

## ***General Information***

### ***Name***

Financial institutions' financial accounts.

### ***Supervisor of statistics***

Central Bank of Iceland, Statistics

### ***Purpose***

Financial accounts are a part of national accounts calculation, which is carried out according to harmonised international accounting methods and provides an exact overview of the Icelandic economy and Iceland's transactions with other countries. The financial accounts provide a comprehensive summary of the financial institutions' main balance sheet items, classified by type of financial product. The financial accounts are part of the Central Bank's statistical reporting and are prepared in collaboration with Statistics Iceland. The Central Bank also uses the data in its operations.

### ***Sources***

The financial accounts are prepared from financial statements and balance sheets of companies in the financial market (see a list of parties to financial accounts in Section 2, Terms and Definitions). Balance sheets submitted to the Central Bank are published on the bank's website, with the exception of the balance sheets of the resolution committees of financial undertakings in winding-up proceedings or composition of creditors' negotiations.

### ***Statutory authority***

The compilation of databases underlying the comprehensive figures used in the financial accounts is based on Article 32 of the Act on the Central Bank of Iceland, no. 92/2019.

## ***Terms and definitions***

The financial accounts follow the EU's European System of Accounts, ESA2010. They comprise financial assets and liabilities, which are divided into eight broad categories.

## ***Concepts and definitions***

**Financial accounts categories** (the numbers in parentheses refer to the ESA2010 categories)

1. **Monetary gold and special drawing rights (SDR) with the International Monetary Fund (IMF)** pertain solely to the Central Bank of Iceland. Monetary gold is a part of the Central Bank's foreign exchange reserves (AF.11), as are SDRs with the IMF (AF.12). These two items are shown together (AF.1).

2. **Currency and deposits** (AF.2) consist of cash in circulation (AF.21), transferable deposits (AF.22) that can be converted immediately to currency without significant restrictions and other deposits (AF.29).

3. **Securities other than shares** (AF.3) consist of salable securities that do not confer decision-making power on the owner, both short term (AF.31) and long term (AF.32). Maturity is always original maturity.

4. **Loans** (AF.4). All financial institution lending. Loans are financial assets that:

- a. Is generated when the creditor lends money directly to borrowers
- b. To prove the debt a document is issued that is not transferable in the market

Loans can be both short term (AF.41) and long term (AF.42). Maturity is always original maturity.

5. **Shares and other equity** (AF.5). Consists of listed and unlisted shares (AF.51), and unit share certificates and shares in mutual funds (AF.52).

6. **Insurance technical reserves** (AF.6). This category consists of non-life insurance technical reserves (AF.61), life insurance and annuity entitlements (AF.62) and pension entitlements (AF.63). AF.61 includes reinsurers' share in technical provisions, which consists of reinsurers' unsettled total obligations for insurance contracts concluded with insurance companies.

7. **Financial derivatives and employee stock options (AF.7)**. Derivatives (AF.71) are e.g. options, forwards, swaps, forward rate agreements and credit derivatives but employee stock option (AF.72) is an agreement made on a given date (the „grant“ date) under which an employee may purchase a given number of shares of the employer's stock at a stated price (the „strike“ price) either at a stated time (the „vesting“ date) or within a period of time (the „exercise“ period) immediately following the vesting date. In this publication the derivatives are included in securities other than shares (AF.3).

8. **Other accounts receivable/payable** (AF.8) consist of accounts payable/payable, on the one hand (AF.81), and taxes and claims for unsettled securities purchases and sales, on the other, as well as taxes on accrued but unpaid interest (AF.82).

**Parties to the financial accounts** (the numbers in parentheses refer to the sectoral categories according to ESA95)

**1. Central Bank of Iceland (S.121).**

**2. Commercial banks, savings banks, and deposit divisions of co-operative societies (S.122).**

Postgiro was classified as part of the banking system until its abolition in June 2004. This category includes only parent companies and domestic branches; subsidiaries and foreign branches are excluded.

**3. Money market funds (S.123).**

Collective investments schemes that raise funds by issuing shares or units to the public. The proceeds are invested primarily in money market instruments, MMF shares or units, transferable debt instruments with a residual maturity of not more than one year, bank deposits and instruments that provide a rate of return that approaches the interest rates of money market instruments. MMF shares or units can be transferred by cheque or other direct third-party payment. Because of the nature of the instruments the schemes invest in, their shares or units may be regarded as close substitutes for deposits.

**4. Non-MMF investment funds (S.124).**

Collective investment schemes other than MMF funds. They issue shares or units to the public and use the proceeds to invest primarily in financial assets, other than short-term assets and in non-financial assets (usually real estate).

Examples of non-MMF funds:

- a. Equity based investment funds
- b. Security based investment funds
- c. Real estate investments trusts (REITs).
- d. Investment funds investing in other funds („funds of funds“).
- e. Hedge funds.

Non-MMF investment funds do not include pension funds but do include institutional investment funds.

**5. Other financial intermediaries (S.125).**

This category consists of financial corporations that are engaged in providing financial services by incurring liabilities in forms other than currency, deposits or close substitutes of deposits on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market.

Examples:

- a. Financial corporations engaged in lending
- b. Financial leasing companies
- c. Investment banks
- d. Security and derivative dealers (operating on own account)
- e. Securitization vehicles
- f. Micro credit companies
- g. Payment card companies
- h. Government financing funds
- i. Specialized financial corporations that provide:
  - a. Short-term financing for corporate mergers and takeovers

- b. Export/import finance
- c. Factoring services

**6. Financial institutions in winding-up proceedings or composition of creditors' negotiations. (S.125X). (This category is not in ESA2010).**

Financial institutions that had an operating licence from the Financial Supervisory Authority (FME) but are now in winding-up proceedings. International standards do not separate institutions in winding-up proceedings from other companies, but due to the special circumstances in Iceland, the Central bank has decided to keep them separate. If the companies conclude composition agreements they will be transferred to other sectors.

**7. Financial auxiliaries (S.126).**

Financial auxiliaries consists of financial corporations that are principally engaged in activities associated with transactions in financial assets and liabilities or with providing the regulatory context for these transactions, but in circumstances that do not involve the auxiliary taking ownership of the financial asset and liabilities being transacted.

Examples:

- a. Insurance brokers
- b. Securities brokers
- c. Flotation corporations that manage the issue of securities
- d. Corporations that arrange derivative and hedging instruments, such as swaps, options and futures (without issuing them).
- e. Corporations providing infrastructure for financial markets, including those providing transaction processing and settlement activities.
- f. Central supervisory authorities of financial intermediaries and financial markets when they are separate institutional units.
- g. Managers of mutual funds.
- h. Corporations providing stock exchange.
- i. Non-profit institutions recognized as independent legal entities serving financial corporations, but that do not themselves provide financial services.
- j. Depositors' and investors' guarantee funds.
- k. Clearing offices.
- l. Head offices of financial corporations that are principally engaged in controlling financial corporations or groups of financial corporations but that do not themselves conduct the business of financial corporations.

**8. Captive financial institutions and money lenders (S.127).**

Institutional units that provide financial services, where most of either their assets or liabilities are not transacted on open financial markets. It includes entities transacting within only a limited group of units (such as with subsidiaries) or subsidiaries of the same holding corporation or entities that provide loans from own funds provided by only one sponsor.

Examples:

- a. Units which are legal entities, such as trusts, estates, agencies' accounts or brass plate companies.
- b. Holding companies that own a controlling-levels of equity in a group of subsidiary corporations and whose principal activity is owning the group without providing any other service to the enterprises in which the equity is held, i.e. they do not administer or manage other units.

- c. SPEs or conduits that qualify as institutional units and raise funds in open markets to be used by their parent corporation.
- d. Special purpose government funds, usually called sovereign wealth funds, if they are institutional units.

Companies who are founded for the sole purpose of holding stocks owned by individuals are classified as institutional units in sector 127.

#### **9. Insurance companies (S.128).**

This includes all domestic insurance corporations, both non-life and life insurance companies.

#### **10. Pension funds (S.129).**

This category includes all pension funds operating in Iceland (see list of pension funds).

According to the definition in the Foreign Exchange Act, no 87/1992, a **resident** is any individual permanently resident in Iceland in accordance with the provisions of the Act on Legal Domicile, irrespective of nationality; the same shall apply to an Icelandic national (and his dependants residing abroad) who is employed abroad by the Icelandic State with an embassy, permanent delegation, or consulate, and who accepts remuneration from the Icelandic Treasury, or is employed by an international organization to which Iceland is party. The term **resident** also refers to any legal entity registered as legally domiciled in Iceland, stated to be resident in Iceland in its articles of association, or in effect managed in Iceland. Icelandic branches of legal entities domiciled outside Iceland are regarded as residents.

The term **non-resident** refers to all individuals or legal persons other than residents; cf. the abovementioned definition of a resident, according to the Foreign Exchange Act, no. 87/1992.

### ***Data integrity***

Data submitted to the Central Bank are based on financial institutions' accounts as current at any given time. At the end of the year, after the audit has taken place, financial institutions send updated balance sheet summaries to the Central Bank. Other data are extracted from interim and annual financial statements and updated for other quarters.

### ***Revision of data***

In general, the most recent figures are preliminary figures. Quarterly data are reviewed as corrections are received via reports sent to the Central Bank of Iceland and when new financial statements are published. Year-end data are reviewed when the financial institutions' audited annual accounts are ready.

### ***Publication***

Publication takes place four times a year, on the Statistics pages of the Central Bank of Iceland website. The data are available from 2003. The financial accounts of the Icelandic economy as a whole are published on the Statistics Iceland website.

### ***Other***

The financial accounts are prepared in co-operation with Statistics Iceland, which oversees the project. The division of tasks between these institutions is carried out so that Statistics Iceland handles the accounts of households, the public sector, and non-financial corporations, while the Central Bank handles external accounts and financial institutions' accounts. At a later date, Statistics Iceland will publish a summary of financial accounts for the general economy and each individual sector. Financial accounts are structured so that one party's assets are another party's liabilities, and all amounts are categorized by counterparty. When financial accounts calculations with all economic sectors are published in their entirety, it could therefore affect the financial accounts for the financial institutions, and some variables could change.