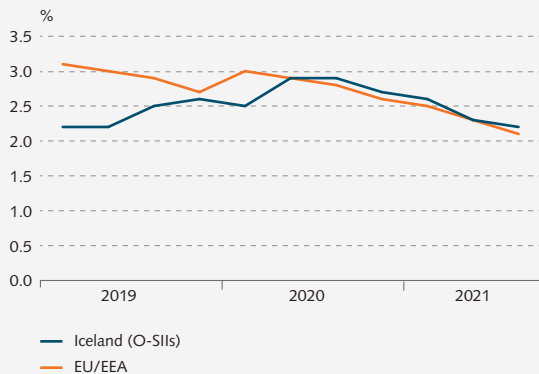
On-site inspections

In 2021, particular emphasis was placed on on-site inspections relating to credit risk. During on-site inspections carried out at the three systemically important banks, procedures relating to the classification of forborne loans were examined. Forbearance refers to an easing of loan terms and conditions, particularly to include deferral of payments, and is an action that banks may take in response to borrowers' payment difficulties. The former part of the inspection focused on the banks' implementation of certain aspects of the EBA guidelines on management of non-performing and forborne exposures. The latter part centred on determining how the banks carried out their assessment of forbearance.

Furthermore, valuation checks on selected borrowers' credit facilities from the three systemically important banks were carried out, with the aim of reviewing the book value of the facilities of borrowers in the sample, with consideration given to the methods used to estimate their value.

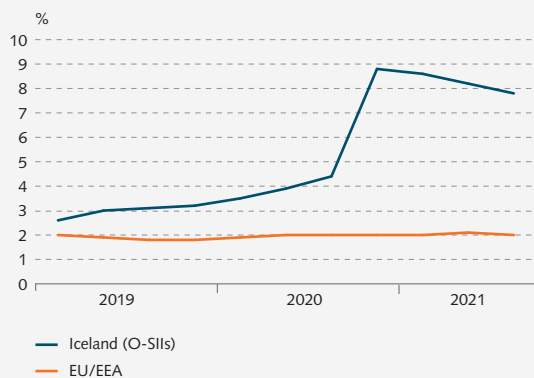
Furthermore, a check was done of Íslandsbanki hf.'s classification of loans as risk level 3 according to the IFRS 9 accounting standard, its removal of loans from risk level 3, and its conduct of loan impairment assessments. In general, loans classified as risk level 3 are more than 90 days in arrears or are deemed unlikely to be paid. Further on-site inspections relating to credit risk were carried out as well. They are still ongoing. Among

Chart 3
Ratio of non-performing loans and advances (NPL ratio)
Q1/2019 - Q3/2021



Sources: European Banking Authority (Risk dashboard).

Chart 4
Forbearance ratio for loans and advances¹
Q1/2019 - Q3/2021



1. Weighted average.

Sources: European Banking Authority (Risk dashboard).

them are examinations of lending by the savings banks.

An on-site inspection was also carried out at Arion Bank hf., with the objective of checking the administrative structure, role, responsibilities, and sphere of activity of the risk management function as regards credit risk, and examining the role of the board of directors and its risk committee in managing credit risk.

Also carried out during the year were checks on anti-money laundering and terrorist financing measures at several companies (see page 25) and an on-site inspection focusing on the quality of trade reporting system (TRS II) notifications submitted by Landsbankinn hf. (see page 20).

Gathering of data and information due to COVID-19

Data and information have been gathered more frequently than usual because of uncertainty about the impact of the

COVID-19 pandemic on the financial system. Documents and data were collected either weekly or monthly in 2021, in order to assess the impact on the banks' credit risk and their capital and liquidity, so as to obtain a comprehensive overview of the impact of COVID-19 on financial stability and developments in financial system risk. The Authority also collected information more frequently on recourse risk among clearing entities.

The more frequent reporting due to COVID-19 has now been discontinued for three main reasons. First, credit institutions have considerable excess capital and sizeable impairment accounts; therefore, they have been able to withstand this increased risk. Second, the Central Bank and the Government have already put in place a number of measures to lighten borrowers' and banks' burden and to reduce COVID-related risk. Third, the impact of COVID-19 on the financial system is better known than before, and FSA Iceland is of the opinion that it will prove to be less onerous than was assumed at the onset of the pandemic.

As a result, reporting by supervised entities has largely been systematised, with reports submitted on either a monthly or a quarterly basis. However, the Authority continues to keep track of developments by gathering data on an ad hoc basis and collecting various types of information in connection with the tasks that financial institutions carry out vis-à-vis their customers.

Withdrawal of recommendations on dividend payments

In a statement issued on 8 April 2020, the FMEN urged financial institutions to exercise restraint and postpone planned dividend payments and share buybacks while uncertainty about the impact of COVID-19 on the economy and the banks persisted. The Committee's recommendations were consistent with those issued by the EBA in March 2020. Thereafter, the systemically important banks' boards of directors announced that they had abandoned plans to pay dividends on 2019 profits.

In another statement dated 13 January 2021, the FMEN published amended recommendations on financial institutions' and insurance companies' dividend payments and share buybacks, which reflected, among other things, the European Systemic Risk Board's (ESRB) statement of 15 December 2020. In the amended recommendations, the FMEN encouraged financial institutions to observe the utmost caution in paying dividends and buying back their own shares through 30 September 2021. With a statement dated 30 June 2021, the FMEN withdrew its recommendations earlier than originally planned, as COVID-19 appeared to have less impact on financial institutions than had been feared at the

beginning of the year. This was due in part to economic measures taken by the authorities. Nevertheless, the FMEN urged financial institutions to continue observing the utmost caution in decisions to pay dividends and preparation of plans to buy back their own shares.

The financial system is now considered to be in a more favourable position than at the onset of the pandemic, and the impact on key risks facing the banks – particularly to include their loan portfolios and financial position – has come to the fore. It is considered clear that the banks are highly resilient.

Recovery plans

The systemically important banks submitted recovery plans to FSA Iceland for the fourth time in late 2021, and the Authority began reviewing them early in 2022. Less significant financial institutions submitted simplified recovery plans for the second time in October 2021. The group of less significant financial institutions currently includes the four savings banks and Saltpay IIB hf. During the year, following its merger with TM tryggingar hf., Kvika banki hf. stopped submitting simplified recovery plans, and the consolidated entity submitted its first full recovery plan late in 2021.

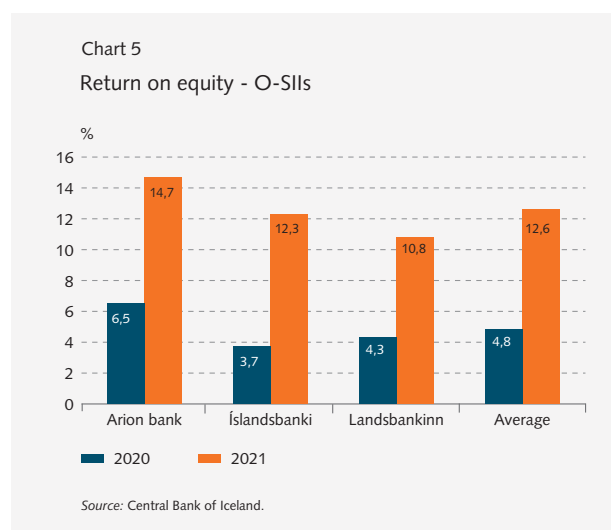
The experience of other financial supervisors in Europe is that it takes a few years to integrate the substance and contents of recovery plans with the regulatory framework applying to them. It is also their experience that it takes time to align the views and expectations of supervisory bodies with those of the supervised entities. This accords with FSA Iceland's experience. FSA Iceland has had constructive dialogue with supervised entities on the substance and contents of recovery plans and has communicated various comments and pointers in this context. In general, it can be said that the recovery plans satisfy FSA Iceland's formal requirements. In coming years, recovery plan reviews will centre more on their efficacy, as it is exceedingly important that recovery plans be updated on a regular basis to reflect current conditions and that they be an active management tool in financial institutions' operations.

Systemically important banks' operating results and funding

Systemically important banks' operating results

The systemically important banks generated a profit in 2021, and their operating results exceeded market expectations. Their combined after-tax profit came to nearly 81 b.kr. in 2021, well above the 2020 total of just under 30 b.kr. Their return on equity averaged 12.6%, as opposed to 4.8% in 2020.

Net loan valuation adjustments changed markedly between years, from impairment in the amount of 26 b.kr. in 2020 to a positive adjustment of 13 b.kr. in 2021. This 39 b.kr. turnaround in net valuation adjustments accounts in large part for the year-on-year improvement in the banks' after-tax performance.



Systemically important banks' funding

The stock of covered bonds issued by the systemically important banks totalled 626 b.kr. at the end of 2021, after increasing by 62 b.kr. during the year. As before, customer deposits constitute the largest single funding item, accounting for about 51% of the systemically important banks' funding. Covered bonds denominated in krónur provide about 14% of their funding, unsecured foreign-denominated bonds another 14%, and the book value of own funds 15%.

Climate issues

The financial sector has accorded climate issues ever-increasing importance in the recent term, and FSA Iceland is no exception. Climate issues are now one of the EBA's key priorities. The EBA has both developed a detailed timetable for climate-related projects and established a separate department tasked with harmonising the regulatory framework for the financial market with the EU's climate objectives.

The Central Bank of Iceland has initiated dialogue with domestic financial institutions on climate matters, and the banks have responded to detailed queries from the Bank on the topic. The objective is to hold a climate symposium with the banks later this year, as their most important goal at present should be to build up their knowledge of the subject.

Restrictions on position-taking by commercial banks and savings banks

In the *White Paper on a Future Vision for the Financial System*, published in late 2018, it was proposed that the Financial Supervisory Authority be empowered by law to set rules on a line of defence or restrictions on investment banking activity by commercial banks and savings banks. This proposal was also in accordance with the conclusions in the report from the Committee on the Structure of Banking Activities in Iceland, published in January 2018.

In 2021, Parliament approved an amendment to the Act on Financial Undertakings, no. 161/2002, pertaining to a line of defence for investment banking activity. The amendment entails, among other things, that direct and indirect positions held by systemically important commercial banks or savings banks in financial

instruments (other than bonds outside the trading book) and commodities may not be so large that the combined capital requirement due to the positions will exceed 15% of the capital base. The term *direct position* refers to ownership of a financial instrument or commodity. The term *indirect position* refers to a situation wherein the risk stemming from adverse changes in the value of a financial instrument or commodity is comparable to or greater than the risk that would be involved if the bank itself owned the instrument or commodity concerned. The ratio shall be calculated on a consolidated basis. The Central Bank has set more detailed rules on these calculations; cf. Rules no. 1592/2021. In recent years, the ratio discussed here has been around 5% for systemically important banks and is therefore well below the statutory maximum.

Box 1

On-site inspections

On-site inspections are conducted in support of regular monitoring of supervised entities. They are among the methods FSA Iceland uses to carry out its legally mandated role. The aim of on-site inspections is to analyse risks in supervised entities' activities in depth and evaluate their business plans, governance practices, and internal controls. The COVID-19 pandemic continued to make some impact on the on-site inspections planned for the year, in that some of them could not be carried out on the entities' premises and instead were conducted in part via remote meetings held with representatives of the entities concerned.

24 on-site inspections completed in 2021

FSA Iceland completed 24 on-site inspections in 2021, as compared with 18 in 2020. Continued emphasis was placed on supervised entities' anti-money laundering and terrorist financing measures, as well as credit risk, operational risk, governance practices, and internal controls in supervised entities' activities. Decisions about on-site inspections are based on supervised entities' impact category, as well as the results of risk assessments. Supervised entities' size, activities, and risk profile are also taken into account.



Supervision of insurance activities

FSA Iceland supervises insurance companies that have received operating licences in accordance with the Act on Insurance Activities, no. 100/2016. This entails, on the one hand, regular monitoring in accordance with FSA Iceland's risk-based supervision model, which defines the frequency with which key risk factors in the companies' operations are examined, and on the other hand, proactive checks carried out based on the circumstances in each given instance. The Authority analyses key risks and developments in the markets; furthermore, it monitors closely to ensure that the entities concerned satisfy the requirements for their operating licences, that their operating practices are in compliance with regulatory provisions, and that appropriate measures are taken at all times. Furthermore, FSA Iceland supervises the activities of insurance brokerages and monitors the business conduct of foreign insurers licensed to do business in Iceland.

In 2021, four non-life insurers and four life insurers were operating in Iceland on the basis of operating licences issued by FSA Iceland. Also in operation was one reinsurance company engaged in the settlement of legacy obligations, as well as the national catastrophe insurance provider NTI, a Government institution operating under special legislation. Nine insurance brokerages have received operating permits from FSA Iceland, and a number of insurers and brokers in the European Economic Area (EEA) have submitted notifications of activities in Iceland.

Regular monitoring

In 2021, emphasis was placed on governance practices, market risk, operational risk, and insurance risk in the supervision of the insurance market.

Regulatory supervision of insurance companies centres on their solvency margins and their ability to cover financial obligations. FSA Iceland reviews regularly submitted reports and takes interviews with CEOs, executives responsible for key functions, and external auditors. Furthermore, the Authority carries out an annual assessment of risks relating to insurance companies' operations in accordance with its *General criteria and methodology for supervision of insurance companies*. Cooperation with the European Insurance and Occupational Pensions Authority (EIOPA) is an important aspect of regular monitoring of insurance companies. EIOPA's priorities are reflected in FSA Iceland's project timetable, for example, and EIOPA prepares the regulatory framework for the insurance market. FSA Iceland keeps close track of this work.

On-site inspections

A part of insurance company supervision involves determining whether the companies satisfy requirements concerning technical provisions. In an on-site inspection conducted at Sjóvá-Almennar tryggingar hf., an assessment was made of information integrity and the approach used to determine technical provisions, as well as the methods and procedures used in their determination. The inspection also entailed an examination of whether requirements relating to outsourcing of actuarial work were met.

New digital solutions are continually emerging in the financial markets, and supervised entities' service offerings are being automated to an ever-increasing degree. An inspection was carried out at TM hf. (now TM tryggingar hf.), with the aim of determining how the company administered its bids for motor vehicle insurance, and how it ensured the quality of output data at all times. The inspection was in two parts: an appraisal of system risk and modelling risk for the product, and an appraisal of conduct risk relating to it. It also covered information disclosure concerning terms and conditions and customers' insurance policies in the TM app. The results were published on the Central Bank website in March 2021. On-site inspections were also conducted during the year at Sjóvá-Almennar tryggingar hf. and Vörður tryggingar hf. These entailed examining work methods and procedures for front-line employees' insurance sales to individuals, and whether these employees' work was monitored actively.

Proactive checks

Proactive checks of insurance companies' activities were carried out in 2021 and, among other things, key functions were examined with reference to regulatory requirements, including compliance and risk management. An investment-related proactive check was also carried out and self-evaluations requested from the companies' boards of directors. In addition, the assumptions underlying solvency margin calculations were examined. Where applicable, comments resulting from these checks were communicated to the companies concerned.

Because of the risk associated with the operation of supervised entities' information systems, each supervised entity is required to submit a report from an impartial appraiser on its compliance with Guidelines no. 1/2019. In 2021, insurance firms and insurance brokerages submitted such reports, and FSA Iceland communicated comments and recommendations to the companies and brokerages as applicable.

Stress tests

During the year, EIOPA conducted stress tests on selected insurance companies in Europe. In Iceland, Sjóvá-Almennar tryggingar hf. was selected to participate in the stress test, which was based on a negative market and insurance scenario. The stress test results show that European insurance firms are highly sensitive to market shocks. The Central Bank published the results on its website in December 2021.

Notification of qualifying holding

In May 2021, FSA Iceland and Stoðir hf. reached an agreement to settle a case involving the company's violation of Article 58, Paragraph 1 of the Act on Insurance Activities and Article 40, Paragraph 1 of the Act on Financial Undertakings. A fine of 3,7 m.kr. was levied in the case. The violation was that Stoðir hf. increased its holding in TM hf. (now TM tryggingar hf.) and thereby acquired a qualifying holding in TM's subsidiaries without notifying the Authority in advance. A transparency announcement on this case was published in May 2021.

Foreign insurance companies

Insurance companies with headquarters in other EEA states are authorised to sell insurance and reinsurance policies in Iceland, either through branches or without a fixed business establishment. A large number of insurers have notified the provision of service in Iceland without a fixed business establishment. A majority of the premiums paid to foreign insurance companies are due to the purchase of foreign life insurance policies and other life and medical insurance policies. Information on sales made in Iceland by insurance companies licensed in other EEA states is gathered through EIOPA, but figures for 2020 and 2021 are not yet available.

Supervision of pension funds and third-pillar pension savings custodians

FSA Iceland supervises pension funds and third-pillar pension savings custodians. This entails, on the one hand, regular monitoring in accordance with FSA Iceland's risk-based supervision model, which defines the frequency with which key risk factors in the pension funds' operations are examined, and on the other hand, proactive checks carried out based on the circumstances in each given instance. The Authority analyses key risks and developments in the markets; furthermore, it monitors closely to ensure that the entities concerned satisfy the requirements for their operating licences, that their operating practices are in compliance with

regulatory provisions, and that appropriate measures are taken at all times. Furthermore, the pension funds' risk assessments are examined, and interviews are taken with selected key employees.

In 2021, a total of 21 pension funds accepted mandatory pension fund premiums in mutual pension divisions, and 13 of them offered voluntary third-pillar pension savings. In addition to these were seven other third-pillar pension savings custodians with a total of 30 divisions in operation: Arion Bank hf., Íslandsbanki hf., Kvika banki hf., Landsbankinn hf., Lífsval (third-pillar pension savings for four savings banks), and two foreign insurers that offered third-pillar pension savings via custom-designed life insurance policies.

Regular monitoring

Regular supervision of pension funds and third-pillar pension savings custodians entails monitoring their compliance with regulatory provisions. In addition, the Authority conducts an annual assessment of the risks in pension fund operations. In 2021, particular emphasis was placed on pension funds' governance, operational risk, outsourcing, and market risk. FSA Iceland reviewed the pension funds' own risk assessments and took interviews with managing directors, internal and external auditors, and actuaries.

On-site inspections

On-site inspections were carried out at FÍA Pension Fund and the Icelandic Pension Fund during the year. The inspections focused on the funds' arrangements for and supervision of outsourcing, on the one hand, and their monitoring of external contractors' operational risk, on the other. The results of the inspections were published on the Central Bank website in October 2021.

In addition, an on-site inspection carried out at the Pension Fund of Commerce focused on arrangements for risk management and systems for monitoring the factors the pension fund had defined as financial risks; cf. the Act on Mandatory Insurance of Pension Rights and on Activities of Pension Funds, no. 129/1997. The results were published on the Central Bank website in November 2021.

Governance, operational risk, and outsourcing

An inspection of the Pension Fund of Commerce, which began in September 2020, concluded with comments, recommendations, and a transparency notification in April 2021. The Authority also conducted an inspection of risk management at the Pension Fund for State Employees. In addition, particular emphasis was

placed on examining operational risk and outsourcing at four pension funds that have outsourced their entire operations to the commercial banks. Comments and recommendations were communicated following these checks. Furthermore, FSA Iceland examined the Westman Islands Pension Fund's arrangements for and supervision of outsourced asset management during the year. A check on the activities of Gildi Pension Fund's actuarial and internal audit functions was carried out, and several pension funds' boards of directors were asked to submit self-assessments of board members' expertise and experience.

Actuarial position

FSA Iceland also conducted checks on several pension funds' actuarial position during the year and communicated comments and recommendations as applicable.

Investment authorisations

Pension funds and third-pillar pension savings custodians are required to send FSA Iceland quarterly reports itemising their investments. The review of these statements in 2021 revealed violations by the Westman Islands Pension Fund and Íslandsbanki hf., whose mutual fund investments were in excess of the authorisations provided for in the Act on Mandatory Insurance of Pension Rights and on Activities of Pension Funds, no. 129/1997. The Authority issued comments on these violations and demanded remedial action. The results of the inspections were published on the Central Bank website in February and June 2021.

Information systems, etc.

In 2021, the Authority communicated frequently with pension funds concerning their contingency plans following the Pension Fund Payment Bureau's termination of its service agreement with Init, which had operated the Bureau's Jóakim computer system. The Authority will continue to keep close track of developments in connection with the systems used by pension funds to administer contributions, pension payments, and securities custodianship.

Because of the risk associated with the operation of information systems, each supervised entity is required to submit a report from an impartial appraiser on its compliance with Guidelines no. 1/2019. In 2021, all of the pension funds submitted such reports, and FSA Iceland communicated its comments and recommendations to them as applicable.

In addition, a check on the provision of information concerning the division of pension rights between

spouses was carried out at three pension funds in 2021 (see page 15).

Supervision of business conduct and consumer affairs

FSA Iceland conducts monitoring to ensure that supervised entities' business conduct is sound and appropriate. This entails, among other things, proactive checks and checks carried out in response to tips submitted to the Authority. Analysis is also carried out, including analysis of investments by retail investors. The Authority's objectives in this regard are to promote improved financial market conduct and strengthen consumer protection. Business conduct includes all types of communications between supervised entities and their current and prospective customers in connection with the sale of goods and services; i.e., provision of information to customers, advisory services, pricing transparency, marketing, and handling of complaints.

Marketing on social media

A check on Íslensk verðbréf hf.'s marketing of funds operated by ÍV sjóðir hf. on social media was carried out. The objective was to determine whether the wording and presentation of information was in compliance with the then-current Act on Mutual Funds, Investment Funds, and Institutional Investment Funds, no. 128/2011; the then-current Act on Securities Transactions, no. 108/2007; and the then-current Regulation on Investor Protection and Business Practices, no. 995/2007. Comments were made on the wording in two advertisements published on social media, as they did not comply with the requirements set forth in Article 14 of the Act on Securities Transactions. The results of the inspection were published in January 2021.

Provision of information on the division of pension rights between spouses

A check carried out at three pension funds on the provision of information concerning the division of pension rights concluded in February 2021. The examination covered working methods and the provision of information to fund members in connection with the division of pension rights between spouses, with reference to the requirements laid down in the Act on Mandatory Insurance of Pension Rights and on Activities of Pension Funds, no. 129/1997. The checks did not indicate any need to comment on the pension funds' practices in this regard.

Suitability assessments and qualifying holdings

Assessment of board members' and senior executives' suitability

FSA Iceland assesses the suitability and qualifications of supervised entities' board members and managing directors. A suitability assessment is carried out when board members and managing directors begin work for a supervised entity, although FSA Iceland may conduct a repeat assessment if necessary. However, the entities concerned are always responsible for ensuring that their board members and managing directors satisfy the regulatory requirements for eligibility.

FSA Iceland assessed the suitability of 94 board members and managing directors in 2021, with most of the assessments focusing on board members. The suitability assessments that were postponed in 2020 due to the COVID-19 pandemic were largely completed in 2021. Nevertheless, because of the pandemic, it was still not possible to interview all of the board members concerned, and those assessments could not be completed by the year-end. They are scheduled for completion in H1/2022.

During the assessment, written documents are evaluated, and in a large number of instances, board members are interviewed and their expertise examined further. In determining whether a board member should be interviewed, consideration is given to factors such as the type, size, and scope of the supervised entity's operations, and whether there is any doubt about whether the person concerned meets the regulatory requirements concerning the expertise, qualifications, and experience needed to fulfil their role in a satisfactory manner. In the case of managing directors, a thorough verbal assessment of the person's expertise is always carried out, and written documents are evaluated as well.

Table 1 Suitability assessments

	2021	2020	2019
Number of board members and managing directors assessed	94	105	108
Number who did not pass the assessment due to inadequate expertise or failure to appear for interview	2	0	4

Table 2 Suitability assessments

Type of supervised entity	Number
Commercial banks	13
Savings banks	19
Credit undertakings	7
Investment firms	8
UCITS management companies	10
Entities with debt collection licences	1
Pension funds	26
Insurance companies	10

Qualifying holdings

FSA Iceland assesses the eligibility of parties intending to acquire qualifying holdings in supervised entities. A qualifying holding is a direct or indirect holding in an undertaking that represents 10% or more of its share capital, guarantee capital, or voting rights, or that enables the exercise of significant influence on the management of the company concerned.

Ownership of supervised entities remained broadly unchanged in 2021. Kvika banki hf. reported a qualifying holding in TM tryggingar hf., TM liftryggingar hf., and Íslensk endurtrygging hf.; cf. the Act on Insurance Activities, no. 100/2016.

Sales and marketing to retail investors

In April 2021, FSA Iceland and Kvika banki hf. settled a case involving the bank's violation of Article 8, Paragraph 2; Article 14, Paragraph 1; Article 15, Paragraph 1; and Article 21, Paragraph 1 of the then-current Act on Securities Transactions, no. 108/2007. A fine of 18 m.kr. was levied in the case. The investigation centred on whether the bank had satisfied the obligations concerning investor protection and business conduct among financial institutions as laid down in Chapter II of the Act. It focused primarily on the bank's obligations vis-à-vis retail investors who invested in OSF II 18 01, a bond issued by OSF II ehf., a subsidiary of Kvika banki hf. The

violations were as follows: the bank neither carried out nor documented an analysis of conflicts of interests in a satisfactory manner; it did not provide customers with cogent information on the investment option OSF II 18 01; and the information on the investment and parties related to it did not satisfy the requirement that it be clear, fair, and not misleading. Furthermore, in the case of 30 customers, the bank neglected to satisfy its obligations concerning information gathering and provision of advice in carrying out eligibility assessments; and in five instances it neglected to satisfy obligations concerning customer classification. A transparency announcement on this case was published in June 2021.

Data entry and storage

In June 2021, FSA Iceland and Arctica Finance hf. settled a case involving the company's violation of Article 10 of the then-current Act on Securities Transactions, no. 108/2007. A fine of 700,000 kr. was levied in the case. Following an incident report from the company in connection with the operation of its information systems, the Authority examined whether it had stored trade orders from customers in a satisfactory manner, as the aforementioned provision of the Act on Securities Transactions requires that the company store customers' orders for at least five years. The investigation revealed that the work methods of the company's external contractor had failed during an update of the postal and backup environment, with the result that after the update, the mailboxes of five former employees were not saved as is required by law. These included former employees in the capital markets department who executed trade orders from customers. A transparency announcement on this case was published in July 2021.

Analysis of investments by retail investors

FSA conducts regular checks on investments by retail investors, including scope and asset distribution. In 2021, the Authority conducted such a check, examining investments made by retail investors in 2019 and 2020. A comparable check was last carried out in 2018, where-in retail customers' investments in 2017 were examined. The results of the check were published in the article *Retail investors seek out riskier assets*, which appeared in the Central Bank's web-based publication *Kalkofninn* on 9 November 2021.

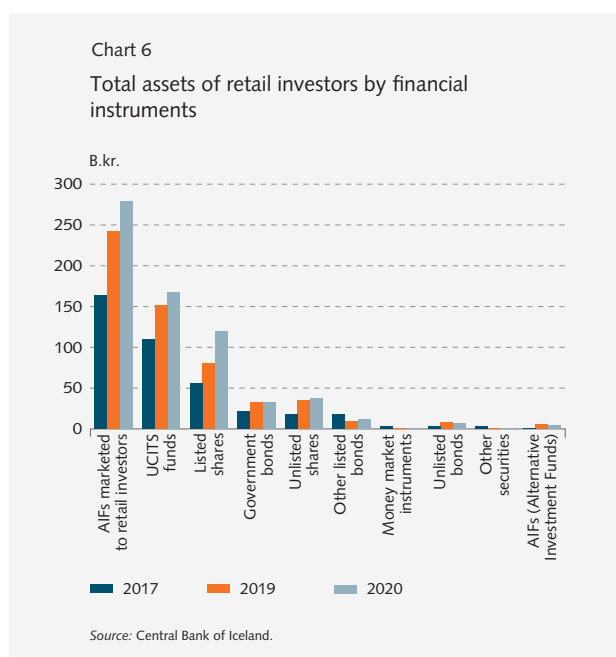
The check revealed that retail investors' risk appetite increased between 2017 and year-end 2020. Total holdings in alternative funds for retail investors increased from 164 b.kr. in 2017 to 279 b.kr. in 2020. Furthermore, their total holdings in mutual funds grew from 110 b.kr. to 167 b.kr. over the same period. Their holdings in listed equity securities increased from just under 56 b.kr. at the end of 2017 to over 119 b.kr. by the end of 2020. The increase is due mainly to retail investors' participation in initial public offerings. A total of 16,913 individuals owned equity securities at the end of 2020, up from 6,926 at the end of 2017.

To an increasing degree, retail customers invested their funds in higher-risk assets over this period, and their participation in the stock market increased substantially. This increased appetite for riskier financial instruments is probably due in some measure to low interest rates, as investors are not interested in holding their funds in bank accounts at historically low rates, although the availability of a wider range of investment options, such as listed equities, is likely a factor as well. The combination of increased participation and growing risk appetite among retail investors calls for strong, effective supervision so as to ensure that supervised entities engage in healthy and appropriate business practices in all of their operations.

New legislation

Act on Markets in Financial Instruments

A new act of law, the Act on Markets in Financial Instruments, no. 115/2021, entered into force in 2021. The Act, which incorporates the provisions of the MiFID II directive and the MiFIR regulation into Icelandic law, is broader in scope and makes more detailed requirements of supervised entities falling within its purview; i.e., as regards gathering of information from customers and provision of information to customers, measures relating to conflicts of interests, product development, and assessments of suitability when investment advice or asset management service is provided. The Act supersedes the provisions implementing the MiFID I framework that were found in the Act on Securities Transactions, no. 108/2007, which is now the Act on Takeovers. In addition to the passage of the new Act, the Central Bank of Iceland has set rules implementing the Commission-delegated instruments MiFID II and MiFIR. Furthermore, market agents have been notified of the European Securities and Markets Authority (ESMA) Guidelines, which have been set on the basis of the MiFID II/MiFIR framework and contain more detailed provisions.



Act on Key Information Documents for Packaged Retail and Insurance-Based Investment Products

Also entering into force during the year was the new Act on Key Information Documents for Packaged Retail and Insurance-Based Investment Products, no. 55/2021, as well as the Central Bank rules implementing Commission-delegated instruments from the framework for such packaged products (called PRIIPs). The Act lays down requirements for the provision of information to retail investors in connection with PRIIPs.

A watershed in supervision of business conduct and consumer affairs

The implementation of broad-based European instruments such as MiFID II, MiFIR, and PRIIPs into Icelandic law requires an enormous amount of preparatory work, in which FSA Iceland is an active participant. This work had a significant effect on the Authority's activities in 2021. In addition to participating in the legislative process, FSA Iceland employees work on the incorporation of Commission-delegated instruments into Central Bank rules and the implementation of guidelines from European financial market supervisors. Furthermore, the Authority has been adapting its work methods to the new legislation.

The entry into force of these acts of law marks a watershed in supervision of business conduct and consumer affairs in the financial market, as the groundrules that have been in place for some time in the EEA have now taken effect in Iceland. In recent years, the development of legislation pertaining to business conduct in the financial market has entailed ever-greater emphasis on investor protection and consumer protection in general. Furthermore, legislation pertaining to the banking, insurance, and securities market has grown more consistent as regards certain fundamental rules of business conduct, including communications with consumers, with consumers' interests as the guiding principle. This harmonisation is intended, among other things, to make it easier for consumers to compare products and to enhance consumers' understanding of factors including the characteristics, costs, and risks associated with such products. Furthermore, in the Act on Markets in Financial Instruments, no. 115/2021, and the Act on Key Information Documents for Packaged Retail and Insurance-Based Investment Products, no. 55/2021, FSA Iceland is granted new authorisations to intervene in the features, marketing, distribution, or sale of specified products, services, activities, or practices of financial market entities (product intervention). These authorisations make it possible to prohibit or restrict the

marketing, distribution, or sale of investment products and financial instruments, or of structured deposits and products with certain features. Furthermore, FSA Iceland may prohibit or restrict certain types of financial activities or practices in the shelter of the new authorisations. Concurrently, the EFTA Surveillance Authority (ESA) is granted product intervention powers in Iceland, which could entail temporarily prohibiting or restricting the marketing, distribution, or sale of financial products, financial instruments, and structured deposits and products with certain features. In addition, ESA may prohibit or restrict certain types of financial activities or practices.

The exercise of these authorisations is subject to stringent requirements. In order to act on the authorisations, FSA must have valid reasons to believe that the financial instrument, structured deposit, financial activity, or practice in question gives rise to significant investor protection concerns, poses a threat to the orderly functioning and integrity of the financial markets or commodity markets, or jeopardises the stability of the financial system in one or more EEA member states. In the case of derivatives, FSA Iceland must have valid reasons to believe that the derivative will be detrimental to price formation in the underlying market. Furthermore, it must be ensured that the current regulatory environment does not satisfactorily address the risk in question, and that the issue would not be better addressed by supervision or enforcement of the current legislation. Moreover, the exercise of such authorisations must satisfy requirements concerning proportionality, competent authorities in other EEA member states potentially affected by the action taken must be consulted properly, and it must be ensured that the action taken does not discriminate against activities or services from other EEA member states.

Comments from consumers

Each year, FSA Iceland receives queries, comments, and complaints from the public concerning supervised entities' business conduct, and it devotes considerable time to providing information and guidance to the parties concerned. Comments on supervised entities' business practices are also used to analyse potential risks and problems in the market, and they can result in proactive checks and investigations. In 2021, the Authority received 176 comments pertaining to business conduct and consumer affairs in the financial market. FSA Iceland does not issue rulings on disputes between financial market entities and their customers, however.

Provision of information to consumers

Social media and securities trading

In February 2021, a press release on social media and securities trading was published. The press release drew attention to a statement from ESMA, which pointed out the risks associated with basing investment decisions solely on exchange of opinion, informal recommendations, and sharing of trading intentions through social media and other online platforms not supervised by any competent authority.

Information about NOVIS

That same month, the Authority published a press release containing information about NOVIS Insurance Company, NOVIS Versicherungsgesellschaft, NOVIS Compagnia di Assicurazioni, NOVIS Poistovna a.s. (NOVIS), in order to announce the ruling by the Board of the National Bank of Slovakia (NBS) on NOVIS' request to appeal NBS' September 2020 decision about the company. The conclusion of the NBS Board was to invalidate the part of the decision that pertained to a conditional prohibition on sales. This enabled NOVIS to conclude new unit-linked insurance contracts without special restrictions. The parts of the NBS decision that remained in effect after the ruling centred on NOVIS' obligation to invest all premiums from existing insurance contracts for the benefit of policyholders, in accordance with the terms and conditions in the insurance contracts concerned, and the requirement that the company submit regular reports so as to enable NBS to monitor the company's position closely.

Risks associated with trading in virtual currency

In a press release issued in March, consumers were reminded of the risks associated with trading in virtual currency. The press release made reference to a news article by the European financial market supervisors – EBA, EIOPA, and ESMA – on the same topic. It discussed, among other things, the surge in retail investors' interest in virtual currency and related products (crypto-assets), which are speculative in nature and can be highly risky. Furthermore, there is as yet no regulatory framework for trading in virtual currency within the EEA, apart from the requirements laid down in the Act on Measures Against Money Laundering and Terrorist Financing, no. 140/2018.

Information on violations by NOVIS

In April, a news release was published concerning the National Bank of Slovakia's (NBS) decision on violations by NOVIS and its demands for remedial action by the company. At the same time, the Central Bank of Iceland published information for consumers in view of NBS'

decision, as NOVIS violated its legally mandated obligations by not investing the full amount of customer premiums in a manner consistent with the terms and conditions of the insurance contracts. The press release stated that FSA Iceland had worked closely with NBS, EIOPA, and other competent authorities via a special cooperation forum focusing on matters relating to the monitoring of prudence and business conduct in NOVIS' operations.

Risks associated with PFOF

In July, a news release was published concerning ESMA's statement warning of the risks associated with a practice known as payment for order flow (PFOF). Payments for order flow are third-party payments received by brokers in return for directing orders to those third parties as trade execution venues. Such payments cause a conflict of interests between the investment firm and its customers, as it gives the firm an incentive to choose the trading venue of the third party offering the highest payment rather than selecting the best possible outcome for its customers. ESMA's assessment is that in most cases, receiving PFOF from third parties is in violation of the provisions of the MiFID II framework, which was incorporated into Icelandic law with the passage of the Act on Markets in Financial Instruments, no. 115/2021. The ESMA statement also discusses the execution of trade orders by zero-commission brokers.

Call for evidence from market agents and other stakeholders concerning investor protection

Published in October was a press release drawing attention to ESMA's call for evidence from market agents and other stakeholders concerning certain aspects of investor protection on the basis of MiFID II and MiFIR. The evidence is being gathered in connection with technical advice provided by ESMA to the European Commission for the development of a strategy for retail investments. Also published that same month was a news release concerning the ESMA consultation on proposals for improvements to the MiFID II framework on so-called best execution reporting. The proposals should focus on ensuring effective and consistent regulation and supervision and enhancing investor protection.

Risks associated with investment recommendations on social media and more

In November, a press release was published on ESMA's statement concerning the risks associated with investment recommendations made on social media, in the wake of a surge in such recommendations. The ESMA statement stresses that investment recommendations

must satisfy certain requirements; i.e., they must be communicated in an objective and transparent way, so that investors can easily determine the source of the information and any potential interests of those making the recommendations. Furthermore, the Central Bank drew attention to new legislation on so-called PRIIPs, passed as the Act on Key Information Documents for Packaged Retail and Insurance-Based Investment Products, no. 55/2021. Another press release published in November pointed out the call for evidence made by the European financial market supervisors – EBA, EIOPA, and ESMA – in connection with a review of the key information documents (KID) provided for in the Regulation on PRIIPs. The Bank also published a press release on EIOPA's announcement that the National Bank of Slovakia (NBS) had not complied with EIOPA's July 2021 recommendation that NBS take supervisory action against an insurance company that carries out cross-border business in several EEA member states.

Supervision of the securities market

The objective of securities market supervision is to promote a secure and effective market. This is done through ongoing supervision of information disclosures made by securities issuers, supervision of market participants' business conduct – including potential insider misconduct and market abuse – and examination of reports submitted to FSA Iceland by supervised entities. Furthermore, the Authority supervises the activities of securities exchanges (one party) and central securities depositories (two parties). The Authority also participates in cooperation among Nordic financial supervisors in connection with oversight of the Nasdaq exchanges in the Nordic region.

Supervision of market conduct and sanctions

In 2021, FSA Iceland opened investigations into 24 cases stemming from the securities market, 15 of which resulted from tips submitted by Nasdaq Iceland. As in previous years, most of the cases involved alleged insider misconduct and issuers' information disclosure requirements. Of the cases investigated, 16 were concluded in 2021, and as in previous years, most of them (12 cases in 2021) were closed without a determination that a violation had been committed. Three of the cases were concluded with comments to the parties in question, and one case of alleged market abuse was referred to the police.

In addition to investigations of cases involving possible sanctions, FSA Iceland completed its examination of reports submitted by four supervised entities on the basis

of Article 9 of Regulation (EU) no. 648/2012 on OTC derivatives, central counterparties, and trade repositories (the EMIR Regulation), which describes the obligation to report derivatives transactions to trade repositories. In two instances, the Authority made comments on the lack of a procedure for such reporting.

On-site inspections

FSA Iceland concluded its examination of Landsbankinn hf.'s trade reporting system (TRS II) notifications. An appraisal was made of the internal structures that are intended to ensure the quality of the notifications. Furthermore, a random sample survey was made of the contents of notifications to the Authority. The matter was concluded without comment in December 2021.

FSA Iceland will continue to place strong emphasis on the quality of such notifications from supervised entities and plans to conduct on-site inspections of 2-3 supervised entities each year.

Reporting by supervised entities

In recent years, the European regulatory framework has evolved towards ever-increasing reporting requirements made of supervised entities and other participants in the securities market. FSA Iceland's supervision of such reporting has evolved at the same time, and today it is a high-priority element of securities market supervision. The supervision entails, on the one hand, examining the quality of data and data submittal procedures, and on the other, utilising the data submitted so as to make supervision more effective. In accordance with this, FSA Iceland has placed increased emphasis on monitoring TRS-related reporting. The reports are submitted to FSA Iceland on a daily basis by financial institutions that execute securities trades. They contain information on transactions with financial instruments that have been admitted for trading via a trade repository, those for which admission for trading has been requested, and financial instruments related to these. Each day, the data are read into an automated securities monitoring system that is designed to analyse trade data and flag suspicious transactions. The system is also supported by so-called order record-keeping (ORK) data, which Nasdaq Iceland submits to FSA Iceland each day and which contain information on all bid and ask quotes that market agents enter to their order books. ORK data enable FSA Iceland's monitoring system to analyse market participants' conduct in the presentation of quotes. The Authority also relies on various other legally required notifications from market agents in its supervision of market trading, such as notifications of trading by executives and closely relat-

ed parties, flagging notifications, issuers' lists of parties in possession of insider information, and notifications sent by issuers to a centralised database.

Ever since the MiFID Directive was incorporated into Icelandic law in 2007, reporting of trades has been harmonised within the EEA, and it has been emphasised more strongly that supervisory authorities must ensure the quality of the data submitted by supervised entities, as it is clear that these data are increasingly more important in supervisory activity. The European Securities and Markets Authority (ESMA) and its member institutions have stated jointly that supervision of data quality in the securities market will continue to be a strategic supervisory priority for the EU. FSA Iceland stresses strongly that supervised entities must have a robust internal structure for data submittal and must, insofar as is possible, ensure the quality of the data they submit.

New legislation

Act on Markets in Financial Instruments

The entry into force of the Act on Markets in Financial Instruments, no. 115/2021, made significant changes to the statutory environment for securities markets. For example, the Act on Stock Exchanges, no. 110/2007, was repealed, and its provisions incorporated into Act no. 115/2021, with the amendments entailed in MiFID II and MiFIR. The changes made include more detailed requirements concerning the transparency of quotes and transactions with financial instruments, and authorisation was granted for new types of markets in financial instruments.

A large-scale project undertaken on the basis of the new Act was the processing of requests submitted by Nasdaq Iceland for waivers of pre-trade transparency requirements, in accordance with Articles 4 and 9 of MiFIR. In all, 13 requests were submitted, and they entailed authorising Nasdaq Iceland to waive transparency requirements for certain types of bids that market agents can use in the market's order books. The waivers are subject to stringent requirements that are described more fully in Commission-delegated Regulations (EU) 2017/587 and 2017/583. Nasdaq Iceland was granted the requested waivers, which pertain to orders that are large in scale relative to the size of the market and stored in order administration systems (so-called iceberg orders), and orders that are matched at the mid-market price and are for negotiated transactions. Authorising Nasdaq Iceland to use these waivers maintained pre-trade transparency comparable to that existing before the entry into force of the Act on Markets in Financial Instruments, no. 115/2021.

In September 2021, FSA Iceland listed Nasdaq First North as a growth market for small and medium-sized enterprises (SME), after Nasdaq Iceland had submitted an application to this effect. In the Authority's assessment, Nasdaq First North satisfies all of the requirements laid down in Article 58 of the Act on Markets in Financial Instruments, no. 115/2021. One characteristic of such markets is that at least 50% of issuers of financial instruments must be SMEs. The requirements made of issuers in such a market are less stringent than in a regulated market or a conventional multilateral trading facility. Growth markets for SMEs are intended to make it easier for smaller companies to have their financial instruments admitted for trading in the market.

Act on Information Disclosure Requirements for Securities Issuers and Flagging Requirements

The Act on Information Disclosure Requirements for Securities Issuers and Flagging Requirements, no. 20/2021, entered into force on 1 May 2021. With the passage of the Act, Directive 2004/109/EC, generally referred to as the Transparency Directive, was incorporated into Icelandic law. Previously, the provisions of the Transparency Directive could be found in the Act on Securities Transactions, no. 108/2007 (now the Act on Takeovers). The new Act no. 20/2021 also implemented Directive 2013/50/EU amending the Transparency Directive. The amendments include granting issuers and investors more time to send flagging notifications concerning changes in ownership of market issuers, setting more detailed requirements for flagging related to financial instruments, and introducing the new European single electronic format (ESEF) for issuers' annual report preparation.

Act on Measures to Combat Market Abuse

The Act on Measures to Combat Market Abuse, no. 60/2021, which entered into force on 1 September 2021, incorporated the provisions of Regulation (EU) no. 596/2014 on market abuse (the Market Abuse Regulation, MAR) into Icelandic law. The new Act superseded the provisions previously found in the Act on Securities Transactions, no. 108/2007. Incorporating MAR into Icelandic law entailed substantial work for FSA Iceland, including translations, updates of forms, changes to supervisory work methods, and communications with market agents. With the implementation of MAR, the term primary insider was eliminated from the Act, as was the concept of a primary insider's duty to investigate and notify. Issuers are now required to send insider lists to FSA Iceland only when explicitly requested to do so. MAR also

contains detailed provisions on postponed publication of insider information, trading by the issuer's management, and market sounding. The term market sounding refers to the provision of information to one or more potential investors, prior to the announcement of a transaction, so as to gauge their interest in a possible transaction and the terms and conditions that would apply to such a transaction. When market sounding takes place, it could prove necessary to share insider information with potential investors. Provisions on market sounding are intended to provide parties that communicate such information with "safe harbour" vis-à-vis the violation of prohibitions on unlawful disclosure of insider information, provided that specified requirements are met.

Act on Financial Benchmarks

Also entering into force during the year was the Act on Financial Benchmarks, no. 7/2021, which incorporated Regulation (EU) 2016/1011, called the Benchmark Regulation, into Icelandic law. The Act imposes new requirements on entities that control the provision of financial benchmarks and on those that utilise such benchmarks.

Prospectuses and supervision of securities offerings

Approval of prospectuses and supervision of securities offerings represented a large-scale project in 2021. FSA Iceland approved 27 prospectuses during the year, an increase of 4% relative to 2019 but a decrease of 21% relative to 2020. The decline in 2021 is due primarily to the revision of prospectuses because of a new regulation that took effect on 1 April 2020. All prospectuses issued under the previous regulation expired on 21 July 2020, and securities issuers therefore had to issue new ones on the basis of the new regulation, which explains the marked increase between 2019 and 2020. Of the 27 prospectuses approved by FSA Iceland during the year, 12 were base prospectuses, as opposed to 14 in 2020. Nine prospectus supplements were approved in 2021, somewhat fewer than in the years beforehand. During the year, FSA Iceland published a total of 68 final sets of terms on its website. These have declined in number in recent years.

Table 1 Number of prospectuses and supplements approved by FSA Iceland

	2017	2018	2019	2020	2021
Prospectuses	19	26	26	34	27
– base prospectuses	9	10	9	14	12
Supplements	14	13	15	21	9

The largest projects of the year were the prospectuses for Sildarvinnslan hf. and Íslandsbanki hf., both of them approved in Q2. The Regulation on the Minimum Information Content of the Document to be Published for a Prospectus Exemption in Connection with a Takeover by means of an Exchange Offer, Merger or Division, no. 1515/2021, took effect in December 2021. Central Bank Rules on Key Financial Information in the Summary of a Prospectus, the Publication and Classification of Prospectuses, Advertisements for Securities, Supplements to a Prospectus, the Notification Portal, and Notification of a Public Offering, no. 1590/2021, took effect in December as well.

Notifications of short positions

Notifications of short positions contracted sharply between years, from 163 in 2020 to 44 in 2021. The EFTA Surveillance Authority's (ESA) decision to lower the notification threshold from 0.2% to 0.1% of issued share capital resulted in a significant increase in notifications in 2020. Of the 163 notifications made that year, 53 were in the 0.1-0.2% range. In 2021, only two notification fell within this range, as the decision to lower the threshold expired on 19 March 2021. On 11 January 2022, the EU approved amendments to Regulation (EU) no. 236/2012 (the Short Sale Regulation), which entail lowering the threshold for short sale notifications to 0.1% of issued share capital. The change took effect on 31 January 2022. This will not have any impact in Iceland until the amendment to the Regulation is incorporated into Icelandic law.

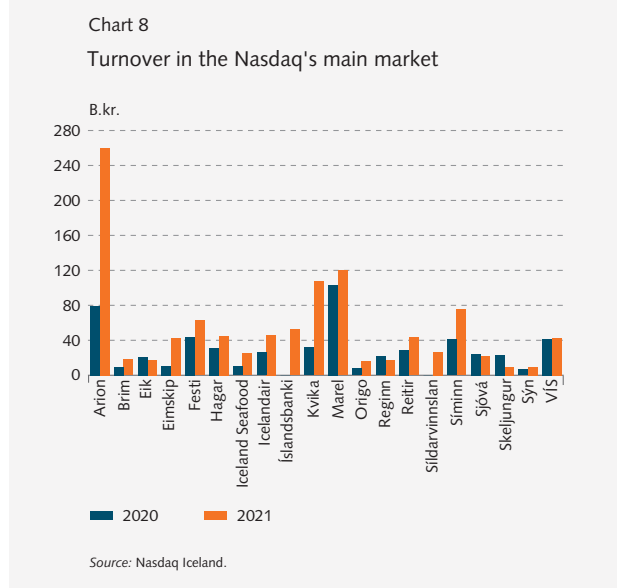
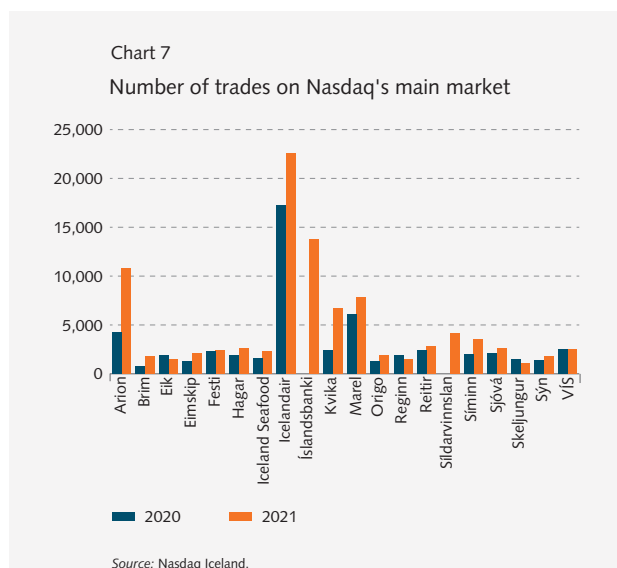
Developments in the number of short sale notifications have gone hand-in-hand with the upward trend in the equity market in the recent term. Table 2 compares the number of notifications in 2020 and 2021, by month.

Table 2 Notifications of short positions

	2020		2021	
	Total number	Number in 0.1-0.2% range	Total number	Number in 0.1-0.2% range
January	9		2	
February	3		3	1
March	13	1	2	1
April	20	8	5	
May	14	4		
June	20	7	2	
July	9	4	3	
August	8	4	4	
September	23	8	2	
October	20	7	9	
November	14	4	6	
December	10	6	6	
Total	163	53	44	2

Developments in the securities market

Share prices rose steeply in 2021. Shares in all companies on the Nasdaq Iceland Main Market rose in price, and nine companies saw their share price rise 50% or more. The OMX10 index rose by over 30% during the year, with most of the increase occurring in H1. Two new companies were listed on the Main Market: Íslandsbanki hf. and Síldarvinnslan hf. There were two new listings on the First North Market as well: Fly Play hf. and Solid Clouds hf. Trading in the market surged by over 75% between 2020 and 2021. The companies that stand out in terms of the number of trades are Icelandair Group hf., Íslandsbanki hf., and Arion Bank hf., with Icelandair Group accounting for the largest share by far. Chart 7 shows the number of trades in the Main Market in 2020 and 2021, by company.



Turnover with shares in companies listed on the Main Market grew substantially between 2020 and 2021, or by over 88%. The most turnover by far was with shares in Arion Bank hf., which exceeded turnover in the next two companies combined. It is interesting to note that Icelandair Group hf. ranked seventh in terms of turnover in the Main Market, yet it ranked first by a comfortable margin in terms of the number of trades with the company's shares.

Supervision of UCITS management companies, UCITS funds, and alternative investment fund management companies

FSA Iceland supervises collective investment fund (undertakings for collective investment in transferable securities, UCITS) management companies, UCITS funds, and alternative investment fund (AIF) managers (i.e., managers of alternative investment funds for retail investors and other special-purpose funds). Such supervision revolves mainly around whether or not the funds in question invest in accordance with statutory authorisations and their own internal rules. Factors such as UCITS funds' risk management, conflicts of interests, and liquidity management are monitored as well, as are the obligations of fund custodians.

At the end of 2021, six fund management companies were in operation, all of which had also received licences to manage alternative investment funds. Furthermore, there were three companies that only had licences to manage alternative investment funds. An additional 10 companies were registered as alternative investment fund managers, including one investment firm.

Applications for marketing authorisation

In 2021, the Authority received a large number of applications from third-country (i.e., non-EEA) management companies and alternative investment funds seeking authorisation to market products to institutional investors in Iceland. Applications from 31 management companies and 60 alternative investment funds were approved during the year. The increased activity stems from FSA Iceland's call for new applications from all of the parties that had previously received marketing authorisations pursuant to older legislation.

Common supervisory action

In *Financial Supervision 2021*, it was reported that competent authorities in EEA member states intended

Operating licences and other permits

One of FSA Iceland's tasks is to process applications by businesses – and, in some instances, individuals – for licences to operate in the financial market. Such work can be large in scope and requires the involvement of experts with a wide range of knowledge.

There were several changes relating to supervised entities' operating licences and other permits in 2021:

- TM hf.'s licence to carry out insurance activities was revoked after the company reported the relinquishment of its operating licence; cf. the Act on Insurance Activities, no. 100/2016. TM hf.'s insurance portfolio had previously been transferred to TM tryggingar hf.
- The merger of Kvika banki hf., TM hf., and asset financing company Lykill fjármögnun hf. was approved — cf. the Act on Financial Undertakings, no. 161/2002 – and the bank thereby assumed all of the rights and obligations of the companies concerned. Thereafter, Kvika banki hf. was designated a financial conglomerate in the financial sector; cf. the Act on Additional Supervision of Financial Conglomerates, no. 61/2017.
- Rapyd Europe hf. was granted a licence to operate as an electronic money institution; cf. the Act on the Issuance and Treatment of Electronic Money, no. 17/2013. The company received authorisation to issue electronic money and provide payment services. Concurrent with this, the company relinquished its licence to operate as a payment institution, and the licence was therefore revoked; cf. the Payment Services Act, no. 114/2021.
- Investment firms ACRO verðbréf hf. (previously Íslenskir fjárfestar hf.) and Fossar markaðir hf. received expanded operating licences, including licences for asset management; cf. the Act on Financial Undertakings, no. 161/2002, and the Act on Markets in Financial Instruments, no. 115/2021.
- ÍV sjóðir hf. received an expanded operating licence to carry out asset management and investment advisory activities; cf. the Act on Undertakings for Collective Investment in Transferable Securities (UCITS), no. 116/2021, and the Act on Alternative Investment Fund Management Companies, no. 45/2020.
- Amendments were made to the operating licences held by GAMMA Capital Management hf., Ísafold Capital Partners hf., and Summa Rekstrarfélag hf. The companies relinquished their licences to operate as fund management companies, whereupon the licences were revoked; cf. the Act on Undertakings for Collective Investment in Transferable Securities (UCITS), no. 116/2021. They retain their licences to operate as alternative investment fund managers; cf. the Act on Alternative Investment Fund Management Companies, no. 45/2020. In addition, Summa Rekstrarfélag hf. received an expanded operating licence to carry out asset management and investment advisory activities on the basis of the same Act.
- A/F Rekstraraðili ehf., Frumtak Ventures ehf., Glymur eignastöðring ehf., FSÍ (the Enterprise Investment Fund) GP hf., and Spakur Finance sf. were registered as alternative fund managers; cf. the Act on Alternative Investment Fund Management Companies, no. 45/2020. Furthermore, Fossar GP ehf. and FSÍ (the Enterprise Investment Fund) GP hf. were removed from the register of alternative fund managers on the basis of the same Act.
- Rarik ohf.'s collections licence was revoked after the company relinquished it; cf. the Act on Collections, no. 95/2008.

Unauthorised operation of licensed activities

FSA Iceland regularly receives tips on companies suspected of carrying out licensed activities without the required licence or registration, and it also conducts proactive checks of such cases. In 2021, the Authority examined the activities of 27 parties, including eight cases still pending from 2020. Of these cases, 26 were proactive checks and one resulted from a tip received by the Authority. Examinations of two parties' activities are still ongoing but are scheduled for completion in 2022.

to conduct joint supervision of UCITS and alternative investment funds each year. In spring 2021, UCITS funds' costs and fees were examined in a general check that extended to selected UCITS management companies in Iceland. The aims of the check were to ensure increased convergence in the supervision of costs and fees within the EEA, foster greater investor confidence,

and reduce transaction costs in securities trading. A further objective was to check the fees that UCITS management companies charge unit shareholders and determine whether the fees are appropriate in all cases, with reference to the applicable laws, regulations, and ESMA guidelines.

Increased investment in funds

In 2021, individuals invested more actively in UCITS funds than in previous years, with households' UCITS holdings increasing by 28% in all funds combined. Retail investors' holdings in alternative investment funds grew the most, owing in large part to increased household investment in equity funds. Households' equity fund holdings grew from just under 30 b.kr. at the beginning of 2021 to roughly 56 b.kr. by the year-end, an increase of nearly 88%. Commercial enterprises also stepped up their investments in equity funds during the year, from just under 8 b.kr. at the end of 2020 to nearly 15 b.kr. at the end of 2021. The equity funds' assets therefore grew significantly during the year, owing to increased inflows and rising market prices.

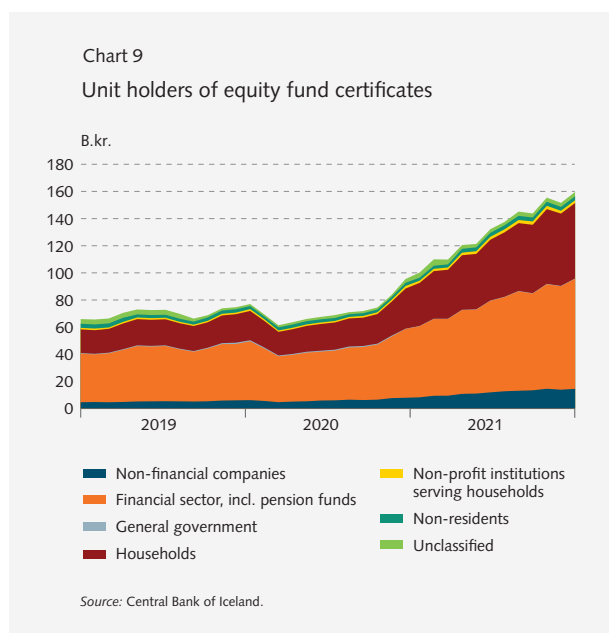
New legislation

Act on Undertakings for Collective Investment in Transferable Securities (UCITS)

A new Act on Undertakings for Collective Investment in Transferable Securities (UCITS), no. 116/2021, was passed on 25 June 2021 and entered into force on 1 September. It is a new comprehensive act of law on collective investment funds that, like its predecessor (Act no. 128/2011), is based on the UCITS Directive, with subsequent amendments. It was considered appropriate to harmonise the Act with the presentation of the Act on Alternative Investment Fund Management Companies, no. 45/2020, insofar as was possible, as it is common that UCITS management companies are also licensed as alternative investment fund managers. The changed presentation and minor additions to the previous Act were made with the aim of completing the implementation of the UCITS Directive. Furthermore, provisions on UCITS management companies, such as those on operating licences, were moved.

Supervision of anti-money laundering and terrorist financing measures

FSA Iceland carries out risk-based supervision of entities subject to notification requirements (obliged entities) in accordance with the Act on Measures Against Money Laundering and Terrorist Financing, no. 140/2018. There were 95 such obliged entities at the end of 2021, up from 82 a year earlier. They include financial institutions, pay-



ment institutions, electronic money institutions, UCITS management companies, alternative investment fund management companies, life insurers, pension funds, currency exchange centres, and virtual currency service providers, as well as branches, agents, and distributors representing foreign financial institutions in Iceland.

Risk-based supervision

FSA Iceland carries out risk-based supervision of obliged entities' anti-money laundering and terrorist financing measures. Risk-based supervision is a methodology that entails assessing the risk of money laundering and terrorist financing in the financial market and prioritising supervisory measures in accordance with the results of that assessment. Risk assessments are carried out on all obliged entities on a regular basis in order to determine the likelihood that their operations will be used for money laundering or terrorist financing. The results of the analysis of each obliged entity generate a risk score that determines the entity's risk classification. The risk classification determines which supervisory measures are included in the next year's project timetable for each obliged entity. Risk-based supervision is not a one-time measure but a regular, ongoing analysis of risk relating to money laundering and terrorist financing, both in the financial market as a whole and in individual obliged entities' operations. On the basis of supervisory measures, FSA Iceland revises its follow-up and methodology to take into account new information, including updated EU risk assessments, risk assessments from the Icelandic national police, and new regulatory requirements.

1 The data collected by the Central Bank on ownership of the financial instruments under discussion here do not include information on the classification of *households* as retail or institutional investors pursuant to Act no. 115/2021. This discussion is based on data on individuals; therefore, the text and charts may contain references to either individuals or households.

Implementation of supervision

Checks on obliged entities' anti-money laundering and terrorist financing measures may take the form of on-site inspections or proactive checks. They may be theme-based checks in which the same factors are examined at numerous entities. The Authority carried out a number of supervisory actions during the year, including on-site inspections and other follow-up checks on risk assessments and risk-based measures taken by supervised entities. In 2021, the Authority began taking interviews with obliged entities' company officers to discuss anti-money laundering and terrorist financing measures. The frequency of such interviews is determined by the company's risk classification. A questionnaire is sent to obliged entities on a regular basis so as to gather information on matters such as their business plans and their customers. The responses are used in preparing the risk assessment. In addition to the above, FSA Iceland uses other methods to highlight obliged entities' obligations or to gather information on measures carried out by them. Examples of such measures include presentations given by FSA Iceland and queries.

On-site inspections

On-site inspections to check on compliance with the Act on Measures Against Money Laundering and Terrorist Financing were carried out at Íslandsbanki hf., Kvika banki hf. Landsbankinn hf., SaltPay IIB hf., Rapyd Europe hf., Basko verlanir ehf. (which has discontinued operations but was an agent for the foreign payment institution MoneyGram International SPRL), Íslandspóstur ohf. (agent for the foreign payment institution Western Union Payment Services Ireland Ltd.), and the currency exchange centre FX Iceland ehf. The inspections entailed examinations of operational risk assessments, risk assessments of contractual relationships and transactions, due diligence checks, regular supervision, obligations to investigate and to notify, compliance with international sanctions, and monitoring of politically exposed persons, as well as policies, management, and procedures.

Educational material and guidelines

The Authority issued educational materials on risk-based and preventative anti-money laundering and terrorist financing measures at the beginning of 2021. The aim of the material is to explain how statutory requirements and the interactions among various measures are intended to prevent obliged entities' activities from being misused for the purpose of money laundering and terrorist financing. FSA Iceland also issued a list of occupations classified as high-level public positions in connection its assessment of politically exposed persons.

Furthermore, the Authority implemented the EBA Guidelines on money laundering and terrorist financing risk factors and held a presentation of the guidelines for all obliged entities. Also implemented were the EBA Guidelines on internal governance which require that financial institutions designate a member of the management body to take responsibility for anti-money laundering and terrorist financing measures.

Furthermore, the Authority held two educational meetings for obliged entities on their obligation to investigate and notify, and as before, obliged entities received informal assistance and guidance from the Authority.

Sanctions

Cases concluded with sanctions in 2021

In 2021, the Central Bank Financial Supervisory Authority concluded four cases involving violations by reaching a settlement with the parties concerned, while no cases concluded with a decision by the Financial Supervision Committee to levy administrative fines for a violation. Transparency announcements have been published in three of the four cases concluded by settlement. They are as follows:

Kvika banki hf.

In April 2021, FSA Iceland and Kvika banki hf. reached an agreement to settle a case involving the company's violations of provisions on the sale and marketing of a further specified bond series, found in Chapter III of the Act on Securities Transactions, no. 108/2007. A fine of 18,000,000 kr. was levied.

Stoðir hf.

In May 2021, FSA Iceland and Stoðir hf. reached an agreement to settle a case involving the company's violations of Article 58, Paragraph 1 of the Act on Insurance Activities, no. 100/2016, and Article 40, Paragraph 1 of the Act on Financial Undertakings, no. 161/2002, in that the company did not notify the Authority in advance of a qualifying holding in TM hf. and its subsidiaries. A fine of 3,700,000 kr. was levied.

Arctica Finance hf.

In June 2021, FSA Iceland and Arctica Finance hf. reached an agreement to settle a case involving the company's violations of Article 10, Paragraph 2 of the Act on Securities Transactions, in that the company did not store trade orders from customers in a satisfactory manner. A fine of 700,000 kr. was levied.

Administrative fine cases brought before the courts

With a judgment handed down by the District Court of Reykjavik on 12 October 2021 in Case no. E-6009/2020, the court rejected Fossar markaðir hf.'s demand the invalidation of FSA Iceland's 10 June 2020 decision to impose an administrative fine of 10,500,000 kr. on the company for having violated Article 57(a) of the Act on Financial Undertakings, no. 161/2002, and rules set on the basis of this provision, by having paid bonuses to employees without having established a variable remuneration system. The company has appealed the case to the Court of Appeals.

With a decision handed down by the Supreme Court of Iceland on 17 February 2021 in Case no. 2020-295, Arctica Finance hf.'s request to appeal the Court of Appeals' decision of 4 December 2020 in Case no. 239/2019 was rejected. The Court of Appeals upheld the decision handed down by the District Court of Reykjavik on 8 March 2019 in Case no. E-4049/2017. With that decision, the Court agreed that dividend payments to Arctica Finance hf. employees had actually been bonus payments; however, the Court agreed in part to Arctica Finance hf.'s demand to invalidate FSA Iceland's 20 September 2017 decision to levy an administrative fine for the company's violations of regulatory provisions on payments of variable remuneration to financial institutions' employees, and the amount of the fine was reduced. The District Court was of the opinion that the rules on which FSA Iceland based its decision for the period 2012-2015 lacked sufficient statutory foundation as an authorisation to impose penalties. On the other hand, the District Court was of the opinion that FSA Iceland's decision concerning the years 2016 and 2017 was sufficiently grounded in the law. On the basis of this, the Authority's decision was confirmed in part, but the amount of the fine was reduced to 24,000,000 kr.

Key priorities in the 2022 project timetable



At the beginning of each year, FSA Iceland prepares a detailed project timetable for the upcoming twelve months. This work is based in part on the Authority's *Supervisory Strategy for 2022-2024*, recent risk assessments, and the strategic supervisory priorities prepared by EBA, EIOPA, and ESMA. This section contains a summary of key priorities in the 2022 timetable. It is not an exhaustive list of all tasks scheduled for the year.

FSA Iceland publishes key priorities in its timetable, with the aim of promoting transparency in the Authority's work. Such transparency enables supervised entities to take the Authority's strategy and priorities into account in their activities. The priorities are published with the proviso that they may be subject to change, as supervision of financial activities is based on the most recent information available at any given time.

Key priorities in 2022

Cyber-risk and IT risk

IT risk is a rapidly growing category of risk in the financial market. Companies operating in the financial market make ever-increasing use of technological solutions in their operations and the service they provide to customers. By the same token, the risk stemming from cyber-attacks has grown in the recent past. Supervised entities must therefore give careful consideration to cyber- and IT risk and measures to mitigate it.

FSA Iceland stresses that supervised entities should shore up their defences and strengthen their ability to respond to serious incidents. During the year, checks on supervised entities' operational risk will be carried out, with particular emphasis on cyber- and IT risk.

Supervised entities' business models

In view of the major technological advances taking place in the financial market, the challenges posed by COVID-19, and changes in financial market entities' regulatory and competitive environment, it is considered necessary to analyse and assess the risks that these factors pose for supervised entities' business models.

In 2022, the Authority will carry out an appraisal of the business models and strategies of companies in the financial market, with a view to the aforementioned factors.

Loan quality and COVID-related forbearance measures

The Authority will continue to monitor developments in credit risk in the coming term and to follow up on corporate loans that have been in moratorium, including ensuring that write-downs and administration of non-performing loans are handled properly.

Supervision of anti-money laundering and terrorist financing measures

Strong emphasis will continue to be placed on a risk-based approach to obliged entities' anti-money laundering and terrorist financing measures. Increased emphasis will be placed on obliged entities' IT systems in connection with such measures. It is also important to consider expertise in anti-money laundering and terrorist financing measures when assessing management candidates' eligibility and qualifications and when determining the composition of boards of directors.

FSA Iceland will conduct checks on compliance by with selected aspects of the Act on Measures Against Money Laundering and Terrorist Financing during the year.

Pension risk and fulfilment of obligations vis-à-vis pensioners

Longer life expectancy and low interest rates affect the obligations of pension funds and must be considered in a forward-looking manner, so that fund members' invested contributions are distributed fairly and in line with risk.

The Authority will stress that pension funds should examine the underlying assumptions and results of their actuarial checks and compare them with past experience. Pension funds should ensure that the premises for accrual of rights are examined so that the funds can fulfil their obligations and provide minimum insurance protection.

Marketing and presentation of the cost of financial instruments

Both excess costs and a lack of transparency in the presentation of information are detrimental to investors' interests and erode confidence in the financial market. In 2022, the Authority will stress that supervised entities must provide consumers and other investors with clear and correct information on the costs associated with financial instruments.

Product development and distribution in the financial market

Harmonised rules on product oversight and governance (POG) in the financial market have now taken effect. The rules are intended to ensure sound business conduct in the sale and marketing of financial products, including ensuring that products are sold or marketed to the appropriate parties. The Authority will emphasise compliance with the rules and stress that supervised entities should develop an adequate management structure for product development.

Data quality in the securities market

Effective and efficient supervision of the securities market is based on robust data. As in recent years, emphasis will be placed on checks relating to the quality of TRS II data, which are used in supervision of insider misconduct, market abuse, and the like in the securities market.

Amendments to regulatory instruments in the financial market



This section is devoted primarily to the amendments made to financial market legislation in 2021. It also covers amendments made to rules and guidelines issued in 2021. In addition, it explains the main substance of forthcoming European regulatory instruments in the financial market whose implementation is expected in the near term.

Statutory amendments in 2021

The Central Bank of Iceland participates actively in shaping the regulatory framework for the financial market in Iceland, including by setting rules and implementing guidelines from European financial market supervisors. Furthermore, the Bank's financial supervision staff participate in ministerial committees and task forces entrusted with preparing bills of legislation that apply to the activities of supervised entities. The Authority plays a key role in the financial market in terms of monitoring, adopting, and implementing technical standards, guidelines, and recommendations issued by European financial market supervisors. It is necessary that FSA Iceland have an overview of all legal authorisations pertaining to the Icelandic financial market, that it apply and interpret them, and that it keep abreast of amendments proposed within the EEA.

The following acts of law pertaining to the financial market were passed by Parliament in 2021:

- Act on Financial Benchmarks, no. 7/2021.
- Act no. 10/2021 amending the Act on Measures Against Money Laundering and Terrorist Financing, no. 140/2018 (alternative investment fund management companies).
- Act no. 11/2021 amending the Act on Financial Undertakings, no. 161/2002, with subsequent amendments (line of defence in investment banking activities).
- Act on Information Disclosure Requirements for Securities Issuers and Flagging Requirements, no. 20/2021.
- Act no. 38/2021 amending the Act on Resolution of Credit Institutions and Investment Firms, no. 70/2020 (claim hierarchy during resolution and winding-up).
- Article 44/2021 amending the Act on Financial Undertakings (implementation, recovery plans).
- Act on Key Information Documents for Packaged Retail and Insurance-Based Investment Products, no. 55/2021.
- Act no. 56/2021 amending the Act on Derivatives Trading, Centralised Counterparties, and Trade Repositories, no. 15/2018 (reduced regulatory burden).
- Act on Measures to Combat Market Abuse, no. 60/2021.
- Act no. 68/2021 amending the Act on Mortgage Lending to Consumers[, no. 118/2016] (maximum debt service, exemptions, etc.).
- Act no. 82/2021 amending various Acts on the insurance market and the banking market.
- Act on Payment Services, no. 114/2021.
- Act on Markets in Financial Instruments, no. 115/2021.
- Act on Undertakings for Collective Investment in Transferable Securities (UCITS), no. 116/2021.
- Act no. 134/2021 amending the Act on Key Information Documents for Packaged Retail and Insurance-Based Investment Products[, no. 55/2021] (financial market indices and disclosure of information to investors).

Rules and guidelines issued in 2021

Rules

In 2021, the Central Bank of Iceland set the following rules pertaining to financial supervision, including rules implementing technical standards adopted by European financial market supervisors:

- Rules on the Form and Contents of Descriptions of Financial Undertakings' Group Financial Support Agreements, no. 376/2021.
- Rules on Securities Settlement and Central Securities Depositories, no. 377/2021.
- Rules on Templates for Reporting by Insurance Undertakings and Insurance Conglomerates, no. 378/2021. These were repealed with the entry into effect of Rules no. 1114/2021 on the same topic.
- Rules on Appropriate and Sound Business Practices of Financial Undertakings, Payment Institutions, Electronic Money Institutions, and Alternative Investment Fund Management Companies, no. 499/2021.
- Rules on Reporting by Financial Undertakings, no. 665/2021. These were repealed with the entry into effect of Rules no. 751/2021 on the same topic.
- Rules on the Entry into Effect of EU Regulations on Technical Standards for the Resolution and Recovery of Credit Institutions and Investment Firms, no. 666/2021.
- Risk on Credit Institutions' Liquidity Risk, no. 727/2021.
- Rules on Credit Institutions' Minimum Net Stable Funding Ratios, no. 750/2021.
- Rules on Reporting by Financial Undertakings, no. 751/2021.
- Rules on Financial Benchmarks, no. 752/2021.
- Rules on Derivatives Transactions in which the Icelandic Króna is Specified in a Contract Against Foreign Currency, no. 765/2021.
- Rules on Maximum Loan-to-Value Ratios for Mortgage Loans to Consumers, no. 778/2021.
- Rules on Countercyclical Capital Buffers for Financial Undertakings, no. 1076/2021.
- Rules on Maximum Debt Service-to-Income Ratios for Mortgage Loans to Consumers, no. 1077/2021. These were repealed with the entry into effect of Rules no. 1268/2021 on the same topic.
- Rules on the Identification of Global Systemically Important Financial Institutions, no. 1081/2021.
- Rules on the Internal Ratings-Based Approach to the Calculation of Financial Undertakings' Own Funds Requirements, no. 1082/2021.
- Rules on Financial Undertakings' Market Risk, no. 1083/2021.
- Rules on Procedures and Forms for Consultation among Supervisory Authorities on the Assessment of Eligibility to own Qualifying Holdings in Credit Institutions, no. 1084/2021.
- Rules on Financial Undertakings' Information Disclosure Requirements, no. 1085/2021. These were repealed with the entry into effect of Rules no. 1460/2021 on the same topic.
- Rules on Financial Undertakings' Credit Risk, no. 1086/2021.
- Rules on the Mapping of Credit Assessments in Calculation of Own Funds Requirements for Credit Risk and Securitisation, no. 1087/2021.
- Rules on the Application of Calculation Methods for the Calculation of Financial Conglomerates' Own Funds Requirements, no. 1088/2021.
- Rules on Procedures and Forms for Submitting Information to ESMA, no. 1111/2021.
- Rules on the Preparation and Provision of Key Information Documents for Retail Investors, no. 1112/2021. These were repealed with the entry into effect of Rules no. 145/2022 on the same topic.
- Rules on Standard Deviations in Relation to Health Risk Equalisation Systems, no. 1113/2021.
- Rules on Templates for Reporting by Insurance Undertakings and Insurance Conglomerates, no. 1114/2021.
- Rules on Procedures, Formats, and Templates of the Solvency and Financial Condition Report, no. 1115/2021.
- Rules on Strong Customer Authentication and Common and Secure Open Standards of Communication in Payment Services, no. 1220/2021.
- Rules on Transmission of Information Relating to Resolution of Credit Institutions and Investment Firms, no. 1262/2021.
- Rules on Maximum Debt Service-to-Income Ratios for Mortgage Loans to Consumers, no. 1268/2021.
- Rules on Definitions and Coordination of Supplementary Supervision of Risk Concentration and Intra-Group Transactions, no. 1410/2021.
- Rules on a Standardised Presentation Format for the Product Information Document for Non-Life Insurance, no. 1411/2021.
- Rules on Organisational Requirements of Investment Firms and Provision of Information in Connection with Qualifying Holdings, no. 1420/2021.
- Rules on Organisational Requirements of Trading Venues, no. 1421/2021.
- Rules on Transparency Requirements in Markets in Financial Instruments, no. 1422/2021.

- Rules on Authorisation, Organisational Requirements, and Publication of Transactions for Data Reporting Services Providers, no. 1423/2021.
- Rules on the Framework for Transactions with Financial Instruments, no. 1424/2021.
- Rules on Application of Position Limits to Commodity Derivatives and Indirect Clearing Arrangements, no. 1425/2021.
- Rules on Financial Undertakings' Information Disclosure Requirements, no. 1460/2021.
- Rules on Securities Issuers' Information Disclosure Requirements, no. 1470/2021.
- Rules on Harmonised Assumptions Underlying the Standardised Rule for Calculating the Solvency Capital Requirement, no. 1500/2021.
- Rules on Technical Information for the Calculation of Technical Provisions and Basic Own Funds for Reporting with Reference Dates from 30 September 2020 through 29 September 2021, no. 1501/2021.
- Rules on Key Financial Information in the Summary of a Prospectus, the Publication and Classification of Prospectuses, Advertisements for Securities, Supplements to a Prospectus, the Notification Portal, and Notification of a Public Offering, no. 1590/2021.
- Rules on Securities Settlement and Central Securities Depositories, no. 1591/2021.
- Rules on Restrictions on Position-Taking by Commercial Banks and Savings Banks, no. 1592/2021.
- Rules no. 1625/2021 amending the Rules on Annual Accounts of Pension Funds, no. 335/2015.
- Rules on Measures to Combat Market Abuse, no. 1626/2021.
- Rules on the Execution of Resolution Authority by the Central Bank of Iceland, no. 1733/2021.

Guidelines

FSA Iceland did not issue any new guidelines during the year.

EEA Guidelines

A number of EEA guidelines were adopted by FSA Iceland during the year. They include guidelines issued by the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities and Markets Authority (ESMA); cf. the authorisation contained in Article 16 of the Regulations Establishing a European Supervisory Authority, no. 1093-1095/2010, which were incorporated into Icelandic law with the Act on a European Financial Supervisory System, no. 24/2017. These Guidelines are not incorporated into FSA Iceland's guidelines; instead, a circular describing the

substance of the Guidelines and containing a link to the English version is posted on the Authority's website. The purpose of the European Guidelines is to bring about harmonised, successful, and effective supervisory execution within the European financial supervisory system and to ensure collective, homogeneous, and harmonised application of EU legislation. As a result, FSA Iceland bases its supervisory activities on the Guidelines.

Forthcoming new financial market legislation

This section discusses the principal directives and regulations governing the European financial market that are currently being incorporated into Icelandic law or will be in 2022. Central Bank experts participate in implementing these instruments in various ways, such as consulting with Government ministries, issuing rules and recommendations, and adopting guidelines.

Venture capital funds – EuVECA

With the implementation of Regulation (EU) no. 345/2013 on European venture capital funds (EuVECA), alternative investment fund managers will be authorised to offer investments in European venture capital funds. The particular aim of the regulation is to provide small and medium-sized enterprises with access to funding, thereby fostering increased innovation and entrepreneurship. An implementing bill of legislation has been introduced before Parliament.

Social entrepreneurship funds – EuSEF

With the implementation of Regulation (EU) no. 346/2013 on European social entrepreneurship funds (EuSEF), alternative investment fund managers will be authorised to offer investments in European social entrepreneurship funds. The particular aim of the regulation is to provide companies guided by social objectives with increased access to capital, so that they can have a positive impact on society with their innovation and entrepreneurship. An implementing bill of legislation has been introduced before Parliament.

Long-term investment funds – ELTIF

With the implementation of Regulation (EU) 2015/760 on European long-term investment funds (ELTIF), alternative investment fund managers will be authorised to offer investments in European long-term investment funds. The aim of the regulation is to increase investment in various infrastructure projects, including projects in transport, energy, or education. By directing funding

to such projects, ELTIFs are said to promote the financing of the real economy in the EEA. An implementing bill of legislation is to be introduced before Parliament at the spring 2022 legislative session.

Money market funds – MMF

Regulation (EU) 2017/1131 on money market funds (MMF) will apply to all funds for collective investment, whether they are UCITS or AIFs. The main objectives of the regulation are to create a harmonised set of rules to ensure the security and reliability of money market funds, support the effective functioning of the money market, and ensure equal treatment of investors. An implementing bill of legislation is to be introduced before Parliament at the spring 2022 legislative session.

Payment Accounts Directive – PAD

Directive 2014/92/EU on payment accounts (the Payment Accounts Directive, PAD) concerns the comparability of fees related to payment accounts, switching of payment accounts, and access to payment accounts with basic features. The purpose of the directive is to promote transparency and competition, facilitate comparison of fees and switching of payment accounts, and encourage effective and smooth financial mobility for consumers. An implementing bill of legislation has been introduced before Parliament.

Amendment to the EU Recovery Prospectus Regulation

Regulation (EU) 2021/337 amends the Recovery Prospectus Regulation in order to enable issuers, financial service providers, and markets to address the economic repercussions of COVID-19. The Regulation temporarily eases various requirements made of these parties, including with the so-called EU Recovery Prospectus. An implementing bill of legislation is to be introduced before Parliament at the spring 2022 legislative session.

COVID amendment (MiFID II)

Directive (EU) 2021/338 is intended to ease requirements concerning responses to the COVID-19 pandemic. It amends MiFID II as regards information disclosure, product development, and maximum positions, and it amends Directive 2013/36/EU (CRD IV) and Directive (EU) 2019/878 as regards their application to investment firms. It was implemented in part with the passage of Act no. 115/2021, and it is assumed that the remaining provisions will be implemented in 2022. An implementing bill of legislation is to be introduced before Parliament at the spring 2022 legislative session.

Capital Requirements Directive and Capital Requirements Regulation (CRD and CRR)

Directive 2013/36/EU (CRD IV) and Regulation (EU) no. 575/2013 (CRR) combined constitute the CRD IV regulatory framework. The main substance of CRD IV consists of increased capital and liquidity requirements made of financial institutions in accordance with the Basel III standard. CRR was incorporated into Icelandic law in 2016, and in recent years, Icelandic legislation has been amended in increments to incorporate the provisions of CRD IV. The Ministry of Finance and Economic Affairs, in cooperation with the Central Bank, has prepared a draft bill of legislation completing the implementation of the CRD IV framework by means of an amendment to the Act on Financial Undertakings, no. 161/2002. With the passage of the bill of legislation, the implementation of CRD and CRR will be complete, with the adaptations that have been incorporated into the EEA Agreement. Among the principal changes are an expansion of FSA Iceland's supervisory powers, more detailed provisions on governance of financial undertakings (including the requirement that systemically important financial institutions operate a nomination committee and an employment terms committee, and provisions on variable remuneration), and more detailed provisions on countercyclical capital buffers. Furthermore, the maximum capital buffer for national systemically important financial institutions is increased from 2% to 3%. Moreover, CRR is incorporated into the Act on Financial Undertakings, whereas the main substance of the regulation was previously implemented with a regulation. A bill of legislation completing the implementation of the CRD IV regulatory framework is to be introduced before Parliament at the spring 2022 legislative session.

Directive on recovery and resolution of credit institutions and investment firms (BRRD and BRRD II)

Directive 2014/59/EU (the Bank Recovery and Resolution Directive, BRRD) has been incorporated into Icelandic law by means of the Act on Resolution of Credit Institutions and Investment Firms, no. 70/2020, apart from the provisions pertaining to the financing and debt management of a resolution fund. A bill of legislation implementing the remaining provisions of BRRD and determining how resolution fund financing is to be handled is to be introduced before Parliament at the spring 2022 legislative session. In 2019, the EU approved amendments to BRRD with Directive (EU) 2019/879 (BRRD II), which introduces a new methodology for minimum required own funds and eligible liabilities (MREL). The incorporation of BRRD II into the EEA Agreement is underway. A bill of legisla-

tion implementing the directive is to be introduced before Parliament during the autumn 2022 legislative session.

Cross-border distribution of collective investment funds

With the implementation of Regulation (EU) 2019/1156 and Directive (EU) 2019/1160 on cross-border distribution of funds, Icelandic rules on the cross-border operation and marketing of UCITS and alternative investment funds will be harmonised with EU legislation. Regulation (EU) 2019/1156 amends EuVECA and EuSEF, and Directive (EU) 2019/1160 amends AIFMD and the UCITS Directive. The aims of the amendments are, among other things, to increase transparency for investors, standardise the costs of cross-border distribution, and harmonise the definition of pre-marketing. A bill of legislation implementing the directive is to be introduced before Parliament during the autumn 2022 legislative session.

Regulation on a pan-European personal pension product (PEPP)

Regulation (EU) 2019/1238 on a pan-European personal pension product (PEPP) entails a new voluntary type of pension savings that will be available to consumers within the EEA. The Regulation lays the groundwork for Europe-wide personal savings, where standardised core characteristics are guaranteed, such as transparency requirements, investment rules, and the right to switch products or investment types. This guarantees strong investor protection while giving product providers the flexibility to adapt the product to their own business model. An implementing bill of legislation is to be introduced before Parliament at the autumn 2022 legislative session.

Regulation on transparency of securities financing transactions and reuse (SFTR)

Regulation (EU) 2015/2365 on transparency of securities financing transactions and of reuse (SFTR) is intended to reduce systemic risk associated with financing transactions by increasing the transparency of such transactions, ensuring equivalent conditions of competition and international convergence, and strengthening supervision. According to the Regulation, information on all market agents' financing transactions with securities will be reported to a trade repository, whether they are financial institutions or not. This includes information on when the trade takes place, the composition of collateral, whether the collateral is available for reuse or has been reused, substitution of collateral at the end of each day, and haircuts applied. There will also be provisions on cooperation among supervisors in member states, so

that they can have an overview of the risks associated with securities financing transactions, and on exchange of information among them. An implementing bill of legislation is to be introduced before Parliament at the autumn 2022 legislative session.

Sustainability-related disclosures in the financial sector (transparency)

Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial sector (transparency) contains harmonised rules for financial market entities such as insurance companies, financial undertakings, and alternative investment fund managers. It requires that these parties publish information on their websites, specifying how they take sustainability-related risk into account in their risk management and how they assess the impact on sustainability. An implementing bill of legislation is to be introduced before Parliament at the autumn 2022 legislative session.

Sustainable investment taxonomy

With the adoption of Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment, called the Taxonomy Regulation, an important step was taken to reduce the likelihood of greenwashing and make it easier for investors to understand the premises underlying the classification of products marketed as green or sustainable. The regulation also harmonises the use of terminology and the rules on interpretation of what can be considered a sustainable investment. An implementing bill of legislation is to be introduced before Parliament at the autumn 2022 legislative session.

Directive and Regulation on prudential supervision of investment firms (IFD and IFR)

Directive (EU) 2019/2034 and Regulation (EU) 2019/2033 on prudential supervision of investment firms (IFD and IFR) set forth harmonised requirements for prudential supervision of investment firms falling within the scope of MiFID II. They specify the required minimum level of initial capital for investment firms, the powers and tools that supervisory authorities must have in order to supervise investment firms, and the information that supervisory authorities must publish. An implementing bill of legislation is to be introduced before Parliament at the autumn 2022 legislative session.

SME growth markets

Regulation (EU) 2019/2115 amends Regulation (EU) no. 596/2014 (MAR) and Regulation (EU) 2017/1129 (the

Prospectus Regulation) in order to encourage the listing of securities on SME growth markets. The amendments to MAR entail less stringent requirements concerning insider information and insider lists, and the amendments to the Prospectus Regulation entail less stringent requirements concerning information in prospectuses. An implementing bill of legislation is to be introduced before Parliament at the autumn 2022 legislative session.

OTC derivatives, central counterparties, and trade repositories (EMIR 2.2. CCP)

Regulation (EU) 2019/2099 is part of the review of the regulatory framework for derivatives. It amends Regulation (EU) 648/2012 (EMIR) with the aim of strengthening supervision of central counterparties (CCP).

Directive on covered bonds

Directive (EU) 2019/2162 is intended to strengthen investor protection by introducing harmonised minimum requirements, particularly as regards definitions and standards for covered bonds issued by credit institutions. The provisions cover issuance, structure, supervision, and publication requirements.

Review of regulations establishing EBA, EIOPA, ESMA, and ESRB

Regulation (EU) 2019/2175 contains amendments to the regulations establishing the European supervisory authorities EBA, EIOPA, and ESMA. Changes were made to the organisational structure of the institutions; furthermore, ESMA was entrusted with direct supervision of EU critical benchmarks and their administrators and data service providers, in accordance with the MiFID II/MiFIR framework. As regards EEA-EFTA states, supervision will be in the hands of the EFTA Surveillance Authority (ESA). Amendments were also made to foster supervisory convergence and improved investor protection. Regulation (EU) 2019/2176 made various amendments to Regulation (EU) no. 1092/2010, which established the European Systemic Risk Board (ESRB). It is particularly noteworthy that amendments are made concerning participation by non-EU countries in the ESRB's activities, when opens the possibility for EEA-EFTA states to become full non-voting members, an option they already have for EBA, EIOPA, and ESMA.

Transfer of supervision of data reporting services providers

Directive (EU) 2019/2177 on the transfer of supervision of data reporting service providers amends MiFID II (Directive 2014/65/EU), Solvency II (Directive

2009/138/EC), and the Money Laundering Directive (Directive (EU) 2015/849; furthermore, it transfers supervision of data reporting services providers to the European Securities and Markets Authority (ESMA). As regards the EEA-EFTA states (Iceland, Liechtenstein, and Norway), supervision will be in the hands of the EFTA Surveillance Authority (ESA).

Regulation on a framework for simple, transparent, and standardised securitisation (STS)

Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent, and standardised securitisation (STS) creates a general framework for securitisation and introduces a special framework for STS. Regulatory instruments in various markets, such as CRR, Solvency II, and MMF, make reference to STS as regards securitisation, and among other things, provisions on securitisation have been transferred from CRR to the STS Regulation. The STS Regulation also amends CRR as regards prudential requirements, including risk models and capital ratios. Regulation (EU) 2021/557 amends Regulation (EU) 2017/2402 so as to support the post-COVID-19 economic recovery. It expands the STS framework to include additional types of securities and makes it easier to securitise non-performing exposures (NPE).

Appendices

1. Number of entities regulated by the Central Bank of Iceland Financial Supervisory Authority

Table 1 Number of regulated entities at the year-end

Categories of regulated entities at each year-end	31.12.2016	31.12.2017	31.12.2018	31.12.2019	31.12.2020	31.12.2021
Subject to licence or operating under special legislation:						
Commercial banks	4	4	4	4	4	4
Savings banks	4	4	4	4	4	4
Credit undertakings	5	5	5	5	4	3
Housing Financing Fund (HFF)	1	1	1	0	0	0
Deposit departments of co-operative societies	1	1	0	0	0	0
Investment firms	10	9	9	9	9	9
UCITS management companies	10	10	9	9	9	6
Alternative investment fund managers ¹	0	0	0	0	16	19
Securities exchanges	1	1	1	1	1	1
Central securities depositories	1	2	2	2	1	1
Pension funds ²	25	22	21	21	21	21
Insurance companies	12	11	11	11	11	10
Insurance brokerages	9	9	7	8	9	9
Entities with debt collection licences	8	7	8	8	9	8
Payment institutions	1	1	1	1	2	1
Electronic money institutions	0	0	0	1	1	2
Currency exchange services	1	1	1	1	1	1
Guarantee funds	2	2	1	1	1	1
Registered lenders	0	1	1	1	0	0
Virtual currency service providers	0	0	1	1	3	3
Total	95	91	87	88	106	103
Other regulated entities:						
UCITS funds	47	42	40	37	37	36
Alternative investment funds for retail investors ³	60	60	60	54	61	69
Other alternative investment funds ⁴	106	111	117	114	116	121
Pension savings custodians ⁵	8	8	8	8	8	8
Issuers of listed shares	21	20	23	24	23	26
Issuers of listed bonds	57	65	50	57	51	51
Holding companies ⁶	9	6	6	5	6	5
Financial conglomerates ⁷	0	0	0	0	1	1
Financial undertakings in winding-up proceedings	2	1	0	0	0	0
Total	405	404	391	387	409	420

1. Including 9 licensed management companies, 6 of which are also UCITS management companies; and 10 registered entities, one of which is an investment firm.

2. Many pension funds are divided into divisions. There were 69 divisions at year-end 2021.

3. Previously investment funds.

4. Previously institutional investment funds.

5. Commercial banks and savings banks. Pension funds and foreign custodians are not included.

6. Holding companies in the financial or insurance sector, or mixed holding companies.

7. Financial conglomerates in the financial or insurance sector.

Source: Central Bank of Iceland.

2. Activities of foreign entities in Iceland

Table 1 Number of foreign entities licensed to provide service in Iceland

<i>Number at year-end</i>	2020	2021
Credit institutions and financial institutions without establishments	303	236
UCITS (no. of subsidiary funds)	113 (1,291)	124 (1,347)
Investment firms with establishments/branches	1	1
Investment firms without establishments/branches	2,630	581
Central securities depositories with establishments/branches	1	1
Central securities depositories without establishments/branches	0	5
Insurance companies with establishments/branches	2	2
Insurance companies without establishments/branches	440	351
Insurance brokers with establishments/branches	2	2
Insurance brokers and insurance agents	6.821	2.837
Payment institutions with agents (no. of agents)	3 (6)	3 (5)
Electronic money institutions with distributors (no. of distributors)	1 (1)	0
Payment institutions and electronic money institutions without establishments	516	332
Credit intermediaries without establishments	18	4
Alternative investment fund managers without establishments	205	152
<i>Number of companies registered outside Europe and authorised to provide services in Iceland according to national law</i>		
Alternative investment fund managers (no. of funds)	46 (87)	30 (65)

Source: Central Bank of Iceland.

