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THE FINANCIAL SUPERVISORY AUTHORITY, ICELAND

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Annual report of the Financial Supervisory Authority

2019

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Published by:
Financial Supervisory Authority
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Design & layout: ENNEMM

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Contents

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This English version is a translation of the original Icelandic document. In case of any discrepancy, the Icelandic original text will prevail.

Contents of the Annual Report

The first part of the Annual Report addresses the major points in the activities of the Authority from 1 May 2018 to 30 April 2019. It discusses the supervision of financial undertakings, insurance activities, pension funds, and custodians of private pension savings, the securities market, and UCITS management companies. It also addresses fit and proper assessments, licensing, the analysis of systemic risk and the application of macroprudential tools, and the monitoring of measures to prevent money laundering and the Authority's international cooperation. Furthermore, the first part also discusses the use of sanctions during the operating year, reviews changes made in the previous operating year to legal acts applicable to the financial market, and reviews the Authority's operations, infrastructure, and performance.

The second part addresses the situation and developments in the financial market in 2018, the credit market, the insurance market, pension funds and custodians of pension savings, and developments in the securities market.

The third part of the report chronicles the year with extracts from significant news concerning the Authority's activities during the operating year. This part also reviews decisions and transparency reports issued during the period covered by the annual report.

Finally, the end of the report contains tables showing the number of entities supervised by the Authority and an overview of the activities of foreign entities in Iceland.

The Authority publishes the report on its website in Icelandic and English.

From the Director General

The Financial Supervisory Authority is at a crossroads. This year we celebrate the 20th anniversary of the founding of the Authority in January 1999 as an independent and integrated supervisory authority with the merger of the Bank Inspectorate of the Central Bank of Iceland and the Insurance Supervisor. These twenty years have been marked by historical events in the Icelandic financial markets, and for the Authority.

Shortly after the turn of the century, the state-owned banks Búnaðarbankinn and Landsbankinn were privatised, in 2002 and 2003 respectively. The privatisation and financial liberalisation resulted in a massive growth period of the sector, driven by excessive foreign borrowing and the utilisation of the right to offer financial services in the European Economic Area. It ended in a collapse of the banking sector in 2008. In its infancy, the Authority only had a small number of employees and was not equipped to develop the necessary infrastructure. In 2008, however, the number of employees had quickly grown from 30 to 56. Following the collapse of 2008, the Authority was entrusted with great responsibility in leading the restructuring of the financial system as well as carrying out initial investigations of possible criminal activity concerning the collapse of the banks. These assignments are now completed, and their success is apparent, an outcome not certain in the fall of 2008. At this juncture, I would like to express my admiration and respect for the Authority's management and staff at that time for their tenacity at a critical moment. The collapse sparked greater understanding for the required human capital needed to supervise these complex and essential activities resulting in the enlargement and empowerment of the Authority from 2009 through 2011.

The brunt of the work in projects resulting from the collapse took four or five years, but for the last decade, the Authority has been concerned with building up the infrastructure for risk-based supervision, establishing constancy in procedural documentation, investing in human capital, and dependability in all activities. During this period, various new tasks have steadily been assigned to the Authority by law, requiring dynamic and rapid development of day-to-day operations. Examples include the analysis and decision-making for the application of macroprudential tools, assessments of the fitness and propriety of board members and managing directors of regulated entities, as well as assessments of risk in their operations and governance. Financial institutions and UCITS were recently required to make recovery plans that set out measures they would take following a significant deterioration that can threaten their financial position or operations. The Authority completes an assessment of the usability of these plans. In addition, the Authority has worked on drafting bills and rules for the extensive developments in the regulatory framework of the financial market in the European Economic Area. The changes in banking and insurance regulatory frameworks have already been significant and substantial changes are on the horizon for the operational environment of the fund and securities markets.

These new supervisory tasks have, in many instances, resulted in new supervisory powers. With great power comes great responsibility and the Authority places great emphasis on proper and lawful procedures carrying out its administrative duties.

The Authority's staff is bound by law to observe professional secrecy regarding the activities of regulated entities. Since 2009, however, the Authority has been authorised by statutory provisions to make the results of its inquiries public, subject to certain conditions. Such formal press releases on results from inquiries have always been referred to as Transparency Notifications, and they have always been contentious. Nevertheless, the experience gained from their publication has generally been positive. This legal authority and implementation closely align with tradition in the Nordic Region, even though the practice can be said to have been ahead of its time considering Europe as a whole. In recent times, however, the developing European financial market legislation increasingly obliges competent authorities to publish the results of imposing sanctions and, as the case may be, other administrative measures for infringement.

It is a fundamental feature of sound financial services that the providers of these services should not be exploited to hold, convert or otherwise launder the profits of criminal offences. Recent revelations have shown large and respected banks in Denmark and Sweden being complicit in money-laundering. Their reputations have been heavily tarnished and so have, to some extent, the respective State Governments. Iceland is a part of an international organisation, the Financial Action Task Force (FATF), set up to combat money laundering and terrorist financing. In 2018, FATF assessed Iceland's performance in these matters. The results were, in short, a condemnation of both the domestic legislation and enforcement. Relevant Icelandic authorities have now united in a targeted effort to tackle the numerous noted issues. New comprehensive legislation has been enacted, the National Police Commissioner has issued a comprehensive risk assessment, the Directorate of Internal Revenue has been tasked with supervising entities not supervised by the Authority, and educational materials have been prepared on suspicious transactions that need to be reported to the police, among other things.

The Authority has done its part and markedly enhanced supervision and education as well as participating actively in other governmental projects. FATF strictly follows up on its remediation requirements. By year-end, we expect FATF's results on how effective the undertaken remediation measures have been in fulfilling their requirements and if they are sufficient to raise the country's overall evaluation. It is imperative that these matters continue to be a governmental priority.

It is apt to say that the Authority has, in its 21st year, grown up and reached maturity. Merging the Authority and the Central Bank has been suggested in recent years, in particular by foreign advisers. Central to the argument for the merger is the belief that it will consequently strengthen and align diagnostic efforts and decision-making concerning financial stability. In October 2018, the Ministerial Committee on Economic Affairs made a strategic decision on the merger and tasked a project management task force with preparing the necessary policies and bills to present to Althingi in the 2019 Spring Assembly. The preparations were successful and, as of today, Althingi is discussing new comprehensive legislation on the Central Bank of Iceland and a bill amending numerous other associated acts. If the bills are enacted in the Spring Assembly, the merger should take effect on 1 January 2020. In that case, the Central Bank will become a substantial organisation entrusted with extensive power. The merger does not diminish the importance of safeguarding its independence. Therefore, the bill on the Central Bank assumes three organisational pillars, monetary policy, financial stability and financial supervision and three committees, each associated with one of the organisational pillars, take major decisions in their domain. In part, the same officials will be appointed to all three committees, and they will be responsible for integrating different organisational objectives.

In an effort to protect the progress and oversight achieved in recent years, the Authority has stressed the importance of continued comprehensive and integrated supervision, as we believe that to be key in the future identification of systemic risk in the financial market. The last shock was a direct result of the collapse of the banks. However, shocks have various causes and could even originate in vulnerabilities in the operations and investments of UCITS or investment funds. A merged organisation will be alert to these risks and ensure the greatest utilisation of the combined strengths while promoting efficiency, increasing oversight and achieving synergy.

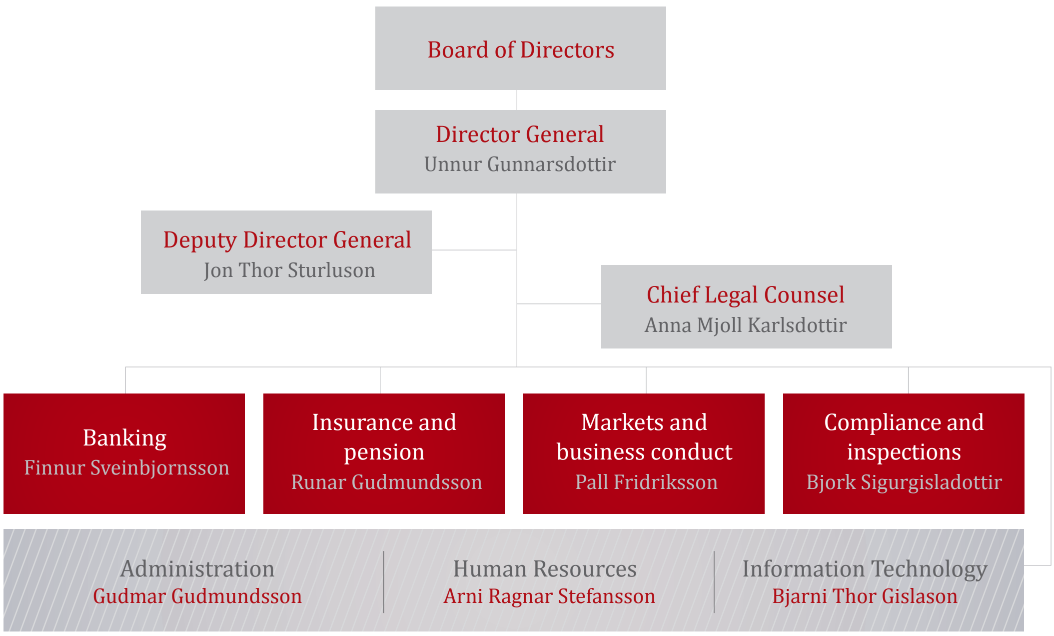
The role of the Financial Supervisory Authority

The Financial Supervisory Authority is an independent authority which operates in accordance with Act No 87/1998 on Official Supervision of Financial Activities. Regulated entities finance the agency under Act No 99/1999 on the Payment of Costs for Official Supervision of Financial Activities.

The role of the Authority is to monitor and enforce compliance in the activities of regulated entities with laws and regulations and that their activities comply with sound and proper business practices. The Authority is also tasked with monitoring and enforcing the legal and regulatory compliance of businesses and individuals participating in the securities market. Furthermore, the Authority is responsible for promoting financial stability and countering systemic risk in the financial system.

The objective of supervision of financial activities is to promote a sound and secure financial market and to reduce the likelihood of public loss from the activities of regulated entities and trading on the market. However, the sound and reliable operation of financial market companies is always the responsibility of the management of the company in question.

The Authority's organisation chart



The Authority's Board of Directors

In the bottom row, seated from left to right: Guðrún Þorleifsdóttir, Vice-Chairman, Ásta Þórarinsdóttir, Chair, and Arnór Sighvatsson, Board Member. Standing from the left are alternate members of the board: Friðrik Ársælsson, Andri Fannar Bergþórsson, and Guðrún Ögmundsdóttir.

A three-member Board of Directors exercises overall management of the Financial Supervisory Authority. The Board's role is to define the priorities in the Authority's work and to monitor the Authority's activities and operations. Major decisions shall be referred to the Board for approval or rejection. The Board appoints a Director General responsible for the Authority's day-to-day administration. As of May 2019, the Board, which is unchanged from last year, comprises the following members: Ásta Þórarinsdóttir, economist and Chairman of the Board, Guðrún Þorleifsdóttir, Director General at the Ministry of Finance and Economic Affairs and Vice-Chairman of the Board, and Arnór Sighvatsson, former Deputy Governor of the Central Bank who is appointed by the Central Bank of Iceland. Alternate members are Friðrik Ársælsson lawyer, Guðrún Ögmundsdóttir, Director at the Central Bank of Iceland and appointed by the CBI, and Andri Fannar Bergþórsson, Assistant Professor at the Reykjavik University School of Law.

The Authority's Board met 11 times in 2018.

I. Activities of the Financial Supervisory Authority

1 Supervisory activities

Supervision of financial undertakings

The Financial Supervisory Authority applies a risk-based approach to supervision. Under this approach, regulated entities are divided into four impact categories. The classification is based on the assessed impact from stoppages in each entity's activities on financial stability and customer interests. The scope of supervision for each entity in question grows in correlation to its impact. The impact categorisation of financial institutions has not been changed in recent quarters, apart from the Housing Financing Fund (HFF) that the Financial Stability Council (FSC) agreed, in June 2018, would no longer be defined as a systemically important regulated entity. Thus, the Authority lowered the fund's impact weighting, which in turn affects the scope of its supervision.

Regular supervision of financial institutions during the operating year was similar to that of recent quarters and included, among other things, a review of periodic reporting and their subsequent communications, either annually, biannually, or quarterly. Systematic efforts are under way to increase the efficiency of this part of the supervision, in particular through electronic reporting, automated calculation of financial key metrics and risk indicators with pre-defined warning limits.

Regular meetings are held with the board members, CEOs, managing director and managers of internal control units, risk managers, internal auditors, and compliance officers of financial undertakings. The Authority also meets biannually with the external auditors for larger financial undertakings. Finally, regular meetings are held with representatives of larger financial undertakings when their annual and interim reports are made available.

The Supervisory Review and Evaluation Process (SREP) is carried annually for systemically important banks, but less frequently in the case of smaller financial undertakings. SREP includes a review of the financial undertakings' own assessment of capital adequacy due to risk factors in their operations. The purpose of this own assessment is to ensure that the financial undertaking in question analyses, assesses, and monitors risk factors in its operations, that it has sufficient equity to meet the risk and that it implements sound risk management. The assessment of the risks related to business practices and compliance, or conduct risk, is integral to the process. The business plan, corporate governance, credit and consolidation risk, market risk, operational risk, liquidity and financing risk and stress tests are evaluated. Among other things, SREP is used to assess the reliability of the methodology and results of the financial undertakings. The process ends with the Authority deciding on additional capital requirements over the statutory requirement of 8%. It is also possible to demand that the financial undertaking take various measures to reduce the risk or mitigate the weaknesses in its operations. Financial undertakings were also subject to on-site examinations (see discussion on p. 20) and various ad hoc examinations.

Several significant changes were made to the SREP implementation during the operating year aimed at increasing efficiency and transparency. As part of these changes, the Common Procedures and Methodologies for the Supervisory Review and Evaluation Process (SREP) for Financial Undertakings were updated in February 2019. The purpose of these procedures is to define and introduce the SREP methodology. The methodology conforms to the guidelines of the European Banking Authority (EBA) from 2016. Another change to SREP was to no longer compile a comprehensive report at the end of the process as before. Instead, the relevant financial undertaking receives a shorter decision letter after the necessary right of opposition has been granted. The letter formally states the comments that the Authority wants to convey to the board of the financial undertaking, together with detailed minimum and total capital requirements. Subsequently, the Authority publishes a transparency report stating the main conclusions in a summarised form, including the minimum and overall capital requirements.

The Bank Recovery and Resolution Directive (BRRD) entered into force within the European Union on 1 January 2015. It was partly implemented in Iceland in mid-2018 by Act No 54/2018 amending the Act on Financial Undertakings (reform plan, timely interventions, supervision of the consolidated group, supervisory powers, etc.). The Directive broadly deals with a recovery plan that credit institutions and securities firms need to have in place and implement in the event of operational stress, early intervention measures by the supervisor in the operations of the companies, and resolution procedures if it is considered necessary for supervisory authorities to take over or intervene in their activities. Following the entry into force of the legislative changes, systemically important banks (Arion Bank hf., Íslandsbanki hf. and Landsbankinn hf.) were required to submit their first recovery plan to the Authority on 1 December 2018. The Authority's review of the recovery plans was completed in March 2019, and the banks received suggestions on possible improvements for preparing their following recovery plans.

As in previous years, the three systemically important banks had a few applications for increasing their covered bond issues processed during the year.

From the fourth quarter of 2017, the Authority has submitted data from the three systemically important banks to EBA. The data follows the uniform EBA reporting language. For the first time, the Icelandic banks were included in the EBA overview of risk indicators in the activities of European banks published in mid-2018 (EBA Risk Dashboard). The summary does not include information on individual banks, but a weighted average for the figures from banks in each respective country is based on the size of the banks. A minimum of three banks is required for publishing numbers for a specific country. In December 2018, EBA published for the fifth time information on the operations and financial position of 130 banks in the European Economic Area in its transparency report (EBA transparency exercise). Information is published about each bank, and the Icelandic banks were included in this comparison for the first time. Participation in these data projects means that it is easier to compare various key figures from the operations and finances of the three banks, and the Icelandic banking system as a whole, to European banks.

Supervision of insurance activities

In the supervision of insurance companies during the operating year, the emphasis was placed on counterparty risk, operational risk, insurance risk, the business model, corporate governance, liquidity risk, and market risk. The insurance companies' Own Risk and Solvency Assessment (ORSA) was reviewed, and key employees of the companies were interviewed. This time, among other things, the Authority interviewed risk managers, actuaries, internal and external auditors, and compliance officers.

Insurance companies shall notify the Authority of all decisions on the reduction of share capital, and the Authority shall pre-approve decisions which result in a reduction of the insurance company's solvency items, including repurchase plans for own shares. Last year, the Authority reviewed the repurchase plans of shares for those insurance companies that are listed on Nasdaq Iceland.

The Authority published notifications on its website with cause on the importance for consumers to carefully consider their legal status when purchasing personal insurance and if they intend to transfer their personal insurance (collection insurance and/or illness insurance) to another insurer, to make an informed decision in each case.

By mid-year 2018, the Authority concluded an examination into the business practices of Tryggingar og ráðgjöf ehf. in connection with the sale of the insurance products of the Slovak insurance company NOVIS Insurance Company Inc.

Following the examination, the Authority, among other things, commented on the marketing of NOVIS' illness insurance, where prospective customers were given incorrect and misleading information concerning comparison with domestic products. It was also noted that information on costs and fees for investment-related insurance products had not been adequately presented to prospective policyholders. The Authority continues to place great emphasis on ensuring that insurance companies' customers are provided with accurate and satisfactory information and works closely with its European counterparts and the European Insurance and Occupational Pensions Authority (EIOPA) on responses and actions when warranted.

Insurance companies may defer taxes to lower the solvency requirement if certain conditions are met. The Authority began an examination into the effect of this deferment and made improvement suggestions.

During the operating year, the Authority mapped out the requirements to the Icelandic insurance market and its supervision compared to the Insurance Core Principles made by the International Association of Insurance Supervisors (IAIS). The conclusion was that in most cases, the requirements and supervision of the Icelandic insurance market compare favourably with the Core Principles. In cases where improvement is possible, the Authority has prepared an overview of the required projects, along with a plan on the measures necessary to comply with all the Core Principles of the IAIS.

Concerted efforts have been made to intensify the analysis of the data that insurance companies submit to the Authority, as well as to promote public information disclosure. In December 2018, the Authority began publishing condensed quarterly data tables for Icelandic insurance companies on its website.

Supervision of pension funds and custodians of private pension savings

In its supervision of pension funds during the operating year, the Authority gave special consideration to the funds' insurance risk, market risk, operational risk, credit and concentration risk, and governance. In assessing risk factors, the Authority meets with key pension fund employees such as actuaries, internal auditors, external auditors, risk managers, managing directors, and funds' boards. The pension funds submitted their own risk assessments for the first time at the end of June 2018, and those assessments were also reviewed.

Several ad hoc projects were undertaken during the year to examine specific issues in the pension funds' operations. The asset management and business continuity of individual pension funds were examined, along with an examination of mortgage-backed lending to fund members, on the one hand, and to legal entities, on the other. Finally, the Authority examined how a pension fund invests in corporate bonds.

There was some discussion this year about the pension funds classifying bonds differently, on the one hand at fair value and, on the other, at book value, but this difference in classification may affect the returns on the funds. The Authority began examining how pension funds classify bonds in their portfolios and when the conclusion of the study is available, a decision will be made as to whether there is reason to change the rules on the annual accounts of pension funds, to ensure harmonisation.

The Authority carried out several internal projects, such as the development of risk management supervision and the review of the pension funds' own risk assessment. Further work was also carried out on the supervision of the actuarial function and the Authority's requirements for approving actuaries.

In addition, the Authority is analysing the position of the Icelandic pension market and its supervision in relation to the OECD Core Principles of Private Pension Regulation. This work should be completed by mid-2019.

Concerted efforts have been made to intensify the analysis of the data that pension funds submit to the Authority, as well as to promote public information disclosure. In February 2019, the Authority began publishing on its website quarterly information on the investments of the pension funds mutual insurance divisions and private pension schemes as well as the investments of other custodians of pension savings.

Pension funds and responsible investments

There is a growing interest in responsible investments. The international debate on such investments is not exclusive to environmental issues, and it also addresses social aspects as well as good governance. This topic is commonly abbreviated to ESG for environmental, social aspects and governance and to UFS in Icelandic (I. umhverfisvernd, félagslega þætti og stjórnarhætti). The main benefit of implementing these factors in investment decisions is considered to be an improvement in risk management, increasingly sustainable investments, and, therefore, an increase in long-term returns. Taking these factors into account when making investment decisions requires broad data collection and the development of metrics, which are new challenges for many institutional investors, including pension funds.

Numerous countries around the world have committed themselves to radical climate action. The future holds changes to the regulatory framework that will affect consumers, investors, institutional investors, and pension funds. International organisations such as the United Nations, the Organization for Economic Cooperation and Development (OECD) and the World Bank have issued reports and recommendations on the need for environmental responses and the importance of responsible investment. The vast resources in the custody of pension funds and other institutional investors are considered to be vital for positive environmental change and increased social responsibility.

Recently, at the EU level, companies and investors have been giving ESG issues growing emphasis. For example, Directive (EU) 2016/2341 on Institutions for Occupational Retirement Provision (IORPs), which has entered into force within the EU but which has not yet been incorporated into the EEA Agreement, places great emphasis on the funds adopting the ESG elements in their investment decisions, and this is based on the United Nations recommendations and definitions for responsible investments.

The European System of Financial Supervision (ESFS) and others are currently developing supervisory procedures for the increasing demands on environmental and social factors, improving governance in investment decisions and the risk assessment of pension funds. Emphasis will be placed on integrating ESG factors into the pension funds' governance, investment policies, risk management, and information disclosure. Risk management needs to be able to measure, monitor and manage these risk factors, as well as other factors relating to investment decisions. Emphasis will also be placed on disclosing specific information to fund members and other stakeholders on risks related to environmental, social factors and governance as well.

Supervision of the securities market

Number and nature of cases examined during the operating year

During the period from 1 May 2018 to 30 April 2019, Nasdaq Iceland submitted a total of 22 comments to the Authority concerning possible violations of the Securities Transactions Act. In three cases, the Authority had already initiated an examination of the facts in question on its own initiative. In six cases, there was no reason to start a formal investigation after the initial examination. The comments from Nasdaq Iceland, therefore, resulted in 13 formal investigations. Of the 13 cases, the investigation has been completed in five cases, in all circumstances without further action.

During this period, the Authority initiated an investigation of 28 cases on its own initiative and has completed the investigation of nine of them, five without further action, one with an amicable settlement, two with a comment, and one with a complaint lodged with the district prosecutor's office.

The Authority, therefore, examined a total of 50 cases for alleged violations of Act No 108/2007 on Securities Transactions and other legislation covered by securities market regulation, which are divided as follows:

- 21 cases involved disclosure including the publication of insider information (Article 122 of the Securities Transactions Act), flagging notifications (Chapter IX of the Securities Transactions Act), and the publication of annual accounts (Article 57 of the Securities Transactions Act)
- 16 cases involved market abuse (Articles 117 and 123 of the Securities Transactions Act)
- 6 cases involved the duty of insiders to give notification (Articles 125, 126, and 127 of the Securities Transactions Act)
- 3 cases concerned investor protection (Chapter II of the Securities Transactions Act)
- 2 cases involved the contents of prospectuses (Article 45 of the Securities Transactions Act)
- 2 cases pertained to notifications of short positions (Chapter II of Regulation (EU) No 236/2012)

On 26 November 2018, the Authority decided to suspend trading in shares issued by Icelandair Group hf. to ensure the equality of investors, as specific information on the status of negotiations on the company's purchase of all shares in Wow air hf. had not been made public.

The admission to trading for shares in Arion Bank hf. on Nasdaq Iceland were a major development during the operating year. At the same time, certificates relating to the shares were admitted to trading on the Nasdaq Stockholm stock exchange in Sweden. Arion Bank hf. is the first Icelandic bank to register its shares on a regulated market since the financial crisis of 2008. Shares in Kvika banki were subsequently admitted to trading on the ICEX Main Market in March 2019.

According to Act No 55/2017 on Short Selling and Credit Default Swaps, entities are obliged to notify the Authority of a net short position if the position exceeds 0.2% of the issued share capital traded on a trading platform, and for each 0.1% over that. The Authority received 23 notifications in 2017, 63 in 2018 and 42 in the first four months of 2019 (it received 15 in the first four months of 2018).

Takeover bids for shares traded on the Icelandic stock market have been rare in recent years but on 1 June 2018, Útgerðarfélag Reykjavíkur hf. (then Brim hf.) made an offer to take over all shares in HB Grandi hf., the first takeover bid for the Icelandic market since March 2014. Brim hf. was required to make a mandatory takeover bid as it

Table 1 Number of prospectuses and appendices approved by the Authority during the operating year

	2016	2017	2018
Prospectuses	24	19	27
Base prospectuses	9	9	8
Supplements	11	14	11

Figure 1 Total securities issued

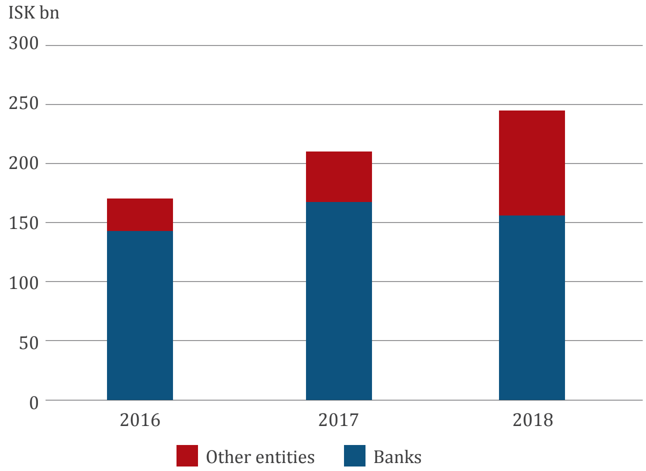


Figure 2 Securities issued by the four banks

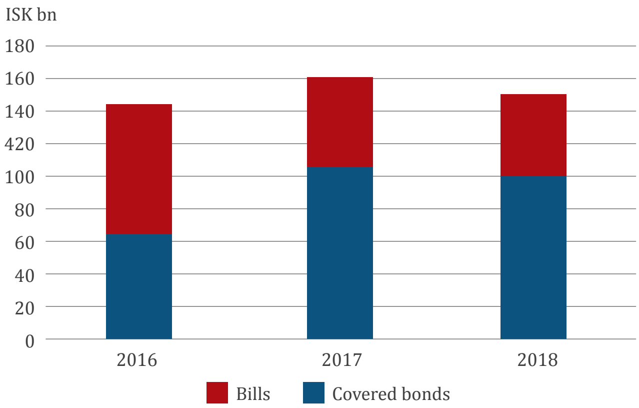
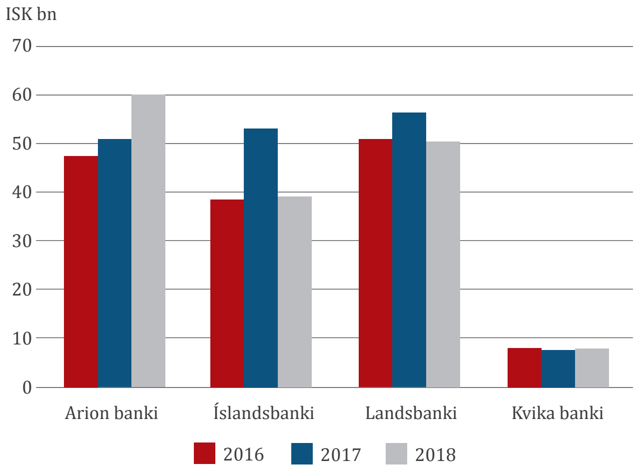


Figure 3 Securities issued by the four banks



held more than 30% of the shares in HB Grandi.

The Authority carries out the general surveillance of takeovers and acceptances of offer documents.

On 1 February 2019, Heimavellir hf. also announced a pending voluntary bid for the company shares. The official offer document was published on 11 March 2019 after confirmation by the Authority, and the offer was valid until 6 May 2019. On 2 May 2019, with the Authority's prior approval, a supplement was published to the official offer document extending the offer period to 24 May 2019.

In April 2018, the Authority began a tender process for a securities supervision system. The objective of the auction was to purchase software to tag suspicious market transactions automatically, assists in analysing business data and manage cases under investigation. Following the auction, agreements were concluded with the Swedish company Scila AB, and it is expected that the system will begin operation in the second quarter of 2019. The system will make it easier for the Authority to identify any market abuse and insider dealing on the Icelandic securities market.

In February 2019, the Reykjavík District Court ruled to convict three people of violations of the insider trading provisions of Act No 108/2007 on Securities Transactions. The Authority's Board had reported the people to the District Prosecutor in 2017. The three people have all appealed the verdict to the Court of Appeal.

Prospectuses

A total of 27 prospectuses were confirmed during the year, five of which were due to stock offerings. 11 supplements were approved. 8 base prospectuses were approved during the year and the Authority published 161 final terms on its website. The number of final terms declined slightly for the second consecutive year. Following the substantial increase in the banks' securities admitted to trading on the Nasdaq Iceland Main Market in recent years, the banks are issuing fewer bills and covered bonds while other parties' have increased their issuance. These include the real estate companies Eik, Reitir, and Reginn, Almenna leigufélagið, Reykjavík Social Housing, Municipality Credit Iceland Plc., Reykjavik Energy, Lykill fjármögnun and Landsbréf - BÚS I.

The nominal value of the banks' issuance went from ISK 167 to 157 billion, with 66% of the issuance in covered bonds and 34% in bills. In 2017, these ratios were 66% and 34%.

Figure 3 shows individual banks' securities issues during the year. Arion Bank had 38% of the total amount of the banks, Landsbankinn had 32%, Íslandsbanki had almost 25% and Kvika Bank had 5%.

Supervision of UCITS management companies, UCITS, investment funds, and professional investment funds

UCITS management companies are financial undertakings licensed under Act No 161/2002 on Financial Undertakings that operate funds for collective investment according to Act No 128/2011 on Undertakings for Collective Investment in Transferable Securities (UCITS), Investment Funds and Professional Investment Funds. Undertakings for Collective Investment (UCITS) and investment funds are approved by the Authority and are subject to stringent requirements for the organisation, activities and management of their management companies. UCITS management companies also operate the majority of notified professional investment funds, while others may also operate them. Professional investment funds are only open to professional investors, and according to applicable legislation, they are only required to notify the Authority and are subject to limited supervision, mostly related to information disclosure.

Furthermore, investments of professional investment funds are not subject to any restrictions that apply to the investments of UCITS and investment funds. Supervision of professional investment fund managers will, however, increase following the implementation of the Alternative Investment Fund Managers Directive (AIFMD), which has been in force in the European Union since 2013 but has not yet been adopted in Iceland. The transposition of the Directive in Iceland is expected in 2019. With its introduction, the managers of professional investment funds, when total assets exceed specific amounts, will need to apply for operating licenses as management companies for alternative investestment funds. Managers of professional investment funds, when total assets are under this specific amounts, are only obliged to be registered as such but do not need to apply for operating licenses.

During the operating year, the Authority requested information on all companies and professional investment funds that have a contractual relationship with the relevant management company, for example concerning the operation or management of a company and/or professional investment fund and the nature of the contractual relationship. For companies the Authority had not been notified about as professional investment funds, the existing agreements with the parties in question were requested along with information on the operating license the company considered to apply to the contractual relationship.

According to Article 43 of Act No 128/2011, UCITS management companies must immediately notify the Authority if the fund's investments exceed the limits permitted by the applicable law. During the operating year, 17 fund violations were reported, at 14 UCITS and investment funds operated by six management companies.

Monitoring of business practices, investor protection and consumer issues

One of the Authority's statutory tasks is the supervision of the consumer-facing business practices of regulated entities. To perform its supervisory function, the Authority, among other things, receives public comments on the operating practices of regulated entities and carries out related examinations of its own initiative. Furthermore, the Authority provides information and guidance following the provisions of the Administrative Procedures Act, and the customers of regulated entities can direct inquiries to the Authority and receive instructions via telephone. In 2018, the Authority received 235 comments and queries from consumers. The Authority also carries out examinations of business practices on its own initiative.

The Authority carried out the following examinations of business practices during the operating year at its own initiative:

- Examination of the interpretation of terms and conduct of claims settlement for family insurance with Sjóvá-Almennar Insurance hf. and VIS Insurance hf. (VIS).
- Examination of the handling of complaints by insurance companies.
- Examination of procedures for the settlement of compensation for vehicle losses at TM Insurance hf. and Vörður tryggingar hf. See discussion on p. 21.
- Examination of the handling of complaints by commercial banks and Suður-Þingeyingar Savings Bank
- Examination of the business practices of Tryggingar og ráðgjöf ehf. in connection with the sale of insurance products from NOVIS Insurance Company Inc., see discussion on p. 13.
- Examination of the process of prepayment of mortgage loans with several regulated entities.

Increased consumer disclosure is one of the strategic focuses of the Authority. To this end, the Authority will continue to be an active participant on Facebook. This project has proven itself as an excellent way to reach a diverse group of consumers with different educational content, tips, and warnings.

The Authority actively participates in the activities of the ESAs consumer protection committees. Among the projects undertaken because of the cooperation, this year was a study of the sale of travel insurance to consumers and potential dual coverage, as well as extensive work being done on harmonisation of supervision in relation to the single European regulatory framework.

Increased emphasis on investor protection

Work has begun on analysing investor protection in Iceland to identify potential risks to investors/consum-

Figure 4 Total assets of retail investors in UCITS at year-end 2017 and number of retail investors divided by risk categories

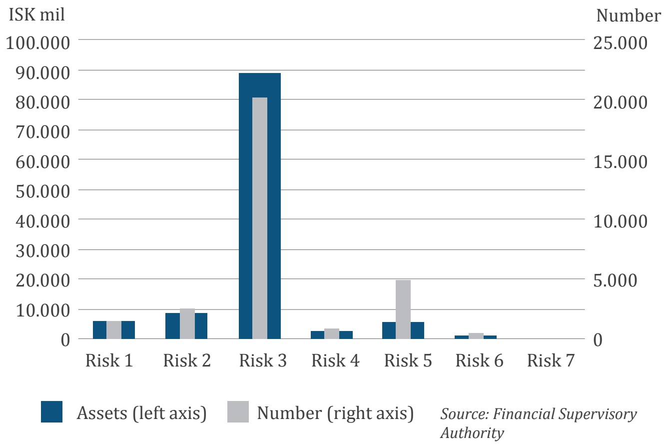


Figure 5 Total assets of retail investors in investment funds at year-end 2017 and number of retail investors divided by risk categories

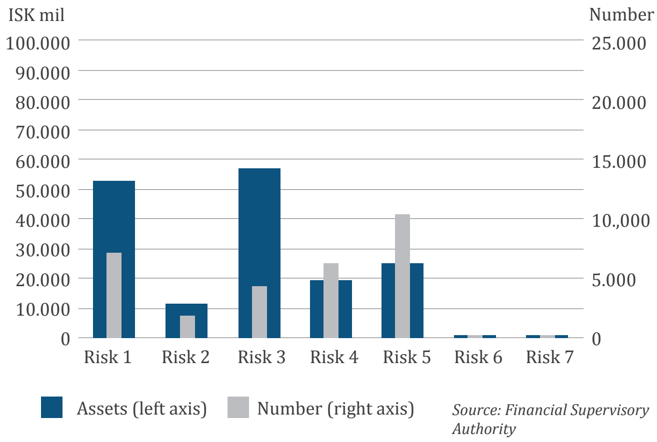
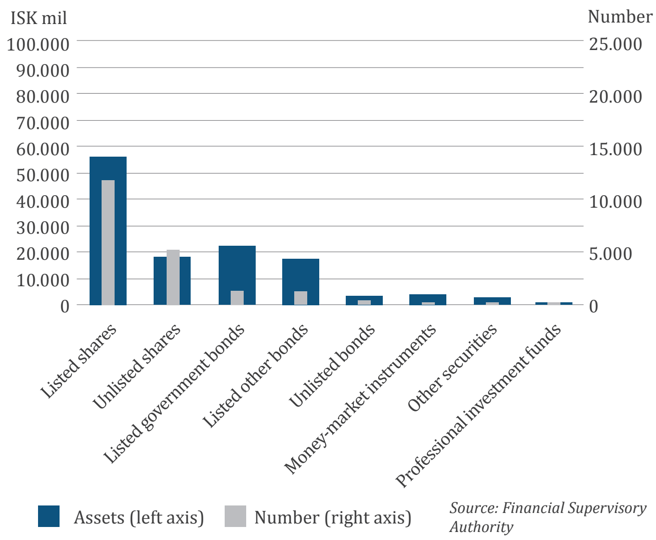


Figure 6 Total assets of retail investors in other financial instruments at year-end 2017 and number of retail investors divided by risk categories



The funds' risk classification depends on the risk indicators that measure the risk due to price fluctuations. The measurements are based on daily historical data on the price fluctuations of each fund. Risk category 1 involves the least risk.

ers and identify which investment products, markets or market participants need to be better scrutinised or regulated. One of the first steps taken in this regard was to call for information on investment options for retail investors from participants in the Icelandic financial market. The Authority requested information on which investment options are available to retail investors, as well as information on the total assets of these individuals in each investment option. Information was also requested as to how the total assets were divided between specific age groups and how many people in certain age groups held a share in each investment option. The project aimed to get a better overall picture of the market position, and this is the first time the Authority has gathered comparable information. The examination concluded, among other things, that retail investors in Iceland are moderate risk-takers, and most of them are looking to invest in UCITS and investment funds.

Analysis of systemic risk and macroprudence

One of the Authority's functions is to assess the systemic risk in the financial system and to counteract it. The Authority collaborates with the Ministry of Finance and Economic Affairs and the Central Bank of Iceland in carrying out this function.

The Financial Stability Council is the formal forum for the government on financial stability. The Council met five times in 2018 and has met once so far in 2019. Experts from the Authority and the Central Bank assess the position and development of the financial system concerning possible systemic risk, and the results of that analysis work are discussed at the level of the Council's Systemic Risk Committee. The Systemic Risk Committee held four meetings in 2018 and has met once in 2019.

Capital buffers

Capital buffer for systemic risk

The Authority's decision of 1 March 2016 on a 3% systemic risk buffer for systemically important deposit institutions was confirmed unchanged on 15 May 2018. Changes in the past two years in non-cyclical systemic risk were considered to be insignificant and that it was, therefore, appropriate to keep the systemic risk buffer unchanged. The systemic risk buffer covers deposit-taking institutions' domestic exposures. The buffer for deposit institutions that are not considered systemically important will rise from 2% to 3% as of 1 January 2020. The Authority decides the systemic risk buffer based on a recommendation by the Council, which the Council is required to send to the Authority every two years.

Capital buffer due to systemic importance

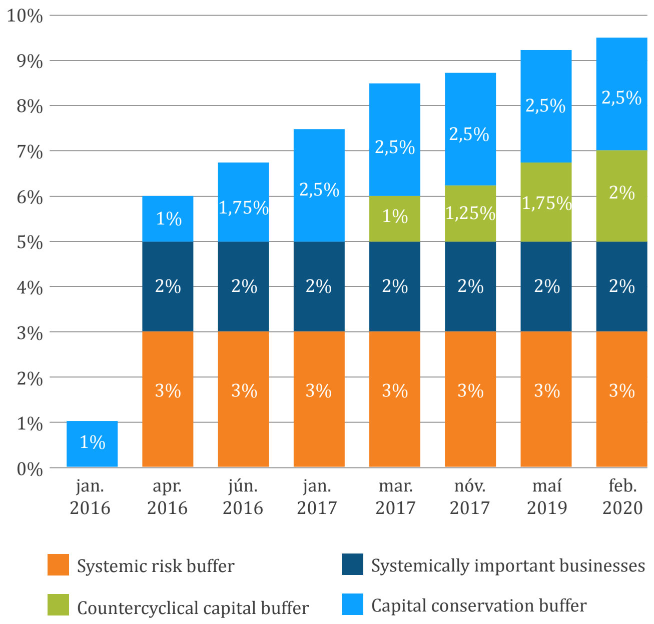
At the meeting of the Council in March 2018, it was confirmed that Arion Bank, Íslandsbanki and Landsbankinn are considered systemically important regulated entities in Iceland and that they, therefore, need to maintain a 2% capital buffer due to their systemic importance. This capital buffer covers all their exposures and is reviewed annually, most recently in April 2019. At its June 2018 meeting, the Council decided that the Housing Financing Fund is no longer considered a systemically important regulated entity.

Countercyclical capital buffer

The primary purpose of the countercyclical capital buffer is to reduce the likelihood that financial undertakings will reduce lending too much under critical conditions as this may exacerbate the downturn in the economy. The countercyclical capital buffer is thus intended to mitigate the impact of the financial cycle on the real economy. This goal is achieved by bolstering the buffer in the financial upturn and releasing it when the financial system is under stress. The value of the buffer is determined one year into the future. In that spirit, on 15 May 2018, the Authority decided on a 1.75% value of the countercyclical buffer, which took effect on 15 May 2019. Additionally, on 1 February 2019, the Authority decided to raise the countercyclical buffer to 2.0%, and this increase will take effect on 1 February 2020. The financial cycle and its most significant components continued to trend upwards.

Continued credit growth and asset price increases, as well as favourable conditions in the economy, were seen as warranting the build-up of the countercyclical buffer. The countercyclical capital buffer applies to domestic exposures of financial undertakings. The countercyclical buffer of other EEA countries should be taken into account for foreign exposures. The Authority determines the value of the countercyclical buffer based on a recommendation by the Financial Stability Council, which the Council is required to submit to the Authority every quarter. Figure 7 shows the overall development of the capital buffer of systemically important banks since they were first imposed at the beginning of 2016. The systemic risk buffer and capital buffer concerning systemic importance have remained unchanged, and the capital conservation buffer has remained at 2.5% since January 2017. With the increase in the countercyclical buffer mentioned above, the total capital buffers will amount to 9.5% as of 1 February 2020.

Figure 7 Capital buffers of systemically important banks



Pillar II-G: The Authority's assessment of capital requirements under stressed conditions

Financial undertakings are required to address their need for own funds to meet stressed conditions in their capital planning framework, risk management efforts, and recovery planning. The Authority also assesses the capital requirements of financial undertakings depending on possible shocks during stress periods and bases its assessment on the results on its own stress tests. The Authority also considers stress tests carried out by the financial undertakings. The Authority may direct a financial undertaking to assume increased equity in periods of stress (Pillar II-G) when the stress test results indicate that the Common Equity Tier 1 (CET1) capital may be reduced more than the capital conservation buffer and, in exceptional cases, also be reduced more than the countercyclical buffer. If a financial undertaking does not comply with the Authority's capital guidance, this may lead to increased supervision or additional capital requirements under special circumstances (Pillar II-R).

The European Banking Authority (EBA) introduced provisions on Pillar II-G recently in its Guidelines on the Supervisory Review and Evaluation Process (SREP), and therefore there is not much experience in their application within the Authority, which is developing its own stress test. The stress tests should be applied in the Authority's SREP in 2019, and they will consider, among other things, the effects of economic scenarios on bankruptcy probabilities.

Systemic risk on the securities market

The entry into force of Act No 15/2018 transposed the European Market Infrastructure Regulation (EMIR) into Icelandic law, mandating reporting for all derivative transactions and Icelandic parties are now required to report all concluded derivative contracts to a special trade repository. The European Securities Market Authority (ESMA) collects data from trade repositories in a separate database called TRACE. The Authority has access to this database and work has begun on using the data to analyse domestic systemic risk. Such analysis could prove very important, especially if derivative trading increases in Iceland. The data include information on pricing, interest rate assumptions and the exchange rate of derivative contracts that could provide preventive information on the development of market participants' expectations.

Systemic risk in the pension market

The systemic risk in the pension market is reflected differently than systemic risk in the banking system, as there is little likelihood of pension funds facing bankruptcy. Investments of the pension funds can impact the financial system both positively and negatively, and it is therefore essential for supervisors to be aware of their interactions with other aspects of the financial system and to analyse their position regularly.

International developments in the supervision of insurance companies' systemic risk

After the financial crisis in 2008, various improvements were made to the international framework for supervision of financial activities. One major change is the increased supervisory focus on preventing the build-up of systemic risk and the application of macroprudential tools. These include the creation of the European Systemic Risk Board (ESRB), which is one of the four foundations of the EU supervisory framework (along with EBA, EIOPA and ESMA) and the Basel III framework for banking. Initially, these changes mainly focused on banking activities, but in recent years increased emphasis has been placed on adopting macroprudential surveillance for other types of financial activities, such as insurance activities, as systemic risk is not only posed by banks.

On 29 March this year, EIOPA issued a Discussion Paper on Systemic Risk and Macroprudential Policy in Insurance, which outlines various ideas for approaches to increasing macroprudential surveillance in the insurance market. For example, increasing oversight of insurance companies' liquidity position, authorising financial supervisors to impose a specific additional solvency requirement for systemic risk, enhanced supervision of concentration risk and the possibility to intervene if a particular type of insurance contract is considered a threat to financial stability. It also emphasised that larger companies should make contingency plans due to systemic risk and liquidity risk. Some of these ideas can be expected to be a part of the review of the Solvency II Directive, which will be carried out in 2021.

The International Association of Insurance Supervisors (IAIS) issue the Insurance Core Principles (ICP), which all Member States undertake to comply with, including Iceland. Over the past few years, these standards have been extensively reviewed to supplement the requirements for macroprudential surveillance where appropriate. The ICP 24 standard deals specifically with macroprudential surveillance and, among other things, requires the supervision of insurance companies to consider the impact of the economy on their position.

On-site inspections

On-site inspections are one of the methods used by the Authority to perform its statutory role. The purpose of on-site inspection is to analyse in detail the specific risks involved in the activities of a regulated entity, assess internal control systems, business models or corporate governance. In recent years, on-site inspections have mainly concerned credit institutions, but more types of regulated entities were added during the last operating year. The two main focuses of on-site inspections during the past operating year were the risk management of regulated entities on the one hand and information technology on the other. Table 2 shows the types of inspection by category.

Figure 2 On-site inspections by category

Measures against money laundering	3
Operational risk	10
Risk management	7
Market risk	3
Consumer affairs	4
Credit risk	1

The Authority examined the risk management frameworks at Birta Pension Fund, Gildi Pension Fund, Frjalsi Pension Fund, the Icelandic Pension Fund and LV - the Pension Fund of Commerce to check whether it complied with applicable laws and regulations. Particular attention was paid to the risk policies and risk management policies of the funds and how they met legal and regulatory requirements. The Authority also reviewed the related listed processes and procedures of each fund.

The on-site inspection of the management company Stefnir hf. focused on specific aspects of risk management to gain an overview of the company's procedures and processes regarding decision-making during investments and to evaluate the arrangements and effectiveness of internal control and risk management.

Two inspections were carried out at the Housing Financing Fund. The first inspection was to examine whether the fund's risk management complied with the requirements set out in laws and regulations. The examination also considered whether the risk management division had sufficient independence and power to fulfil its function. The emphasis was also placed on examining in particular how the division disclosed information to the Fund's Board and whether such disclosure needed improving. The second inspection at the Fund considered lending to legal entities. The Fund's procedures, oversight and supervision were examined by reviewing the process of granting loans to these entities, from the loan application to the disbursement of the loan.

The importance of information technology in the operations of regulated entities continues growing, and investigations were carried out to examine the operation of information systems as well as the quality of data. Inspections were carried out at Borgun hf. and Valitor hf. of specified aspects of the operation of information systems and the use of information technology. The Authority assessed the companies' contingency plans and business continuity plans in order to ensure continued operations and limits to damages in case of serious disruption to their activities. The inspection also considered whether the company in question operated in accordance with the Guidelines on the Information Systems of Regulated Entities.

The inspection of one pension fund examined the operation of information systems with relation to the Guidelines on the Information Systems of Regulated Entities. The inspection reviewed, among other things, risk assessment, access to databases, change management and more.

An examination of the quality of data submitted to the Authority was carried out at the insurance companies. The examination concerned the oversight and processes aimed at fulfilling the statutory obligation to submit data and information to the Authority, as insurance companies are obliged to submit to the Authority the necessary data and information to evaluate the insurance companies' management systems, operations, solvency assessment rules, company risk, risk management, capital structure, capital requirements and equity management.

Three thematic surveys were carried out at the three systemically important banks. First, the Authority held a tabletop exercise to examine the banks' response to cyber-attacks and to see how well the employees being questioned knew their bank's preparedness framework for potential on-line attacks. This was an unannounced on-site inspection that lasted for one day. Second, inspections were carried out with the aim of examining the classification of equities and bonds in the trading book and investment book of the relevant banks, evaluating the management of the trading book based on the applicable rules and procedures of each bank, as well as reviewing calculations for the trading book performance. Third, the monitoring activities concerning lending processes were examined. The main objective of the examination was to review the oversight of processes and procedures relating to lending and the banks' monitoring of such lending. At the same time, it was examined whether the division of roles was clear between warning lines 1 and 2.

One of the Authority's strategic priorities until 2020 is to increase its focus on consumer affairs. Accordingly, an examination was conducted at TM Insurance hf. and Vörður tryggingar hf. to investigate procedures for settling compensation for vehicle damage in the event of total loss. In the examination, the procedure was reviewed and verified by sampling.

The Authority supervises the business practices of insurance brokers and conducted an examination at Nýja vátryggingaþjónustan ehf., Tryggingamiðlun Íslands ehf., Tryggingar og ráðgjöf ehf. and Tryggja ehf. The purpose of these examinations was to review whether acceptable needs assessments were carried out before concluding insurance contracts with policyholders and whether the recommendations came with the required reasoning. The method of access restrictions to personal information was also reviewed.

Modified procedures for on-site inspections

At year-end 2018, the Authority introduced procedural changes to on-site inspections. The process for on-site inspections is now divided into four phases: the preparatory phase, the study phase, the reporting phase, and the remediation phase.

The main change from the perspective of regulated entities is that the Authority's employees now spend a longer time on-site. This procedure requires employees to have good work conditions, access to the necessary data and information, and there is more dialogue with the employees of regulated entities during the examination. Another change in the process is that the on-site inspection team meets with the regulated entity, presents it with draft conclusions and allows it to express its views before the findings are available.

Methods for conducting on-site inspections include checking, analysing and verifying the information. There are also concise interviews with employees of the regulated entities and processes are reviewed step-by-step to assess whether the implementation of the procedures matches the registered procedures. Moreover, sampling is also used, among other things, to confirm the quality of data.

Based on the results of the on-site inspection, an administrative decision is made and sent to the regulated entity together with the remediation requirements, if applicable.

To increase the transparency of procedures for on-site inspections, the Authority issued a Guide to On-Site Inspections available on its website.

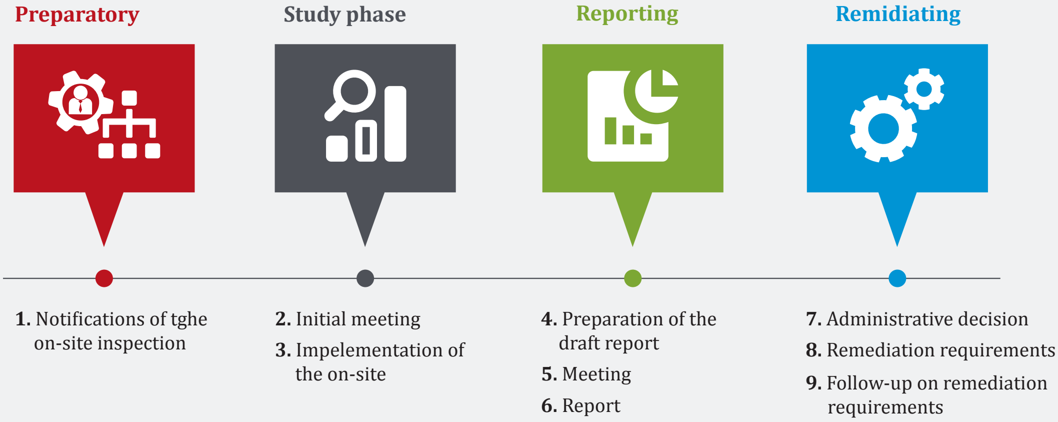
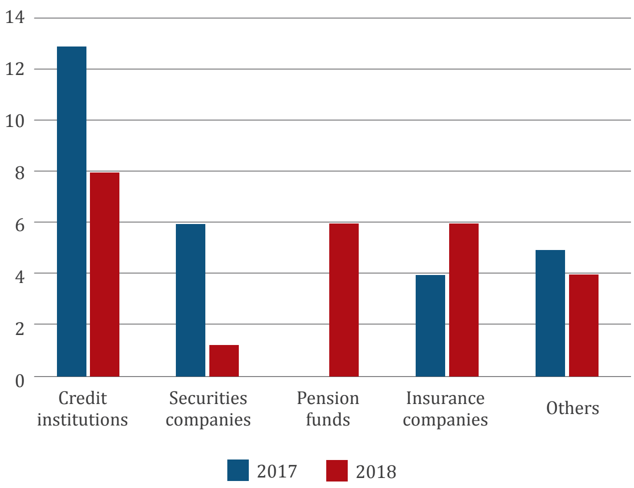


Figure 8 The number of concluded on-site inspections in 2017 and 2018, by type of regulated entity



Of final note, the Authority has placed great emphasis on increased supervision of measures against money laundering and terrorist financing, and it carried out three on-site inspections for that purpose last year, with the aim was to investigate the implementation of specified aspects of the Act on Measures against Money Laundering and Terrorist Financing. These inspections will continue in the future and, in recent years, the Authority has conducted regular on-site inspections related to this issue.

Fit and proper assessment, qualifying holdings and licensing

Fit and proper assessment for board members and directors

Although it is primarily the responsibility of regulated entities to ensure that its managing director and board members always comply with legal and regulatory requirements for eligibility and competence, the Authority also has a role to play in the assessment. Thus, the Authority is required to assess the eligibility of the managing directors and board members of numerous regulated entities when they start work and may also review their eligibility at any time.

In assessing the eligibility of the managing directors and board members, the Authority uses the relevant eligibility requirements in the applicable laws and regulations for each regulated entity. The Authority also considers the EBA and ESMA guidelines on assessing the eligibility of the board of directors, the managing director and key employees of financial undertakings.

The Authority assessed the eligibility of 100 managing directors and board members of regulated entities in 2018. In most cases, these were board members. Table 3 shows the number of eligibility assessments for the past three years. Of those who were invited for a verbal evaluation last year, six did not demonstrate adequate knowledge or did not attend their scheduled interview.

Table 3 Fit and proper assessment for board members and managing directors

	2016	2017	2018
Number of board members and managing directors included in the fit and proper assessment	84	115	100
Number of directors and managing directors who failed the fit and proper assessment due to insufficient knowledge or who did not attend a scheduled interview	8	2	6

Qualifying holdings

The Authority assesses the eligibility of parties who intend to acquire a qualifying holding in financial undertakings, insurance companies, electronic money companies and payment institutions. A qualifying holding means a direct or indirect holding in a company which represents 10% or more of equity capital, initial capital or voting rights or which makes it possible to exercise a significant influence over the management of the undertaking in question.

There was considerable change in the ownership of financial undertakings during the year, and the Authority processed, among other things, notifications from Kvika banki hf. to own a qualifying holding in GAMMA Capital Management hf. and an increased qualifying holding in Kortaþjónustan hf. (KORTA PAY). In addition, the Authority handled qualifying holdings of Ditto dx slf., Bellevue Partners dx slf., Bdix dx slf., Svinnur dx slf. And HB Consulting dx slf. in Centra Corporate Finance Ltd., G 62 ehf., Selsvellir ehf., Norðurvör ehf. and Tómas Karl Aðalsteinsson in Icelandic Investors Ltd. og Björg Capital ehf. in Icelandic Securities hf. In addition, the Authority's decisions on a qualifying holding of Taconic Capital Advisors LP and related parties and Kaupthing ehf. in Arion Bank hf. entered into force when shares in the bank were admitted to trading in June 2018.

Operating licenses, registrations, mergers and split-ups and revocations of operating licenses

Þín ráðgjöf ehf. was licensed as an insurance brokerage, cf. Act No 32/2005 on Insurance Intermediation and Aur App ehf. as a billing agent according to Act No 95/2008 on Debt Collection. In addition, the company Skiptimynt ehf. was registered as a trading platform for virtual currencies, electronic money, and currencies under the Act on Measures Against Money Laundering and Terrorist Financing.

Árni Reynisson, Árni Reynisson ehf. and Olaf Forberg turned in their licenses for insurance intermediation according to Act No 32/2005 on Insurance Intermediation, and the Authority confirmed the revocation of the operating licenses. The Board of the Authority revoked the operating license of Guðmundur Þór Magnússon for insurance intermediation as operations had been discontinued for more than six consecutive months, cf. Article 34(1)(5) of Act No 32/2005 on Insurance Intermediation. Innheimturáðgjöf ehf. also turned in its debt collection license according to Act No 95/2008 on Debt Collection. Iceland Tax Free ehf. requested delisting as a currency exchange office, cf. the Act on Measures against Money Laundering and Terrorist Financing, and the Authority removed the company from its register of currency exchange offices.

The Authority approved the merger of Alda Asset Management hf. and Jupiter Capital Management hf. on the basis of Article 106(1) of Act No 161/2002 on Financial Undertakings. Jupiter Capital Management hf. took over all rights and obligations of Alda Asset Management hf. and the financial companies were merged under the name of Jupiter Capital Management hf.

The Authority approved the split-up of Icelandic Investors Ltd. into two companies based on Article 106 of Act No 161/2002 on Financial Undertakings. The split-up resulted in the transfer of certain assets and liabilities unrelated to the operation of financial undertakings from the securities company to KJO ehf. that does not engage in licensed activities according to the Act on Financial Undertakings

Inspection of possible activities without a license

The Authority regularly receives comments and initiates inspections on its own initiative of the activities of companies that may engage in licensed activities without a license or registration. The Authority began eleven such observations in 2018. Seven observations were completed without further action, three observations are still under investigation and one resulted in finding infringement.

New guidelines on corporate governance of financial undertakings

New European Banking Authority (EBA) Guidelines on Internal Governance took effect in all Member States on 30 June 2018, including in Iceland. At the same time, the joint EBA and ESMA Guidelines on Suitability Assessment for Management Body Members and Key Function Holders took effect.

The purpose of the EBA's corporate governance guidelines is to establish a harmonised, effective and efficient supervisory enforcement within the European financial system concerning the internal governance of financial undertakings. The Guidelines are in line with both the OECD and the Basel Committee Principles of Corporate Governance.

The new Guidelines on Internal Governance elaborate and clarify in more detail what the provisions of Act No 161/2002 on Financial Undertakings entail. In the future, the Authority will base its assessment of whether a financial undertaking meets the requirements for internal governance on the guidelines. The Authority's Guidelines No 1/2016 on Internal Governance of Financial Undertakings were repealed when the new Guidelines entered into force.

The purpose of the new Guidelines is to address weaknesses in internal governance that have led to excessive risk-taking in the financial system and, at the same time, increased systemic risk in the European financial system. The goal is to respond earlier to the potentially harmful effects of superficial governance, not least in decision-making and risk management.

The new guidelines set out more detailed requirements aimed at:

- Promoting a healthy risk culture that is implemented by the board and management
- Improving the overview of the management of the financial undertaking's activities
- Strengthening the risk management framework of financial undertakings
- Promoting transparency in the governance structure of financial undertakings
- Ensuring measures for conflicts of interest in the activities of a financial undertaking as well as employees and the board

They emphasise that financial undertakings ensure transparency in their organisational structure so that the board and supervisory authorities can exercise appropriate supervision. This means, among other things, that a financial undertaking should avoid setting up complex and possibly opaque structures. Likewise, that financial undertakings should not commence activities that lack a clear economic and legal purpose, or that could be related to fraud. The same requirements apply when a financial undertaking sets up structures for customers.

The Guidelines also set out a more detailed description of the role and responsibility of the board and management aimed at ensuring appropriate risk management with a good risk management culture and effective internal control. Financial undertakings should assess their governance annually, taking the Guidelines into account.

Measures against money laundering and terrorist financing

Increased supervision and new legislation passed

The Authority supervises many reporting entities subject to Act No 140/2018 on Measures against Money Laundering and Terrorist Financing. Reporting entities are obliged to investigate and report any suspicious transfers and transactions related to the proceeds of criminal conduct or terrorist financing. The Authority supervises their enforcement of the provisions of the Act on Measures against Money Laundering and Terrorist Financing, among other things, through on-site inspections and audits carried out on the activities of reporting entities.

The Authority has placed increased emphasis on this issue since 2017, added full-time equivalent positions and increased the number of supervisory measures to ensure, to the extent possible, compliance with the law on measures against money laundering and terrorist financing.

Supervision and on-site inspections

In total, the Authority carried out examinations of measures against money laundering and terrorist financing for seven reporting entities during the operating year. The inspections were carried out at four savings banks, to investigate compliance with the enforcement of the then applicable Act No 64/2006 on Measures Against Money Laundering and Terrorist Financing and the implementation of international sanctions. In the examination, the Authority found, among other things, reason to comment that regular monitoring of contractual relations with customers did not comply with the provisions of the Act and that updating information on customers was deficient. Appropriate remedies were therefore requested.

On-site inspections were also carried out at one payment institution, one bank and one credit institution. Refer to the results of those inspections on page 18 where there is further discussion of the subject.

Increased education

Work has been under way at the government level to prepare educational material related to money laundering and terrorist financing to inform the public and reporting entities of their legal obligations. Electronic booklets covering the specific topics of the Act have either been issued or are being drafted. The brochures that have been issued relate to research and reporting requirements and the training of employees according to the Act and can be found on the Authority's website. The Authority has also improved this content on its website, and it contains useful information for reporting entities. In addition, the Authority has worked on presenting the applicable guidelines for the ESAs to the relevant entities.

Administrative sanctions provided for in the Act on Measures against Money Laundering and Terrorist Financing

Under the new law, supervisory authorities, including the Authority, are authorised to impose administrative sanctions for infringements. The Authority may now impose administrative fines on anyone infringing specific provisions of the Act. The Authority may impose a maximum administrative fine of ISK 800 million on the parties in question, or up to 10% of their total turnover according to the most recent approved annual accounts. The Authority may also impose administrative fines on the employees of these parties, from ISK 500,000 to ISK 625 million.

The Act also provides for other sanctions. On the one hand, the Authority may dismiss the board of the party in question, in whole or in part, as well as the managing director, if the infringement of the provisions of the Act is serious, repeated or systematic. The person in question is also prohibited from being on the board or in the management of a reporting entity for the next five years after being dismissed. This is a novel sanction. The Authority may also revoke an operating license or registration of the party in question, in whole or in part, if it deliberately, seriously, repeatedly or systematically violates the provisions of the Act.

Actions following the FATF audit

The international action group the Financial Action Task Force (FATF) conducted an audit in Iceland in 2017, which concluded with a report in April 2018. During the audit and following the report, the Financial Supervisory Authority and other domestic authorities launched an extensive remediation process. The increased importance of the issue in recent years is part of a process where the emphasis has been placed on the introduction of a risk-based approach to supervision, more frequent and extensive on-site inspections, changes in legislation and regulations and increased education on the issue. A part of the government's increased focus on the issue is the establishment of a steering committee led by the Ministry of Justice, and the Authority has a representative on the committee. One of the main actions of the government in the remediation process was to a new comprehensive act on measures against money laundering and terrorist financing, Act No 140/2018. The Act entered into force on 1 January 2019 and incorporated Directive 2015/849/EU (AMLD IV) and part of Directive 2018/843/EU (AMLD V) into Icelandic law.

International cooperation

European Economic Area

The Authority participates in diverse international co-operation. Of most importance is participation in the work of the European System of Financial Supervision which comprises four bodies: The European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Securities Market Authority (ESMA) and the European Systemic Risk Board (ESRB). The Authority has full access to the ESAs and the Board and has the same rights and obligations as representatives of the supervisory authorities of the EU Member States, apart from voting rights.

The Authority can gain a more in-depth knowledge of European legislation on financial markets and to participate in its development due to its involvement in the ESAs Boards of Supervisors, Permanent Committees and Working Groups. Through its participation, the Authority also contributes to ensuring uniform implementation of European legislation on financial markets in the EEA. The participation also helps prepare for the introduction of new European legislation in Iceland, facilitates it and contributes to the effective implementation of supervision after the implementation.

By participating in the ESRB, the Authority can join in and have access to pan-European analyses for systemic risk.

The Nordic and Baltic countries

The Authority continued its active participation in other international co-operation during the operating year, particularly with the Nordic and Baltic countries, which have diverse internal cooperation. This co-operation involves, among other things, systemic risk, where information is exchanged on the development of systemic risk and the application of macroprudential tools.

In January 2019, a two-day joint contingency exercise was held by the governments responsible for financial stability in the Nordic-Baltic Region (NB8). The exercise had been in preparation since 2016. The exercise followed a hypothetical financial crisis involving fictitious banks in the Nordic and Baltic countries. The exercise tested the governments' ability to respond to crises and to co-operate regionally. Immediately after the exercise, work began on carefully examining its findings and what lessons could be drawn on how to strengthen preparedness for financial shocks.

The Authority also participates in the work of a Nordic college of supervisors tasked with harmonising the supervision of the Nasdaq Nordic exchanges. The main role of the college, outside of conducting ad hoc examinations, is to assess and monitor the major operational risk factors in the stock exchanges, and the college prepares an annual report on where the risks are and the planned examinations.

The Authority also participates in Nordic collaborative groups concerning the general field of securities supervision, including a group dealing with supervision based on MiFID II/MiFIR.

2 Sanctions

Cases concluded with administrative fines or settlement agreements in the operating year

Decisions on imposing administrative fines and settlement agreements are generally published on the Authority's website in accordance with the Authority's policy on public disclosure From 1 May 2018 to 30 April 2019, the Authority published one notification for a case concluded with an administrative fine and three notifications for cases concluded with a settlement agreement.

The notifications concerned the following parties:

Arev verðbréfafyrirtæki hf. - *administrative fine*
An administrative fine was imposed on Arev verðbréfafyrirtæki hf. for an infringement of Articles 5 and 6 of Act No 108/2007 and Article 6 of Regulation No 995/2007, as well as Article 142 of the Act.

Stapi lífeyrissjóður - *settlement agreement*
A settlement agreement was reached with Stapi l lífeyrissjóður for an infringement of Article 86(1) of Act No 108/2007 on Securities Transactions.

Vátryggingafélag Íslands hf. - *settlement agreement*
A settlement agreement was reached with Vátryggingafélag Íslands hf. for an infringement of Article 87(1) of Act No 108/2007 on Securities Transactions.

Landsbankinn hf. - *settlement agreement*
A settlement agreement was reached with Landsbankinn hf. for infringements of Articles 78(1) and 86(1) of Act No 108/2007 on Securities Transactions.

Cases are generally concluded with a settlement agreement, in accordance with the Authority's policy on the application of administrative measures and sanctions, if requested by the party in question, provided that the party has acknowledged the violation, ceased the conduct which violates the law or made appropriate remedies. Settlements are not considered if the required dissuasive effect is not achieved, e.g. if a party has repeatedly violated the same legal provision.

The purpose of a settlement is to simplify the proceedings so that cases are concluded in the shortest possible time with the most dissuasive effect. With a settlement agreement, the party admits to the infringement and agrees to pay fines. The amount of the fine in a settlement case could be as low as half the administrative fine, the reduction being based on the stage of the proceedings when the settlement is concluded.

Court cases regarding sanctions

On 18 April 2018, the District Court of Reykjavík acquitted the Authority in a case where Eimskipafélag Íslands hf. had claimed annulment of the Authority's decision from 8 March 2017 to impose an administrative fine, or a reduction in the amount of the fine. The Board of the Authority had decided to impose administrative fine on the company for infringing the provisions of Act No 108/2007 that stipulate that an issuer must make public all inside information as soon as possible and on equivalent terms. The case is now before the Court of Appeal and the verdict is expected in the summer of 2019.

Arctica Finance hf. brought an action before the courts for annulment of the Authority's decision dated 20 September 2017 to impose administrative fines on the company for its infringements of the provisions of Act No 161/2002 that deal with remuneration. The District Court of Reykjavík, which delivered its verdict on 8 March 2019, agreed that dividend payments to employees of Arctica Finance hf. should, in fact, be considered remuneration. The Court partially accepted the claim of Arctica Finance hf. to invalidate the above decision and reduce the amount of the fine. More specifically, the District Court concluded that the rules that the Authority based its decision on for the period 2012-2015, did not have a sufficient legal basis for imposing sanctions. However, the District Court concluded that the decision of the Authority for the years 2016 and 2017 did have an adequate legal basis as Article 57(a) of Act No 161/2002 on Financial Undertakings, which was intended to limit the remuneration payments of financial undertakings, was changed in July 2015. On this basis, the Authority's decision was confirmed in part, but the amount of the fine the Authority imposed on Arctica Finance hf. was reduced to ISK 24 million. The case has been appealed to the Court of Appeal

Expected changes in the publication of decisions on administrative sanctions

The Authority generally publishes decisions on imposing administrative sanctions and settlements agreements in accordance with Article 9(a) of Act No 87/1998 on the Official Supervision of Financial Activities and the Authority's policy on public disclosure. The policy on public disclosure states, among other things, that the names of regulated entities should generally be published, but not the names of others unless their publication has special relevance of the case.

Currently, changes are expected regarding public disclosure of cases on administrative sanctions. Recent European acts on the financial market have increased the obligation of supervisory authorities to publish their decisions on administrative sanctions, and, where appropriate, other administrative measures. Furthermore, the provisions stipulate that the names of the parties concerned, legal entities, as well as individuals, shall be published unless there are special reasons for not doing so. These new provisions on public disclosure on administrative sanctions and, as the case may be, other administrative measures for violations will be enacted in Iceland. One such provision has already been enacted. This provision is in Article 53 of Act No 140/2018 on Measures against Money Laundering and Terrorist Financing. The enactment of these new provisions on public disclosure will presumably result in a larger number of cases where parties other than regulated entities are named when the Authority decides to impose administrative sanctions on these parties for violations.

Article 53 of Act No 140/2018 states that the Authority shall make public its policy on the public disclosure pursuant to the provision. The Authority is currently considering issuing a new policy on public disclosure, which will apply to, on the one hand, the public disclosure of administrative sanctions under the provisions of special legislation, such as Article 53 of Act No 140/2018, and, on the other hand, the public disclosure of other conclusions where Article 9(a) of Act No 87/1998 still applies.

Summary of all administrative fines and settlements after the entry into force of Act No 58/2015

Act No 58/2015 brought significant changes to the major part of acts on financial activities regarding the Authority's powers to impose sanctions.

The Act came into force on 16 July 2015 and applies to violations committed after their entry into force. Since the entry into force of the Act, the Authority has concluded a total of 21 cases concerning violations with administrative fines. In four of the cases the Authority decided to impose administrative fines, but 17 of the cases were concluded with settlement agreements.

Twelve of these cases concerned violations of the provisions of Act No 108/2007 on Securities Transactions, seven cases concerned violations of the provisions of Act No 161/2002 on Financial Undertakings and two cases concerned violations of the provisions of Act No 128/2011 on Undertakings for Collective Investment in Transferable Securities (UCITS), Investment Funds and Professional Investment Funds

Table 4 Number of sanction cases by the system of law since the entry into force of Act No 15/2015

Act 108/2007	12
Act 161/2002	7
Act 128/2011	2

Of the twelve cases concerning violations of the provisions of Act No 108/2007 on Securities Transactions (Securities Transactions Act) five cases concerned violations of provision on the public disclosure on information on major holdings, three concerned violations of provisions on the public disclosure of inside information and submissions of lists of primary insiders, three involved violations of provisions on investor protection and one related to violations of provisions on public disclosure of periodic informations by the issuer. Of the five cases that concerned violations of the provisions of Act No 161/2002 on Financial Undertakings (Financial Undertakings Act) three concerned violations of the rule that a party intending to acquire a qualifying holding in a financial undertaking shall give the Authority prior notice, three cases concerned violations of the provisions on remuneration and one case concerned violations of the provisions of the Act which stipulate that an operating license is required to perform certain activities. Both cases under Act No 128/2011 on Undertakings for Collective Investment in Transferable Securities (UCITS), Investment Funds and Professional Investment Funds concerned the Act's provisions on the investment authorisations of investment funds.

Table 5 Number of sanction cases according to the infringed legal provisions since the entry into force of Act No 15/2015

Public disclosure on information on major holdings (Securities Transactions Act)	5
Public disclosure of inside information and lists of primary insiders (Securities Transactions Act)	3
Investor protection (Securities Transactions Act)	3
Public disclosure of periodical informations by issuers (Securities Transactions Act)	1
Qualifying holdings (Financial Undertakings Act)	3
Rules on remuneration (Financial Undertakings Act)	3
Activities without operating licenses (Financial Undertakings Act)	1
Investment authorisations of investment funds (Fund Act)	2

3 Changes to the legal framework of the financial market

Legislative changes in 2018

The Authority actively participates in shaping the national regulatory framework for the financial market, both through adopting its own rules and by issuing guidelines. The Authority also participates extensively in committees and working groups organised by responsible ministries for preparing legislative bills that apply to the activities of regulated entities, and the expertise of the staff of the Authority comes to good use in that work. Furthermore, the Authority has an overview of the relevant legal sources for the Icelandic financial markets, applies them and interprets and monitors planned legislative changes within the EEA. The Authority plays a key role in the financial market regarding the monitoring of technical standards, guidelines and recommendations issued by the ESAs.

Althingi approved the following legislation concerning the financial market in 2018:

- Act No 15/2018 on Derivative Trading, Central Counterparties and Trade Repositories, see detailed discussion later in this chapter.
- Act No 36/2018 amending the Act on Insurance Activities (EEA Rules, Supervisory Authorities, etc.).
- Act No 54/2018 amending the Act on Financial Undertakings with the incorporation of the first part of BRRD. The enactment of the law established statutory provisions for recovery plans, early intervention, and intra-group financial support. These authorisations are subject to the Authority's supervision and decision making.
- Act No 65/2018 amending the Housing Act (policy on housing issues, the role of the Housing Financing Fund).
- Act No 140/2018, which is new comprehensive legislation on measures against money laundering and terrorist financing implementing the AML IV Directive and part of AML V, see detailed discussion below in this section.

Earlier this year, Althingi passed Act No 8/2019 amending the Act on Financial Undertakings (management and auditing). Althingi is also debating several bills concerning the financial system. These include a bill on auditors and auditing, a bill on motor insurance, a bill on the distribution of insurance and a bill amending the Act on Insurance Contracts. The last two bills are intended to incorporate the Insurance Distribution Directive (IDD) in law and, if they are enacted, they will repeal the current Act No 35/2005 on Insurance Intermediation, see further on p. 31.

New comprehensive legislation on measures against money laundering and terrorist financing

On 1 January 2019, new comprehensive legislation on measures against money laundering and terrorist financing came into force, Act No 140/2018. The Act supersedes the prior Act No 64/2006 on the same subject matter. The new Act transposes the fourth EU Anti-Money Laundering Directive (AML IV) along with part of the fifth (AML V). The Act is also intended to respond to the legislative weaknesses noted by the Financial Action Task Force (FATF) during its 2018 audit in Iceland.

AML IV requires all practitioners to apply a risk-based approach. One of the main changes that the law entails is that reporting entities are now obliged to prepare risk assessments of their own operations and transactions. The risk assessment forms the basis for all AML actions carried out by the entities and serves as their guide on where to take special care, among other things, by conducting enhanced due diligence. The assessment also identifies ways to mitigate and reduce the likelihood of the entities' activities being misused. Another change with a major impact is a new definition of politically exposed persons that affects both reporting entities and their customers. The Act also imposes a new obligation on reporting entities that are parts of groups to establish policies and processes at the group level regarding matters that are subject to the Act. This will most likely have a considerable impact on reporting entities, in particular, banks and their subsidiaries, which are often also reporting entities. One of the most significant changes is that supervisors, i.e. the Financial Supervisory Authority and the Director of Internal Revenue, may impose sanctions for violations against the Act. It is, therefore, permissible to impose administrative fines on parties for certain violations of the Act that can range from ISK 5 million to ISK 800 million. Fines imposed on employees of the reporting entities can range from ISK 500 thousand to ISK 625 million. The supervisory authorities may also dismiss the board of a reporting entity, in whole or in part, as well as the managing director, if the infringement of the provisions of the Act is serious, repeated or systematic. Finally, the Authority may revoke an operating license or registration of a reporting entity, in whole or in part, if it deliberately, seriously, repeatedly or systematically violates the provisions of the Act.

New act on derivative trading, central counterparties and trade repositories

On 1 October 2018, Act No 15/2018 on Derivative Trading, Central Counterparties and Trade Repositories entered into force. The Act transposes EMIR, which aims to increase the transparency of derivative transactions, reduce systemic risk that may arise from such transactions and promote financial stability. The Regulation includes new derivatives trading requirements, regardless of whether the derivatives have been admitted to trading on a designated trading platform or not. The Regulation also deals with harmonised requirements for the organisation, practices and operation of central counterparties and trade repositories.

One of the innovations of EMIR is mandatory reporting for entities engaged in derivative transactions. They need to submit information on derivative contracts to a trade repository that is registered within the EEA or recognised by the European Commission. The European Securities Market Authority (ESMA) grants operating licenses for trade repositories, and they are subject to ESMA's direct supervision.

Regulation and the publication of guidelines in during the operating year

During the operating year, the Authority established new Rules No 1090/2018 on Insurance Companies That Are Exempt from Certain Provisions of the Act on Insurance Activities. The Authority also issued four rules that are revisions of older rules:

- Rules No 670/2018 on Currency Exchange Offices, Money and Value Transfer Services, Trading Platform for Virtual Currencies, Electronic Money, and Currencies and Service Providers of Digital Wallets.
- Rules No 285/2018 on the Implementation of Eligibility Assessments for the CEO, Board Members and Key Function Holders of Insurance Companies
- Rules No 1001/2018 on the Sound and Proper Business Practices of Financial Undertakings, Payment Institutions and Electronic Money Companies.
- Rules No 326/2019 on the Authority's Power to Conclude a Case with Settlement

Several rules were also issued to implement technical standards from the ESAs:

- Rules No 689/2018 on Implementing Technical Standards (ITS) Concerning the Harmonised Assumptions in the Standard Formula Calculation.
- Rules No 690/2018 on ITS Concerning Proper Procedures for Evaluating External Credit Ratings.
- Rules No 1091/2018 on ITS Concerning Procedures for the Creation of a Special Purpose Vehicle, for the Cooperation and Exchange of Information Between Supervisory Authorities and the Data Form and Templates.
- Rules No 120/2019 on ITS Concerning the Harmonised Assumptions for Calculating the Solvency Capital Requirements of Insurance Companies.
- Rules No 130/2019 on Technical Standards Regarding the Notification of Credit Institutions for Cross-Border Activities.

The Authority also issued new Guidelines No 1/2019 on the Risk from Managing Regulated Entities' Information Systems. The Guidelines contain criteria for further explanation of the requirements stipulated by law and regulations regarding operational risk, with an emphasis on the operation of information systems.

The Authority adopted numerous EEA guidelines during the year. These are guidelines issued by the European Banking Authority (EBA), the European Insurance and Pension Funds Authority (EIOPA), and the European Securities Market Authority (ESMA) on their own initiative, as authorised in Article 16 of the regulations establishing the European Regulatory Authorities No 1093-1095 from 2010, which have been transposed in Act No 24/2017 on the European System of Financial. Supervision. These guidelines have not been incorporated in the Authority's guidelines, but the Authority publishes on its website a circular on the content of the guidelines with the web address of the English versions. The content of the guidelines is also presented at introductory meetings as needed. The purpose of the guidelines is to establish a harmonised, effective and efficient supervisory enforcement within the European System of Financial Supervisors and to ensure the common, uniform and harmonised application of EU legislation. The Authority, therefore, bases its supervisory implementation on the guidelines.

During the operating year, the Authority also published an updated version of the General Criteria and Methodology for SREP at financial undertakings, and for the first time also comparable General Criteria and Methodology for the supervision of insurance companies.

Continuing implementation of European acts

The Ministry of Finance and Economic Affairs is working to implement several European acts concerning the financial market. The Authority participates in this work and a summary of the main acts to be transposed in the coming years follows:

BRRD

In 2018, part of the Bank Recovery and Resolution Directive (BRRD) was transposed into Act No 161/2002, on Financial Undertakings. A bill is currently being drafted to implement the part of the BRR Directive that deals with the resolution of financial undertakings. That bill will contain provisions on a resolution authority, the available resolution measures for such an authority, the preparation of resolution plans and the Minimum Requirement for own funds and Eligible Liabilities (MREL). The bill is expected to be submitted in autumn 2019.

AIFMD

A bill is being drafted to transpose the Alternative Investment Fund Managers Directive (AIFMD). AIFMD covers the activities of non-UCITS funds and its aim is to harmonise the regulatory framework between EEA Member States, ensure uniformity in the Internal Market, ensure financial stability, enhance investor protection and strengthen trust and supervision of the activities of specialised funds and their managers.

MiFID II/MiFIR

The Authority participates in committee work to draft legislation for the transposition of the Markets in Financial Instruments Directive (MiFID) II and Markets in Financial Instruments Regulation (MiFIR). The legislation should take effect at the beginning of 2020. The acts cover, among other things, investor protection, organisation of trading venues and securities companies and business transparency. At the same time, the Authority is preparing the implementation of various changes that result from the new regulatory framework. MiFID II/MiFIR are intended to increase transparency and improve the functioning of the market for financial instruments within the EEA. The conclusions of the committee's work are expected in the first half of the year, and the bill should be submitted to Althingi in the 2019 Autumn Assembly.

Prospectus regulation

A new EU Prospectus Regulation enters into force in 2019 on the prospectuses to be published in the public offering of securities or when they are admitted to trading on a regulated securities market. The regulation supersedes the previous directive on the same subject. Preparations are under way for incorporating the Regulation into the EEA Agreement and implementing it in Iceland as soon as possible to ensure that the same rules apply domestically and in the other EEA States, among other things to prevent problems for those issuers who wish to register securities both in Iceland and in the other EEA States. The Regulation establishes, among other things, a new fast-track method for issuers who regularly publish prospectuses and it reduces the requirements for information disclosure by small and medium-sized companies that have no securities on a regulated market.

CSDR

The Authority participates in a committee working for the Ministry of Finance and Economic Affairs to implement the Central Securities Depositories Regulation (CSDR) for improved securities settlement in the EEA. The objective of the Regulation is to harmonise rules on securities settlement in the EEA. The bill should be submitted at the 2019 Autumn Assembly. The new legislation will aim to improve securities settlement and make more stringent requirements for the operations of central securities depositories and thereby reduce systemic risk and promote financial stability. The aim is also to coordinate securities settlement within the EEA and to strengthen competition between central securities depositories.

PSD 2

The Authority participates in a committee working on a bill to transpose another EU Directive on payment services in the internal market. In implementing the Payment Services Directive (PSD 2), specific financial market participants will be able to access payment service data that has so far only been available to banks. Furthermore, the activities of FinTech companies offering new options and new technological solutions for payment transactions will be subject to authorisation, or where applicable subject to registration. Payment service providers will be subject to stringent requirements concerning the safety of these new technological solutions with particular emphasis on consumer protection.

MAR

The Ministry of Finance and Economic Affairs is preparing amendments to Act No 108/2007 on Securities Transactions to transpose the EU Regulation on Market Abuse (MAR) into Icelandic legislation. The Authority participates in the committee working on the amendments. MAR contains rules on market abuse, treatment of inside information and insiders, and supersedes the earlier directive that was implemented in Iceland in 2005. With MAR, the scope of the regulatory framework is expanded to include more types of financial instruments than under the previous directive, as well as more types of markets. MAR's aim is, among other things, to strengthen the older rules on market abuse and the treatment of inside information and to increase harmonisation in the applicable European regulatory framework and supervision.

UCITS V

The Ministry of Finance and Economic Affairs has appointed a committee to implement the UCITS V Directive, which amends the prior Directive on the harmonisation of laws and regulations on UCITS (UCITS IV). The amending directive mainly focuses on three areas, namely more detailed provisions on UCITS depositaries, the remuneration policies of management companies and the harmonisation of the minimum administrative sanctions for supervisors within the EEA.

Implementation of the Insurance Distribution Directive (IDD)

Two bills have been submitted to implement the provisions of Directive (EU) 2016/97 on Insurance Distribution, and their enactment will repeal the current Act on Insurance Intermediation. One of these is a bill for new comprehensive legislation on the distribution of insurance and on the one is a bill amending the Act on Insurance Contracts. The former bill defines the concept of insurance distribution, which is a broader concept than intermediation and covers the activities of counselling, proposing or preparing an insurance contract or a reinsurance contract, making such a contract or assisting in the management or performance of the contract. The bill covers insurance distributors. More stringent requirements are placed on the suitability and competence of insurance distributors, and they shall undergo yearly continuing education to maintain their qualifications. Furthermore, it must be ensured that remuneration does not violate the duty to act by the best interests of prospective policyholders. The bill specifies the division of supervision between home and host states, and an important innovation is that the Authority will, when necessary, be authorised to stop the activities of those foreign entities in Iceland that do not comply with the law.

The bill amending the Act on Insurance Contracts transposes the IDD provisions dealing with disclosure of information on insurance distribution and stipulates special requirements for the distribution of insurance-related investment products. The main innovations in the bill involve more detailed disclosure of remuneration for the distribution of insurance, more detailed provisions on needs assessments and much more stringent requirements concerning the form of information disclosure. It assumes that information can be provided electronically, and information on non-life insurance should be provided in a standardised format. Additional requirements are made for needs assessments in the case of insurance-related investment products, and there is a requirement for specific measures to prevent conflicts of interest. New issues in the bill concern product development and product management. The target group of insurance products should be defined, and it should be ensured that the marketing is targeted appropriately. Both bills propose a complaints committee for referring disputes concerning customer's rights and obligations.

4 Human resources, operations and performance

In recent years, the Authority's operations have been characterised by stability. Funding has been stable and has followed price levels, staff turnover has been moderate and the number of employees has remained almost unchanged and has developed in line with projections. The Authority's strategy and vision are clear and provide guidance on the underlying priorities and goals for the Authority's annual project plan.

Organisational changes

A new organisational chart took effect at the beginning of 2018, and its implementation impacted the Authority's activities during the operating year. The main purpose of the organisational changes was to strengthen the interplay between the Authority's activities and its strategy and priorities, to create a clearer division of tasks and improve the effectiveness of management by distributing responsibility and decision-making authorities, while also adapting the organisational chart to the ESAs structure. The implementation of the new organisation was successful, but at the outset, the emphasis was placed on the active participation of the affected employees, for those employees to affect progress in their fields. Among other things, new responsibilities and roles were defined, new teams were formed, and procedural changes were made. Emphasis was also placed on strengthening teamwork.

During the operating year, as in recent years, the emphasis was placed on improvements to the Authority's procedures, as well as the implementation of new software to improve supervision and access to processes and other procedures. Procedures for implementing on-site inspections were modified to reflect changing focuses in the new organisational chart, as well as monitoring procedures for remediation requirements and the publication of transparency reports. Updates were also made on procedures in connection with periodic reporting, daily fines, the implementation of new laws and regulations, to name a few.

Digital development

The Authority opened a new service portal on its website during the operating year, so that the Authority's stakeholders can easily receive and send data safely after having identified themselves with electronic ID. Data can now be submitted concerning the eligibility assessments of board members and managing. Work is under way to provide additional options soon in line with the Authority's policy of fully embracing electronic submission of all data. During the year, work began on unified registration of basic information, which will ensure increased efficiency and consistency between systems.

Considerable emphasis was placed on the development of a new analytical site that provides supervisory staff with an increased overview of data submitted to the Authority during the year. The first dashboards that were implemented concern credit risk and project plans. The basic data project mentioned above provides good support for harmonising analytical solutions.

Work was under way on several reforms due to new legislation on the protection and processing of personal data. The Authority appointed a privacy officer, published a privacy statement its website, prepared a draft production register and made improvements in line with the appropriate action plan.

The Authority purchased a securities control system after an auction in cooperation with the State Trading Centre. The system is being implemented and should make market trading supervision more efficient with automatic warnings for suspicious business patterns.

Increased emphasis is now being placed on IT cooperation with the Central Bank of Iceland, for example concerning operations and network security, reporting of regulated entities and the processing and analysis of data.

Human resources

Institutional agreements were drafted during the year, to create a pay system that considers the Authority's needs, projects and objectives and that encourages success. At the same time, the Authority emphasised making objective and transparent decisions on the payroll to lay a foundation for the planned work on equal pay certification.

Increased efficiency and effectiveness in the activities of the Authority is an ongoing concern including, among other things, through the potential benefits from digital developments. As part of that, work is already under way on developing new software to facilitate the processing and analysis of data to further improve the working conditions and performance of employees.

In 2018, there were 114 paid full-time equivalent positions.

The average length of service at the Authority was 7.5 years at year-end 2018.

Employee turnover was 6.5% in 2018.

Number of employees by sex = Distribution of employees by gender	
Women	47.5%
Men	52.5%
Number of managers by sex = Distribution of managers by gender	
Women	47.6%
Men	52.4%

Operations and results in 2018

The Authority's available 2018 financial statements show that operating expenses totalled ISK 2,125.7 million, which had increased by 2.2% from 2017 when operating expenses amounted to ISK 2,080.2 million. Labour costs are the largest single cost item in the Authority's operations, and amounted to ISK 1,732.2 million in 2018, compared with ISK 1,723.3 million in the previous year, having increased by 0.5% year-on-year. Salary increases in the year are substantially lower than the general salary increases in the market, which reflects the effects of streamlining personnel during the year. The number of calculated full-time equivalent positions was 113.8 in 2018 compared to 116.2 in 2017. Expenses from two complaints committees hosted by the Authority are included in operating expenses, and their labour cost amounted to ISK 19 million in 2018, which is reclaimed. A tax of ISK 5.8 million on financial income is expensed in the income statement.

The Authority's operating income amounted to ISK 2,368.25 million in 2018. Thereof, the income from supervision fees totalled ISK 2,295.7 million, compared with ISK 2,156.7 million in 2017. Other operating income totalled ISK 72.4 million, of which revenues from tariff-based activities amounted to ISK 21.2 million, special income from sold food amounted to ISK 11.9 million, and reclaimed costs for the complaints committees amounted to ISK 21.3 million. In addition, special income recognition against amortisation amounted to ISK 18 million.

The Authority returned a positive balance of ISK 268.7 million, taking into account financial income over financial expenses totalling ISK 26.3 million.

The Authority's assets at year-end 2018 amounted to ISK 564.6 million, compared to ISK 295.9 million at the beginning of the year. Equity at year-end, less reserves amounting to no more than 5% of next year's supervision fees, reduces supervision fees the following year, under Act No 99/1999 on Payment of Cost due to Official Supervision of Financial Activities. Thus, the reserves amounted to ISK 116.5 million at year-end 2018.

2019 operational schedule

The Authority estimated expenditures of ISK 2,429.8 million in 2019 in a report to the Minister of Finance and Economic Affairs on the operational schedule for 2019. In addition, the Authority's revenues were expected to total ISK 2,370.2 million. It was suggested to fund a loss of ISK 53.6 million by decreasing own funds. Per the 2019 general budget adopted by Althingi in December 2018, the Authority's total revenue amounts to ISK 2,371.2 million, of which the imposed supervisory fee according to Act No 99/1999 amounts to ISK 2,330 million.

Distribution of working hours

According to Act No 99/1999 on Payment of Cost due to Official Supervision of Financial Activities, regulated entities shall cover the operational expenses of the Authority through a special supervision fee. The Authority's operational schedule should, therefore, assess the development of its activities regarding the time allocated to the supervision of each class of regulated entity. The assessment is based on the Authority's time sheet records. Table 6 shows a breakdown of the Authority's working hours devoted to each main type of regulated entity from 2016 through 2018:

Table 6 Relative distribution of the Authority's working hours by type of regulated entity

	2018	2017	2016
Credit institutions	52.3%	57.2%	56.5%
Insurance companies and insurance brokers	13.6%	12.0%	13.0%
Pension funding	12.7%	12.4%	12.9%
Fund management companies	9.4%	8.3%	8.3%
Securities undertakings	5.5%	4.2%	4.8%
Others	6.5%	5.9%	4.5%
Total	**100%**	**100%**	**100%**

II. Financial market 2018

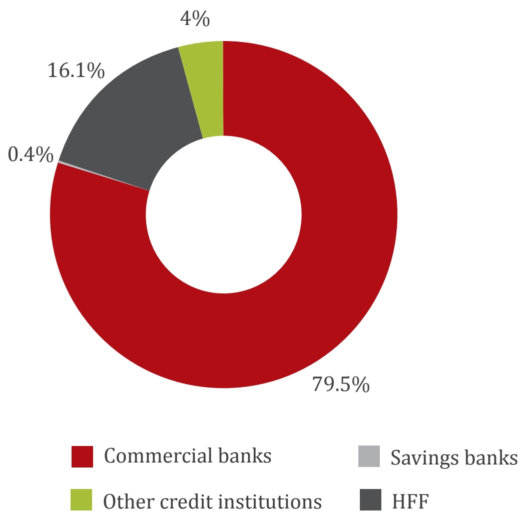
1 Credit market

At year-end 2018, 4 commercial banks, 4 savings banks and 5 credit institutions were operating in Iceland, in addition to the state-owned Housing Financing Fund, for a total of 14 credit institutions. The number of credit institutions has remained unchanged since the end of 2015. Of the four commercial banks, three are defined as systemically important parties subject to supervision by the Financial Stability Council, which are Arion Bank hf., Íslandsbanki hf., and Landsbankinn hf.

Assets

Heildareignir lánastofnana í árslok 2018 námu samtals 4.630 milljörðum kr. en þar af námu heildareignir viðskiptabanka samtals 3.682 milljörðum kr. og höfðu hækkað um 6,7% frá árslokum 2017. Eignarhald ríkissjóðs og opinberra aðila er enn mikið á lánamarkaði. Það var samtals 66% af eigin fé lánastofnana í lok árs 2018.

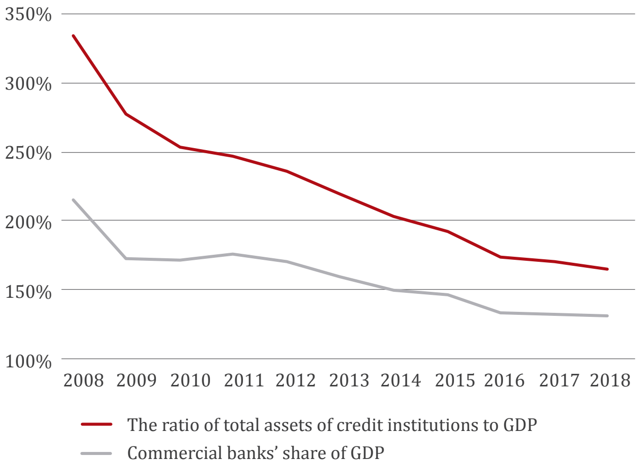
Figure 9 Breakdown of total assets of credit institutions on a consolidated basis at year-end 2018



Source: Financial Supervisory Authority

The total assets of credit institutions as a percentage of GDP have declined in recent years. Since the end of 2008, the ratio has dropped from 334% to 165%. This ratio was approximately 900% at year-end 2007. The main explanation for the development since 2008 is that GDP has grown considerably since then, while the total assets of credit institutions have remained virtually unchanged.

Figure 10 Development of the ratio of credit institutions' assets to GDP 2008-2018



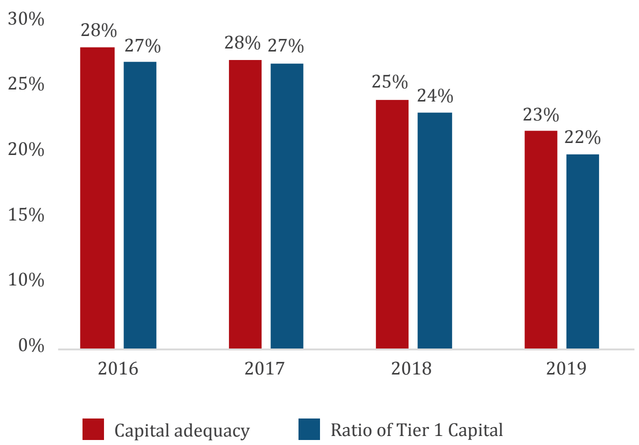
Source: Financial Supervisory Authority and Statistics Iceland

Equity position

At year-end 2018, the capital base of systemically important banks amounted to almost ISK 613 billion, with slight changes between years. Their capital base is mostly composed of Tier 1 equity (CET1), or just over 94%. Their equity ratio declined year-on-year, due to both their dividend payments and the higher risk base. The risk base increased by a total of 7% year-on-year for the three systemically important banks.

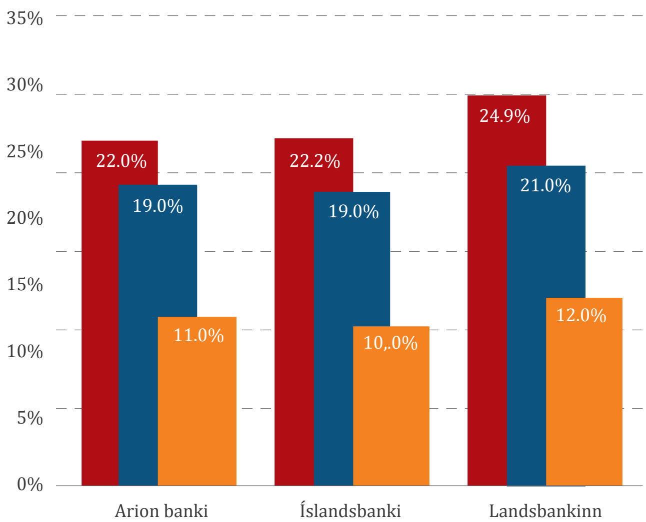
The capital adequacy ratio of systemically important banks remains well above the Authority's capital requirements, as well as international criteria.

Figure 11 Developments in the capital adequacy ratio of the three systemically important banks (weighted average) 2016-2019



Source: Financial Supervisory Authority

Figure 12 Capital adequacy ratio and composition the capital adequacy ratio of the systemically important banks at the end of 2018



The capital requirement is based on the end of 2017. The countercyclical buffer will increase from 1.25% to 1.75% in May 2019 and to 2% in February 2020.

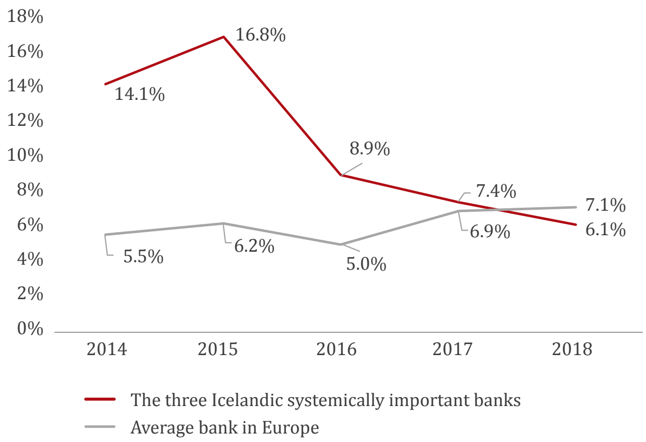
Source: The Financial Supervisory Authority and the banks' annual accounts

Operating results

The overall performance of the three systemically important banks has deteriorated in recent years. Their after-tax profit was just under ISK 38 billion in 2018 compared to just over ISK 47 billion in 2017. Their net interest income increased by ISK 6 billion between years, while net commission income decreased by almost ISK 2 billion. The interest rate differential was 2.9% and remained unchanged year-on-year. Operating expenses as a ratio of net operating income amounted to 55.2% in 2018, compared to 52.4% in 2017. Operating expenses as a percentage of assets remained unchanged between years.

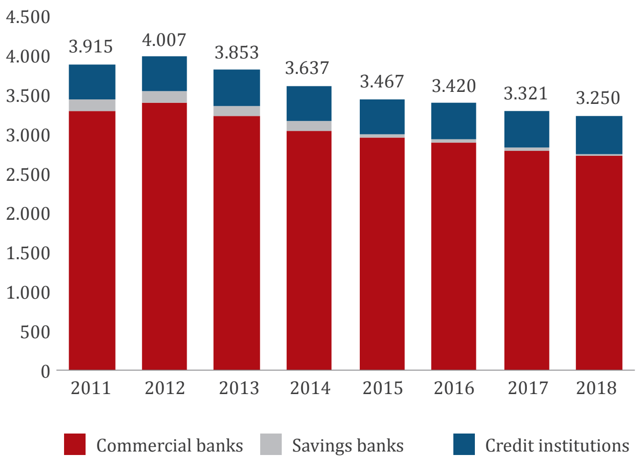
Despite considerable rationalisation measures in recent quarters, the measures have not yet been reflected in a cost reduction for the banks. Commercial banks and savings banks have closed a considerable number of service points and reduced staff since 2012 with increased emphasis on electronic self-service solutions. Significant emphasis will continue to be on the introduction of digital solutions and infrastructure optimisation.

Figure 13 Return on equity (average) of the three systemically important banks and comparison with the average ROE of European banks



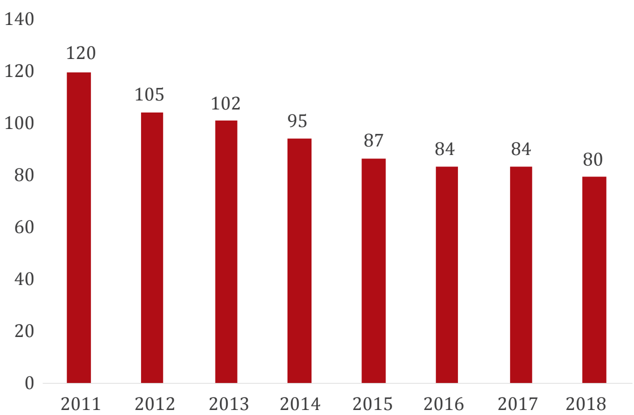
Sources: Financial Supervisory Authority and EBA Risk Dashboard.

Figure 14 Number of employees of commercial banks, savings banks and credit companies 2011-2018



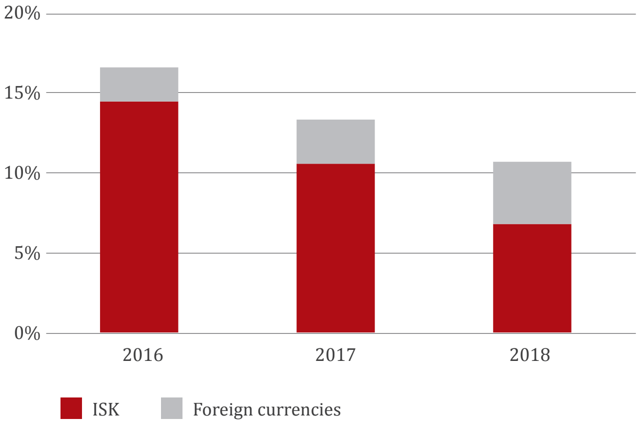
Source: Financial Supervisory Authority

Figure 15 Number of service points for commercial banks, savings banks and credit companies 2011-2018



Source: Financial Supervisory Authority

Figure 16 Ratio of weighted liquid assets to total assets of systemically important banks at year-end 2018



Source: Financial Supervisory Authority and the Central Bank of Iceland

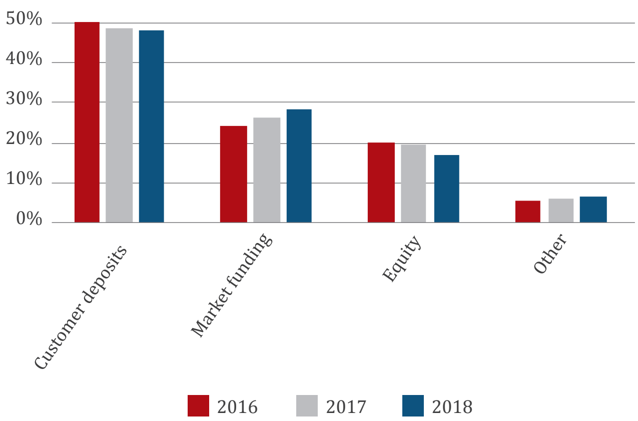
Liquidity position and funding[1]

The three systemically important banks have a relatively large liquidity position. The weighted average liquidity ratio was 164% at year-end 2018, 78% in ISK and 433% in foreign currencies.

The ratio of weighted liquid assets to total assets has been declining in recent years, decreasing from 17% at year-end 2017 to 11% at year-end 2018. The ratio of weighted liquid assets in ISK decreased from 14% at year-end 2016 to 7% at year-end 2018. The ratio of weighted liquid assets in foreign currencies rose from 2% to 4% at the same time.

The three systemically important banks have a relatively large funding ratio. Its weighted average was 118% at year-end 2018, 110% in ISK and 159% in foreign currencies.

Figure 17 Development of the funding composition of systemically important banks 2016-2018

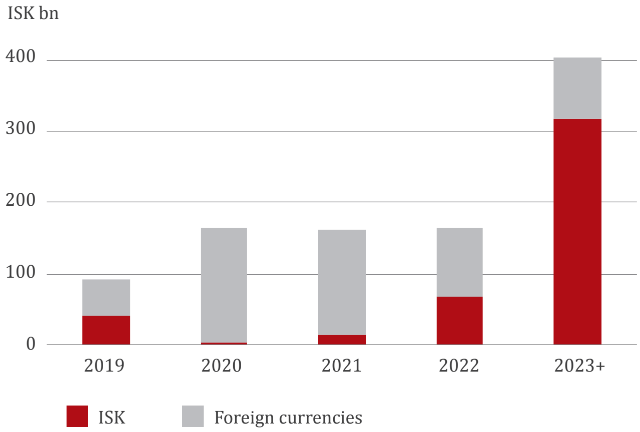


Source: Financial Supervisory Authority

The structure of their funding has changed in recent years. The share of market funding rose from 24% at the end of 2016 to 29% at year-end 2018. At the same time, the equity ratio decreased from 20% to 17%, and the ratio of customer deposits decreased from 50% to 48%.

The refinancing need for the three systemically important banks in 2019 is about ISK 92 billion, about ISK 164 billion each year from 2020 to 2022 and a total of ISK 403 billion after that

Figure 18 Annual refinancing needs of systemically important banks



Source: Financial Supervisory Authority

Credit risk and asset quality

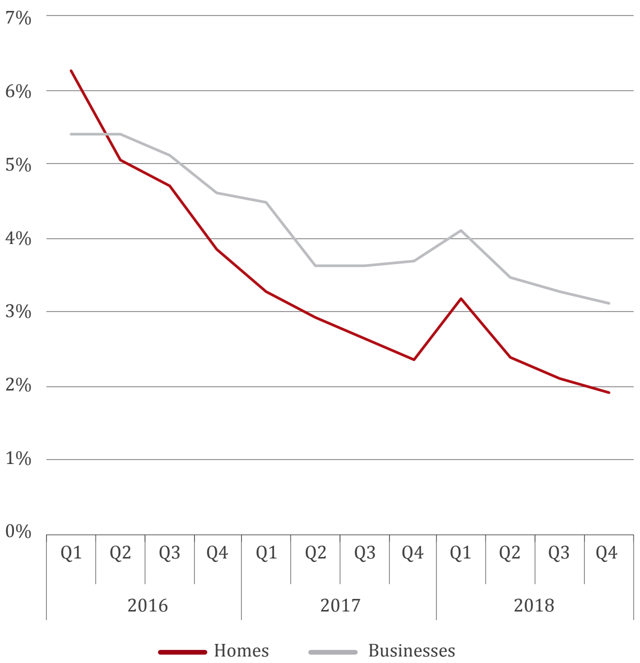
The book value of the lending of the three systemically important banks to customers amounted to ISK 2,745 billion at the end of 2018. This corresponds to a 12.2% increase from year-end 2017 when the lending amounted to ISK 2,446 billion. Inflation in 2018 was 3.7%, compared with 1.9% in 2017. Over the same period, economic growth increased from 4.6% to 4.9%. In 2018, corporate loans grew more than personal loans. The credit growth declined sharply in the last quarter of the year. The Authority monitors the banks' credit growth and has responded to signs of increased credit expansion with a special benchmark for capital tightening due to excessive credit growth. Figure 19 shows the development of loan portfolios from 2015 to the year 2018 and 12-month real growth in each quarter.

[1] All information is at the group level.

Figure 19 Developments in book value of lending and 12-month real return on the systemically important banks' loans 2015-2018

Source: Financial Supervisory Authority

Figure 20 Development of the default ratios for systemically important banks for lending to households and businesses 2016-2018



Source: Financial Supervisory Authority

The default ratio of systemically important banks is historically very low at present and continued to decline in 2018. The ratio was 1.9% for households at year-end 2018 and 3.1% for companies.[2]

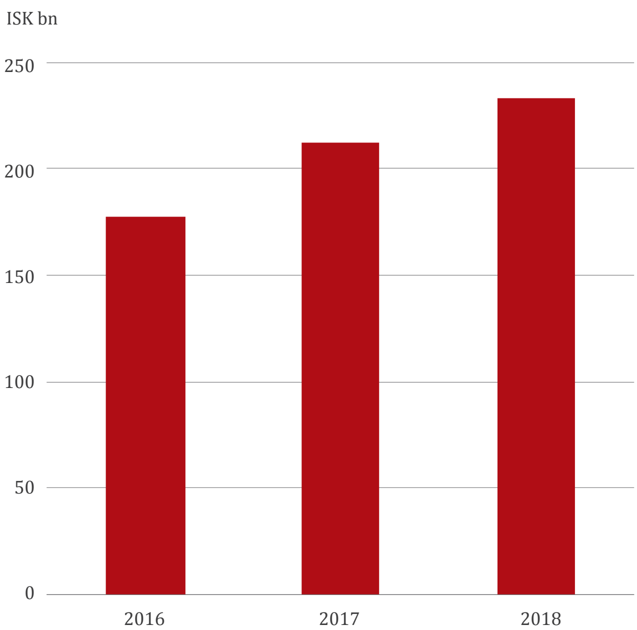
The lending of the three systemically important banks to households increased by 11% during the year and amounted to ISK 1,150 billion at the end of 2018. The increase can largely be attributed to mortgage lending. Demand increases for non-indexed loans and their share increased from 34% to 38% in 2018.

In the opinion of the Authority, loans secured by commercial real estate are one of the main risk factors in the credit portfolios of systemically important banks. Their lending to real estate companies and construction companies amounted to ISK 549 billion at year-end 2018, compared with ISK 492 billion at year-end 2017. There was also considerable growth in loans for real estate development projects in 2018.

The lending of the systemically important banks to tourism companies has slowed down. Indeed, there was considerable growth in lending to the sector in the first quarter of 2018, but as the year progressed, the lending growth slowed down rapidly. The book value of lending by systemically important banks to tourism companies totalled ISK 233 billion at the end of 2018, an increase of 10% from the previous year. Lending by these banks to tourism companies comprised 14% of their total corporate loans at year-end 2018. Their mortgages in hotel buildings amounted to ISK 121 billion at year-end 2018 and increased by 6% during the year.

Total lending to the five largest groups of parties related to the systemically important banks increased sharply in 2018 and totalled ISK 192 billion at the end of the year. The increase can be attributed to the fact that there has been a change in related groups due to mergers and acquisitions and loan originations. The number of large exposures[3] for these banks increased by two during the year and totalled seven at year-end 2018.

Figure 21 Total lending of systemically important banks to tourism entities at the end of each year 2016-2018



Source: Central Bank of Iceland

[2] Default ratio according to the definition of FINREP, i.e. defaults for 90 days or more where the bank considers it unlikely that the borrower will pay. The ratio is based on the banks' reporting.
[3] Exposures exceeding 10% of the capital base.

2 Insurance market

At the beginning of 2018, eleven insurance companies had an operating license from the Authority, and their number has remained unchanged until this date. Eight insurance companies operate according to Act No 100/2016 on Insurance Activities. Of the eight insurance companies, four are in the non-life insurance market, each holding one life insurance subsidiary. In addition, the reinsurance companies Íslensk endurtrygging hf. and Trygging hf. are in run-off and The Natural Catastrophe Insurance of Iceland operates under special legislation.

Operations

Insurance companies' premiums grew year-on-year, but the companies' compensation for claims increased faster.

Gross premiums written in non-life insurance increased by 9.7% in 2018 and totalled ISK 62.4 billion. Life and health insurance premiums for domestic companies amounted to ISK 5.7 billion and increased by 6% between years. Domestic companies' premiums totalled ISK 68.1 billion last year, compared with ISK 62.3 billion in 2017.

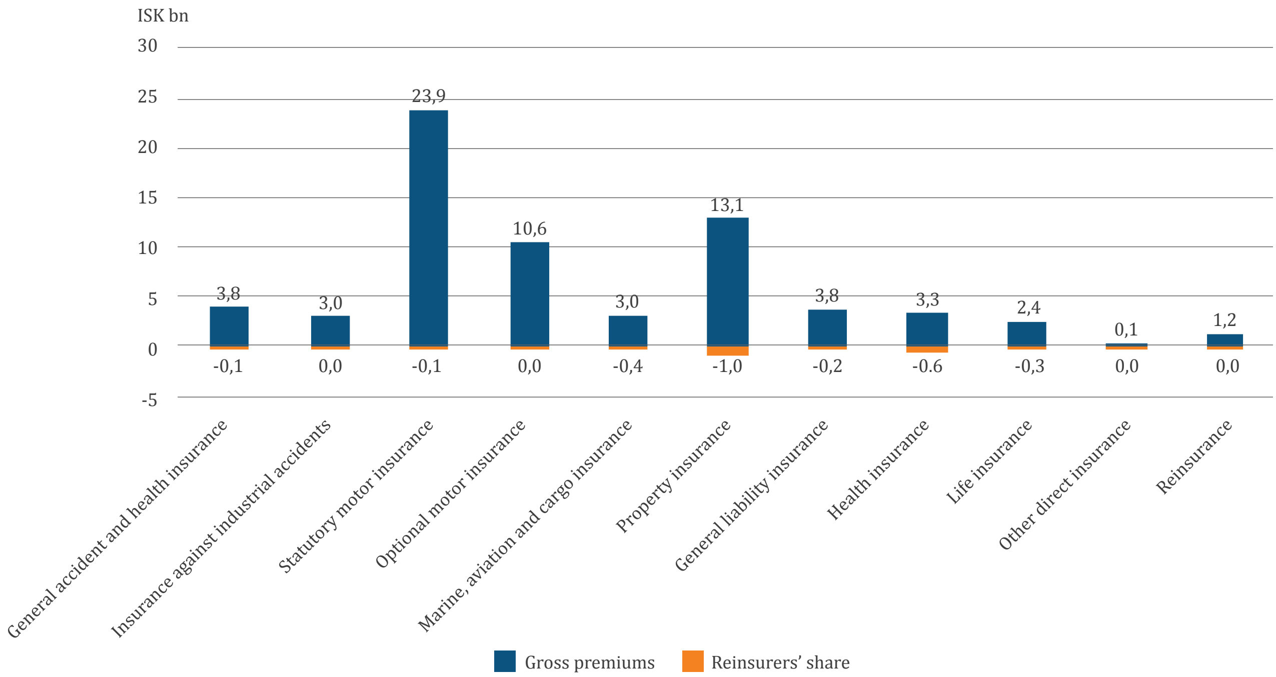
The proportion of premiums to foreign reinsurers remained similar and amounted to 3% of non-life insurance premiums and 15% of premiums for life and health insurance, totalling ISK 2.9 billion. Icelandic insurance companies' own insurance premiums, therefore, amounted to ISK 65.2 billion during the year. The share of individual insurance classes remained virtually unchanged between years. Motor insurance is the largest class, amounting to 51% of total life and non-life insurance premiums. Property insurance is the second largest class with a 20% share, and other classes are smaller.

Insurance companies performed worse in 2018 than in 2017. The loss ratio, i.e. gross claims cost in non-life insurance as a ratio of gross premiums, was 78% overall and rose by almost five percentage points between years. Reinsurers bore a larger part of the increased loss burden than the companies themselves compared to the previous year. The Icelandic insurance companies' own loss ratio was also 78% and rose by one percentage point from 2017.

Some Icelandic insurance companies undertake to reinsure risks abroad with participation in foreign reinsurance contracts. The scope of this activity in 2018 increased compared to 2017. Premiums to Icelandic insurance companies increased by 27%, while claims expenses increased by 52%.

When considering the expenses of insurance companies, the gross combined ratio of insurance companies rose to 99% in 2018, compared to 96% the year before.

Figure 22 Insurance company premiums broken down by insurance classes and showing ceding to reinsurance on the negative scale



Investments

Insurance companies' investment income decreased overall by almost one-third from the previous year. The profitability of insurance companies on investments amounted to 6.3% during the year. The decline for Sjóvá, TM Insurance and Vörður is mainly due to weaker performance of investments in unlisted and listed equities. Lower earnings can also explain the weaker investment results from investments in bonds. The investment turnaround of VIS Insurance (VIS) is mostly due to positive fair value changes in equity holdings, compared with the previous year.

The total assets of insurance companies amounted to ISK 146.6 billion at year-end 2018 and increased by 0.9% from the previous year. Almost half of the insurance companies' investment assets are bonds and loans, which increased by one percentage point between years. Insurance companies reduced their investments in government-backed bonds while increasing corporate bonds and lending. The companies cut their investments in equities and reduced them from a quarter of their investments to one-fifth. The decrease is due to asset sales and because of disposals in the form of dividends to shareholders. On the contrary, the share of funds for collective investment rose in the portfolio of insurance companies.

Table 7 Breakdown of insurance companies' assets at year-end 2018

	ISK mil.	Ratio
Property and equipment	1,739	1%
Equities	23,542	15%
Holdings in other companies	10,427	7%
Bonds	54,467	35%
Funds for collective investment	23,601	15%
Lending	2,817	2%
Other Investment	7,437	5%
Reinsurance assets	3,397	2%
Deposits	5,144	3%
Premium claims	18,791	12%
Other assets	2,424	2%
Total	**153,787**	**100%**

Financial position

The company's technical provisions increased by 7.5% in line with increased activity and price changes. Insurance provisions for life insurance and unit-linked collection products fell slightly, but liabilities related to non-life insurance increased. The technical provisions for non-life insurance amounted to ISK 65.2 billion at the end of 2018. They were ISK 22.3 billion for life, health and collection products. The technical provisions, therefore, totalled ISK 87.5 billion.

Insurance companies' solvency capital requirements declined between years, partly because of the lower share of equities but eligible own funds decreased. Market risk, which was the most significant factor in the insurance companies' solvency requirements, has fallen and is now the second most significant risk for insurance companies. Now, non-life insurance risk equals 62% of the solvency requirement before the diversification effect and deferred taxes. The companies' solvency ratio increased on average and was 153% at year-end.

Figure 23 Breakdown of insurance company investments at year-end 2018

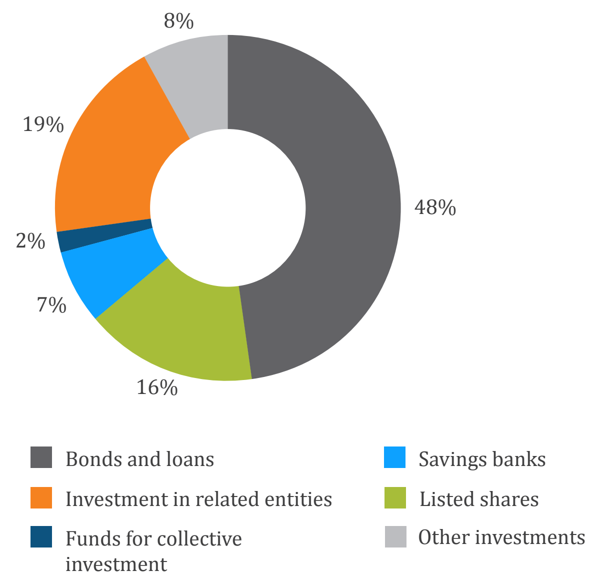
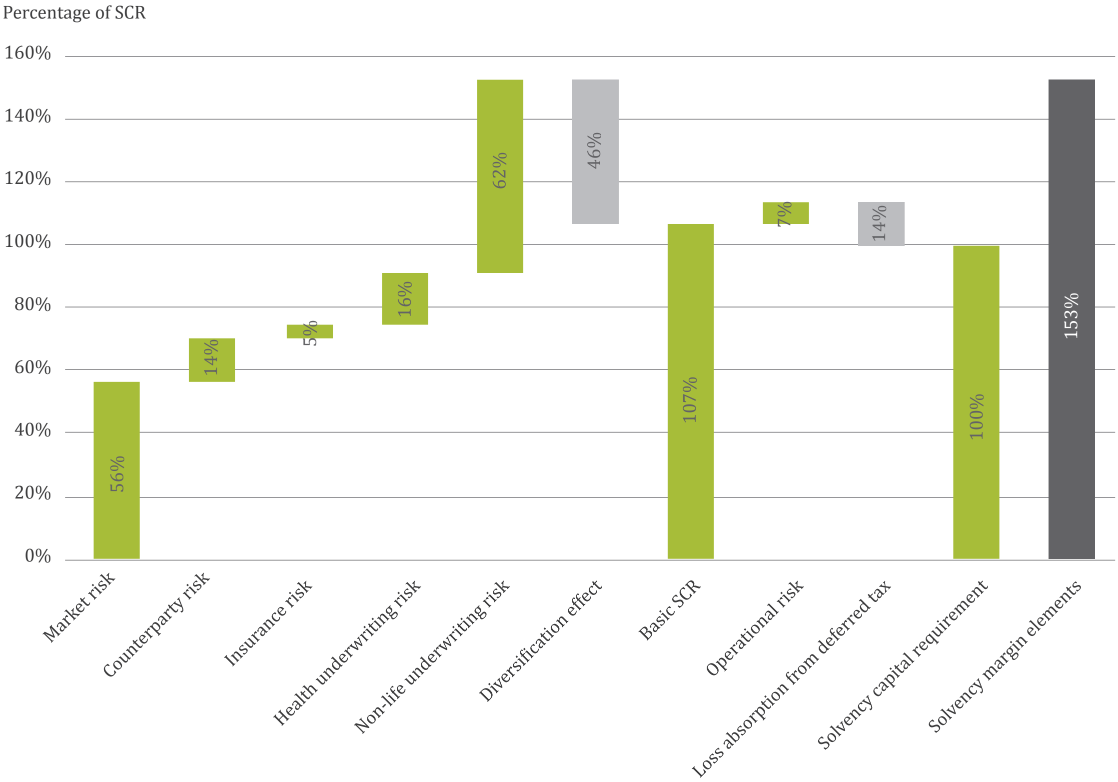


Figure 24 Solvency capital requirements and solvency margin elements of insurance companies



Activities of foreign insurance companies

Insurance companies within the EEA have freedom to provide cross-border services. Figures for the activities of foreign insurance companies in 2018 are not available, but the Authority will receive them from EIOPA later this year. Their activities are assumed to be in line with the previous year.

In 2017, foreign insurance companies wrote insurance and reinsurance contracts for the equivalent amount of ISK 10.9 billion in Iceland. Most of that amount or ISK 7.4 billion resulted from the purchase of foreign pension savings insurance and unit-linked savings products, which were mostly intermediated from Germany and to a small extent from the UK. Reinsurance from European companies amounted to ISK 2.1 billion. The largest classes of direct insurance were fire and other property insurance, marine insurance, other life insurance and general liability insurance for about ISK 1.2 billion in total. Premiums for other classes of direct insurance were less than ISK 200 million in total.

Development of solvency requirements of insurance companies since the entry into force of Act No 100/2016

In October 2016, a new Act on Insurance Activities entered into force introducing risk-based solvency capital requirement and uniform reporting. However, the Authority began a regular collection of data based on new rules earlier, or at the end of 2015. The insurance companies' solvency requirement is intended to ensure that insurance companies have sufficient financial resources to cope with shock.

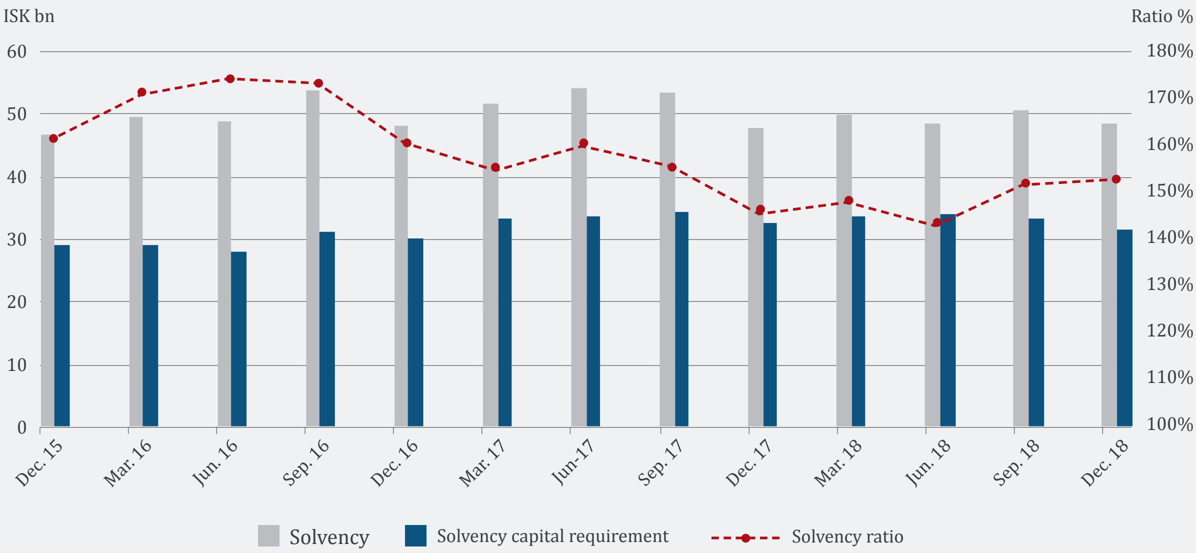
Insurance companies may calculate their solvency requirements according to a standard formula, their own model and a partial model. Eleven insurance companies have an operating license from the Authority, four of which are groups operating in both the life and non-life insurance market. All these insurance companies apply the standard formula to calculate their solvency requirement. The standard formula is based on defined assumptions that are intended to cover all the major risk factors in the activities of insurance companies based on 99.5% value at risk.

The accompanying figure shows the development of the solvency ratio, which shows the ratio of solvency (capital base) and solvency capital requirement (holding) of the four insurance groups (Sjóvá, TM, VIS, Vörður) from the time the data collection began. The solvency ratio has been decreasing since June 2016, when the ratio had risen for two consecutive quarters. This trend reversed in the third quarter of last year, and the ratio rose by 7 percentage points from the end of 2017, from 146% to 153%. This development can be attributed to the fact that the four insurance groups have reduced their risk-taking in investments and strengthened their core insurance operations. The stated policy of insurance companies is to maintain the ratio in the range of 135 - 175% while the solvency ratio must be at least 100%.

The Act on Insurance Activities requires insurance companies to complete their Own Risk and Solvency Assessment (ORSA) at least once a year. In the assessment, insurance companies provide an independent assessment of their solvency need, considering the company's current and near future risk profile. The result of this can be different from the standard formula. It should be noted that the conclusion of ORSA is not a statutory solvency requirement. However, there may be a reason to calculate the solvency requirement according to its own parameters or its own model if the risk profile of an insurance company differs substantially from the assumptions of the standard formula.

The insurance companies' ORSA shows that they consider the assumptions of the standard formula to be broadly reflective of their risk profiles. The most important deviations relate to assumptions about a diversified portfolio and assumptions of symmetric adjustment to equities, which are either calculated as an increase or decrease in relation to the development of equity markets in Europe. However, because of a home bias in the insurance companies' portfolios, their risk profile is generally considered to be different from the assumptions of the standard formula.

Figure 25 Development of the solvency ratio of the four insurance groups (Sjóvá, TM, VIS, Vörður) from year-end 2015



Source: Financial Supervisory Authority

3 Pension funds and custodians of personal pension savings

Last year, 21 occupational private pension funds (mutual insurance divisions) were receiving statutory premiums and 14 of them offered voluntary personal pension savings. The number of pension funds decreased by one during the year when Kópavogur Town Employees' Pension Fund merged with Division B of Brú Pension Fund. The number of funds has decreased in recent years, partly due to increased demands for economies of scale in operations. As in previous years, there were seven custodians of personal pension savings in a total of 32 divisions. Among them were two foreign insurance companies that offered personal pension savings in pension insurance products.

Financial position

At year-end 2018, pension savings in Iceland totalled ISK 4,430 billion, or nearly 160% of estimated gross domestic product (GDP), which is a similar ratio as in the previous year. Assets of the private pension funds in mutual insurance divisions equalled 136% of GDP, while the assets of the funds' personal pension savings and domestic custodians equalled 24%. The share of personal pension savings equalled 15% of the total pension savings at year-end 2018.

The total assets of the private pension savings amounted to ISK 3,800 billion at year-end 2018 and increased by 8.6% from 2017, which is in line with the increase in recent years. Personal pension savings in the custody of private pension funds amounted to ISK 427 billion, increasing by nearly 12% in the past year. At the same time, personal pension savings from other domestic custodians of private pension savings amounted to ISK 203 billion and increased by nearly 12%. The large increase in personal pension savings over the past two years is mainly due to the so-called specified personal pension savings where part of the premium over the minimum insurance coverage can be allocated to a private pension.

Investments

Private pension savings

The main changes in the asset classes of private pension funds in 2018 were that mortgage-backed loans increased by ISK 101 billion and their share of total assets was 12% at year-end, an increase of almost two percentage points from the previous year. These loans are mostly to members or about 88%. However, the share of Treasury bills and bonds of total assets fell from 30% to 27%, which is their lowest share for decades. Fixed-income securities equal almost 56% of the total assets, most of which are issued by the State or by its guarantee.

Equity securities amounted to about ISK 586 billion in the portfolios at year-end 2018. This is almost the same amount as the year before, and their share decreased from 16% to 15% of total assets. The pension funds' ownership interest in the domestic economy has been pervasive for several years, both in the form of bonds and shares. Listed domestic shares amounted to ISK 352 billion at year-end or almost 9% of the total assets of the mutual insurance divisions. Bonds of the same issuers amounted to ISK 91 billion, or close to 2% of the assets.

Foreign assets increased by ISK 150 billion in 2018 and amounted to ISK 1,100 billion at year-end, which is

Table 8 Asset allocation of private pension at year-end 2018

	ISK mil.	Proportion
Treasury bills and bonds (A.a)	1,036,444	27%
Mortgage-backed bonds (A.b)	450,631	12%
Municipal bonds (B.a)	155,030	4%
Deposits (B.b)	100,839	3%
Covered bonds (B.c)	178,223	5%
Bonds and bills of credit and insurance companies (C.a)	18,019	0%
Units and shares in UCITS (C.b)	721,983	19%
Corporate bonds and money market instruments (D.a)	229,695	6%
Bonds and money market instruments (D.b)	69,127	2%
Equity shares (E.a)	586,587	15%
Units in funds for collective investment (E.b)	249,222	7%
Real estate (E.c)	83,697	0%
Derivatives (F.a)	87,395	0%
Other financial instruments (F.b)	3,221	0%
Total	**3,799,192**	**100%**

close to 29% of their assets and an increase of 2 percentage points from the previous year. There has been a significant increase in foreign assets over the past two years, following the lifting of the capital controls. Preliminary figures indicate that new investments in foreign assets amounted to ISK 130 billion in the past last year. Foreign assets are mostly in units in UCITS in two currencies, about 76% in US dollars and 17% in euro.

Mortgage-backed lending by private pension funds totalled ISK 484 billion at the end of 2018. Loans to legal entities amounted to ISK 60 billion and increased by ISK 8 billion from the year before. The increase in mortgage-backed lending to fund members continues as in recent years, with an increase of almost ISK 100 billion from the previous year, and totalling ISK 424 billion at the end of 2018. Thereof, non-indexed loans increased by ISK 18 billion. Pension funds have for decades been the largest financiers of mortgage loans through the Housing Financing Fund and its predecessors, but in recent years they have increased their financing by lending directly to fund members and through the purchase of the banks' covered bonds

Personal pension savings

Personal pension saving in the custody of private pension funds and other custodians of personal pension savings amounted to almost ISK 630 billion at year-end 2018 and increased by ISK 55 billion between years. About 75% of these assets are in the custody of private pension funds. The assets of Icelandic personal pension savings are mostly, nearly 63%, in the form of deposits, units in UCITS funds and State-backed securities. These assets are generally liquid since it must be possible to fulfil redemption requirements and the potential transfer of rights in the short term.

The main changes between years were substantial asset increases in deposits and covered bonds, or nearly ISK 22 billion and about ISK 16 billion respectively. Treasury bills and bonds and corporate bonds increased by ISK 7 billion in each category.

Figure 26 Development of the foreign assets of private and personal pension and their percentage of pension funds' total assets 2011-2018

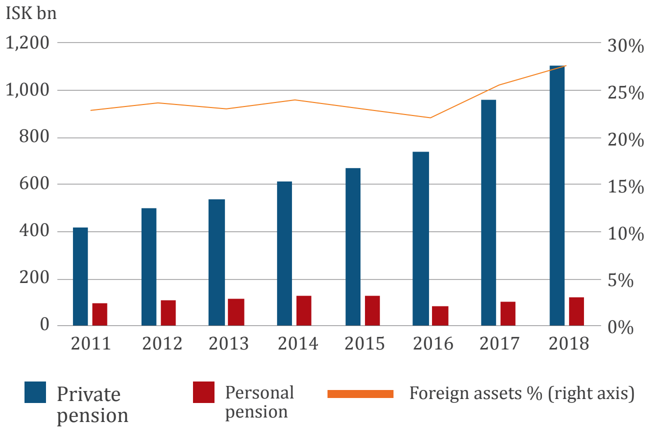


Figure 27 Development of pension fund's lending to fund members 2011-2018 (total position at the end of each year)

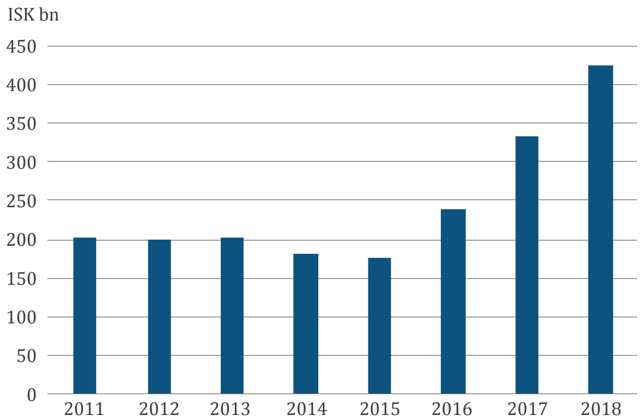
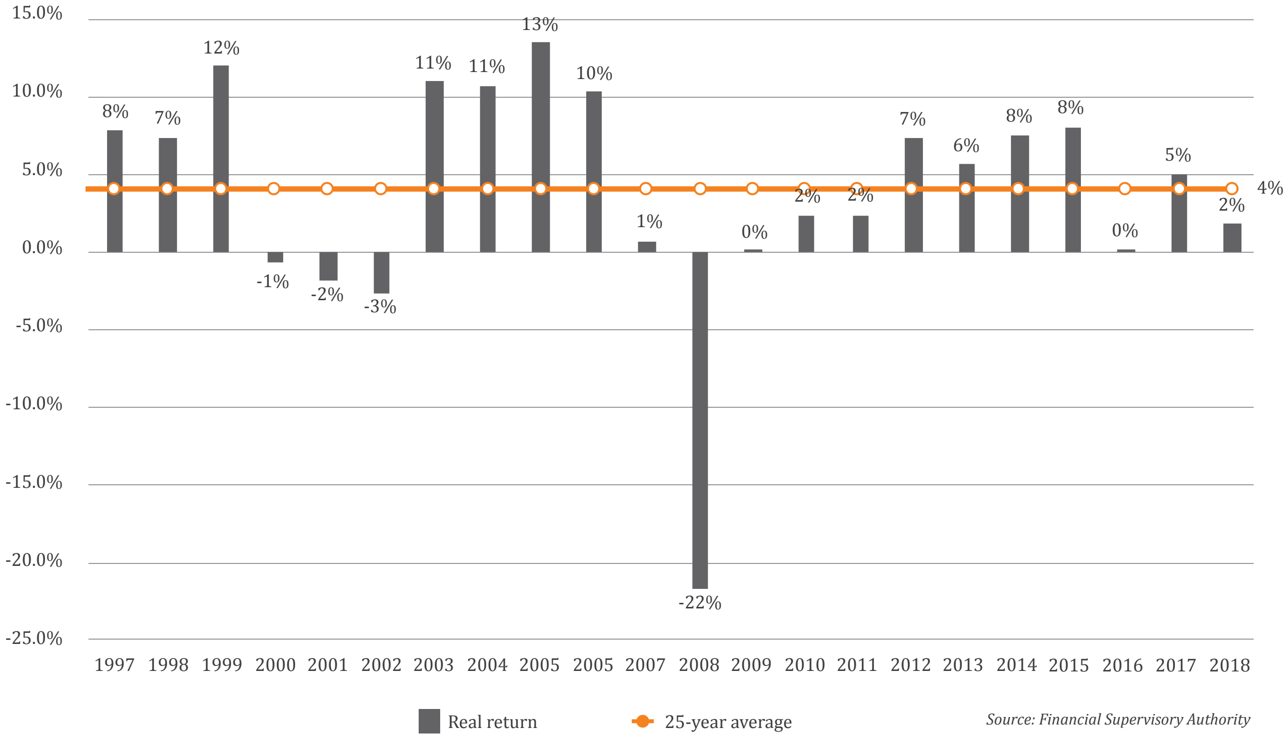


Table 9 Asset allocation of personal pension at year-end 2018

	ISK mil.	Proportion
Treasury bills and bonds (A.a)	123,940	20%
Mortgage-backed bonds (A.b)	33,676	5%
Municipal bonds (B.a)	15,430	2%
Deposits (B.b)	194,690	31%
Covered bonds (B.c)	49,690	8%
Bonds and bills of credit and insurance companies (C.a)	5,210	1%
Units and shares in UCITS (C.b)	110,283	18%
Corporate bonds and money market instruments (D.a)	23,995	4%
Bonds and money market instruments (D.b)	6,720	1%
Equity shares (E.a)	35,850	6%
Units in funds for collective investment (E.b)	30,424	5%
Real estate (E.c)	-	0%
Derivatives (F.a)	-	0%
Other financial instruments (F.b)	60,977	0%
Total	**629,969**	**100%**

Figure 28 Real return on private pension funds' assets 1997-2018



Source: Financial Supervisory Authority

Performance

Based on available data published in the private pension annual accounts, the average real return was 2.0% in 2018. Real returns have averaged 4% over the past 25 years. In the short term, real returns have been 4% over the past ten years and 4.4% over the past five years. The OMX Iceland All-Share Index ended 2018 at almost the same level as at the beginning of the year, following considerable increases in recent years. The funds' foreign assets declined on average in 2018 due to adverse asset price developments on foreign financial markets, but the weakening of the Icelandic króna counteracted most of the decline.

Why 3.5%?

It is a common misconception that the yield on pension funds is subject to law. There are no statutory yields for the funds. However, Regulation No 391/1998 on Mandatory Pension Insurance and the Activities of Pension Funds stipulates the interest rate to use in the actuarial present value calculations of expected pensions benefits and future contributions. It states that the target for assessing obligations and future contributions should be a real interest rate of 3.5%. The same real interest rate shall be used for fixed income securities.

If the other assumptions of the actuarial assessment hold, the real return on investment must, therefore, be 3.5% on average, otherwise curtailment may become necessary. Fixed interest rates for actuarial assessments do not consider the risk of investments and are the same whether investments are in government-backed bonds, riskier corporate bonds or bonds issued in foreign currencies.

Real interest rates on indexed loans to pension fund members started at 2% in the 1970s and 1980s but later rose to close to 5%. During these years, the State Building Fund paid the pension funds an indexed rate of up to 6.5%. The Committee which drafted Regulation No 391/1998 mentioned above considered the lending rate of the Housing Financing Fund. The real yields on housing bonds had been 4.75% for most of the 1990s. At that time, the target rate was more often criticised as being too conservative assumption than being to high.

Yields on indexed government bonds have been declining in recent decades. For a long time, market participants considered 3.5% to be a resistance level for the yield rate due to the provisions of the regulation. The yield of indexed bonds issued by the government and HFF has been below 3.5% since 2010 and are now 1.4-1.5% for the longest durations.

Pension liabilities are long-term, and if they were valued on the current risk-free rate they wound increase considerably. Pension funds have reacted by investing in riskier bonds and loans as well as equities.

4 Securities market

Equity market trends

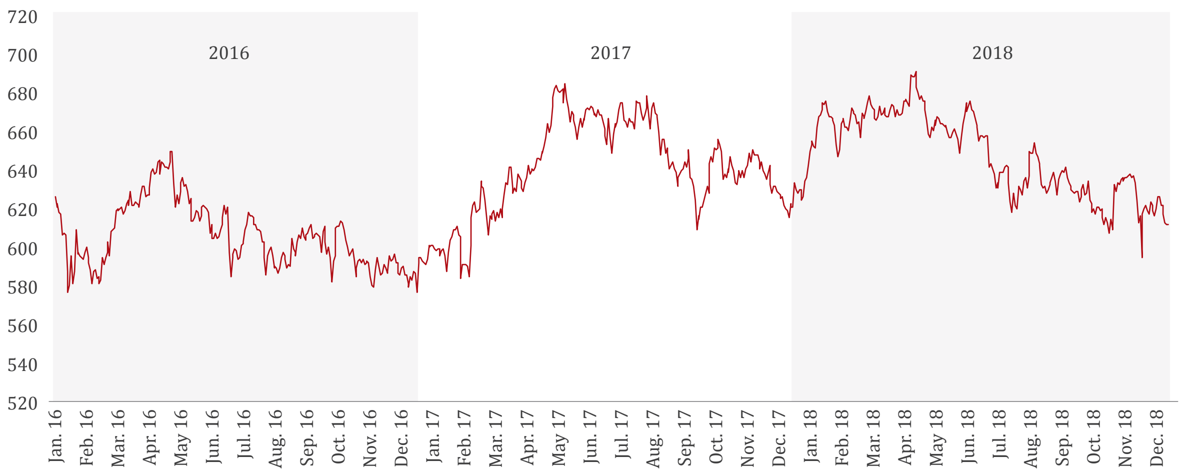
The OMX Iceland All-Share Index (OMXIGI) began 2018 with a robust increase in January. The index rose by 6% that month and continued to rise until May when it started to decline, and by the end of 2018, the index had fallen by 2.8%. In comparison, the index rose in substantially in the first half of 2017, but from that time the market began to decline again. The index did, however, rise by 4.8% overall in 2017. Over the past three years, the index has not changed much, from the beginning of 2016 to the end of 2018 the index has fallen by 2.22%. The index has, however, fluctuated somewhat during the period, and the difference between the highest and lowest value of the index is 20.29%.

The market value of listed companies on the ICEX Main List decreased at the end of 2017 when the shares of Össur hf. were delisted but then rose again in June 2018, when two companies were admitted to trading on the market, Arion Bank hf. and Heimavellir hf. Arion Bank is the first Icelandic bank to register its shares on a regulated market since the financial crisis of 2008. Alongside admission to trading in Iceland, certificates relating to the shares were admitted to trading on the Nasdaq Stockholm stock exchange in Sweden.

In addition, the shares of Kvika banki hf. were admitted to trading on Nasdaq First North Iceland in March 2018 and on the Main Market in March 2019. Several companies on the Main Market changed their names in 2018, N1 is now known as Festi, Fjarskipti is now known as Sýn and Nýherji is now known as Origo.

The equity market turnover ratio[4] declined in 2018 compared to 2017. Turnover also declined in 2018, from ISK 630 billion in 2017 to ISK 492 billion in 2018. The turnover ratio, which is a measure for the ratio between turnover and market value, has been close to 60% over the past two years, but it increased notably in February 2017, most likely due to increased trading activity related to a profit warning from Icelandair Group hf. It is also noteworthy that in the period from June to October 2018, the market turnover velocity remained at around 40%, but then jumped to 69% in November, as it was announced that Icelandair Group would possibly take over WOW air, but those plans were abandoned shortly after that.

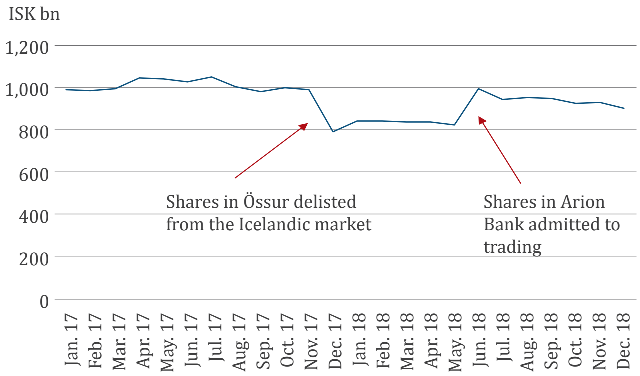
Figure 29 Nasdaq OMXIGI trend



Source: Nasdaq Iceland hf.

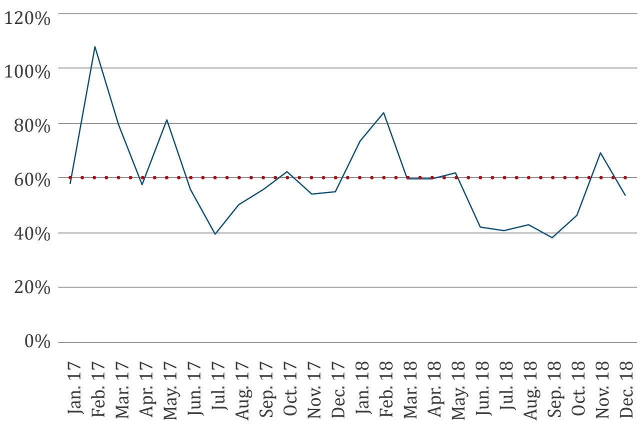
[4] The share turnover refers to the ratio between the daily average turnover and the average of the total market value over the year.

Figure 30 Market value of companies on the Main Market



Source: Nasdaq Iceland hf.

Figure 31 Equity turnover ratio on the Main Market



Source: Nasdaq Iceland hf.

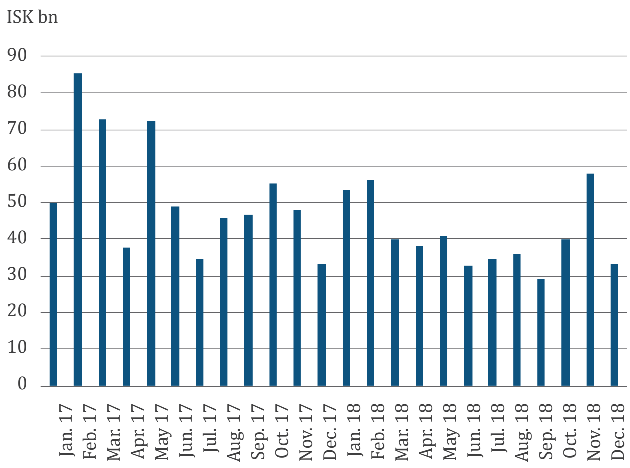
As Figure 33 shows, the three systemically important banks, Arion Bank, Íslandsbanki and Landsbankinn, are active in trading shares listed on the ICEX Main Market, and responsible for 74.1% of total market turnover. Landsbankinn has increased its trading volume over the past three years, Arion Bank is slightly less active in 2018 compared to 2017, while Íslandsbanki's trading volume contracted considerably in 2017, but increased again in 2018.

Bond market trends

Turnover in listed bonds has declined in recent years. In 2018, total bond turnover on Nasdaq Iceland was ISK 1,066 billion. In comparison, turnover was ISK 1,240 billion in 2017 and ISK 1,476 billion in 2016. As in previous years, the highest trading volume was in non-indexed government bonds. In 2018, total turnover on Nasdaq Iceland with non-indexed Treasury bonds was ISK 700 billion. Considerable trade was in bonds issued by banks in 2018, or ISK 161 billion, slightly less than in 2017 when it amounted to ISK 163 billion.

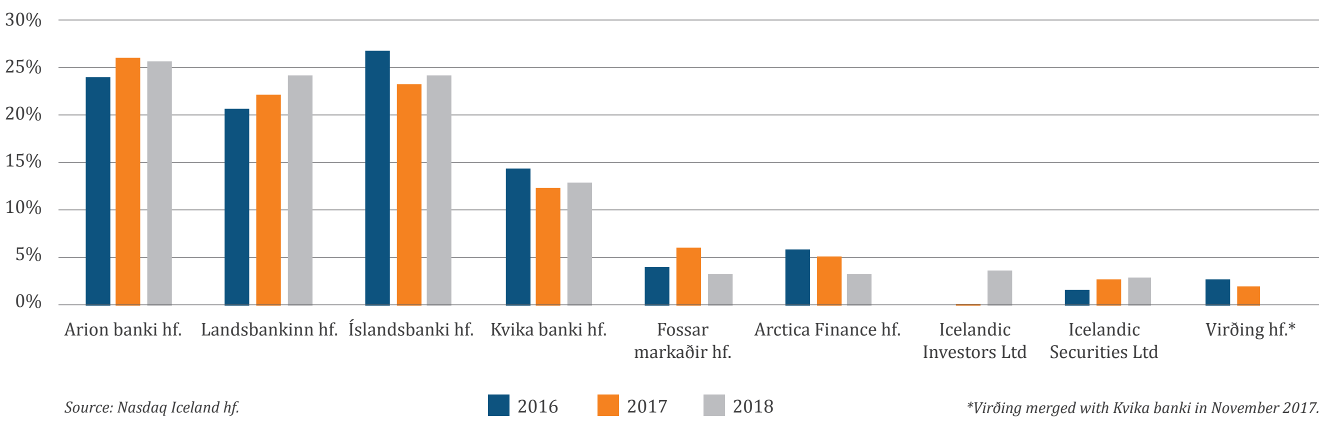
The four commercial banks are the most active market participants that carry out trading in bonds listed on Nasdaq Iceland. Arion Bank, Íslandsbanki and Landsbankinn all lost some of their market share in 2018 compared to 2017, but Kvika Bank increased its share slightly in 2018. Icelandic Investors Ltd. gained the largest share, cf. Figure 34.

Figure 32 Turnover on the Main Market



Source: Nasdaq Iceland hf.

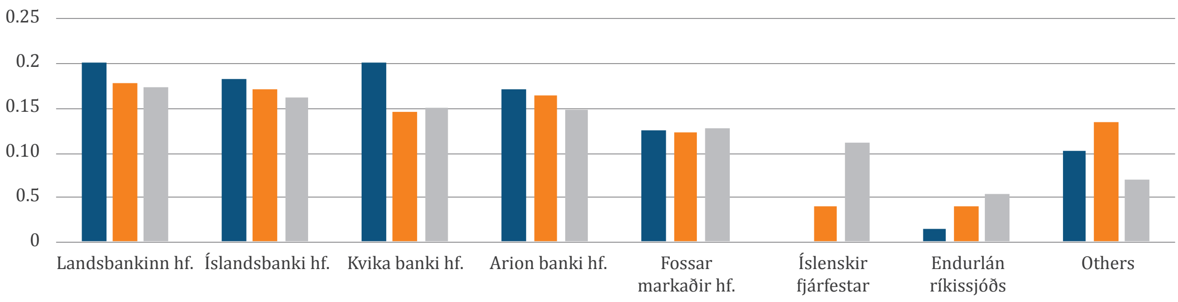
Figure 33 Market participant share of total trading volume of shares in the Main Market.



Source: Nasdaq Iceland hf.

**Virðing merged with Kvika banki in November 2017.*

Figure 34 Market participants' share in the bond market

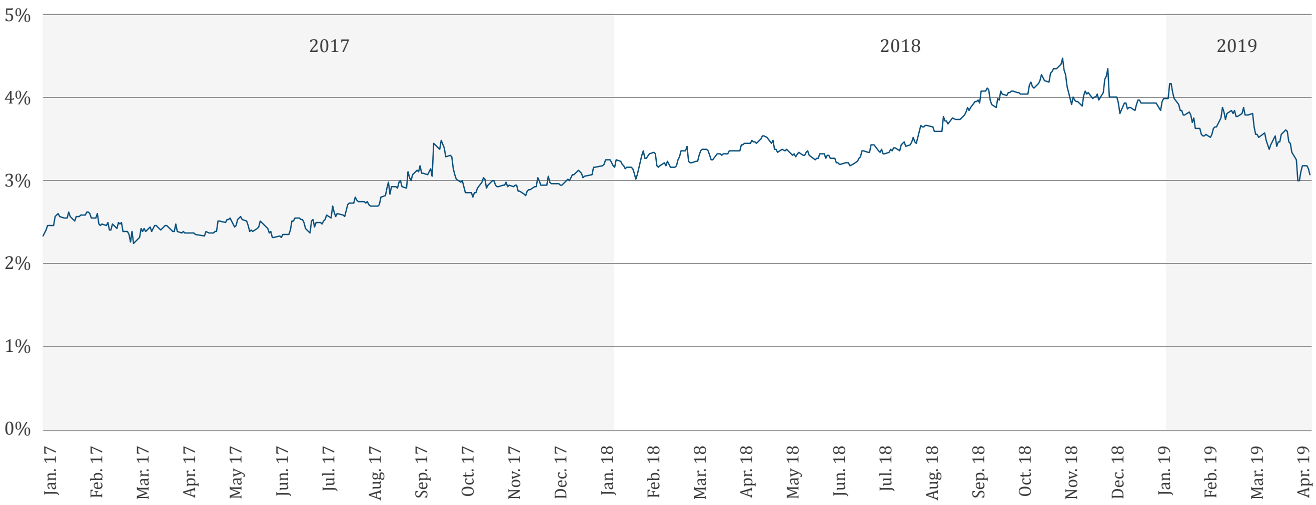


Source: Nasdaq Iceland hf.

Figure 35 shows how the 10-year inflation premium[5] has increased somewhat recently. The premium was 2.32% at the beginning of 2017 but was 3.93% at the end of 2018. Inflation expectations of the market have thus been rising since mid-2017.

The inflation premium peaked at 4.47% on 30 October 2018. Since then, it has been declining and, as mentioned before, was 3.93% at year-end 2018. The decline has continued, and the inflation premium has fallen substantially this year, and it had fallen to 3.07% on 10 April.

Figure 35 Inflation premium

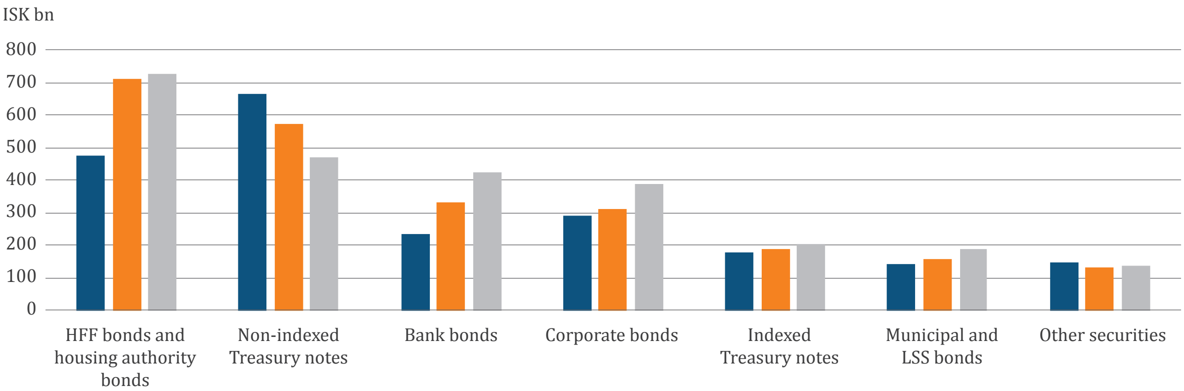


Source: Kodiak

[5] The difference between the two Nasdaq indices, OMXI10YNI and OMXI10YI, that respectively describe the non-indexed and indexed 10-year yield on the market.

Figure 36 shows the market price development on Nasdaq Iceland for issued bonds in the last three years. The total value of listed bonds amounted to ISK 2,539 billion in 2018, compared with ISK 2,418 billion in 2017. Six new bond issuers were approved in 2018 (three on the Main Market and three on First North); overall, 60 new bond classes were admitted to trading, and the total number of bond classes on Nasdaq Iceland was 178 at the end of 2018.[6]

Figure 36 Market value of listed bonds at year-end



[6] See Nordic Surveillance Annual Report 2018, p. 14, from Nasdaq.

5 UCITS management companies, UCITS and investment funds, and professional investor funds

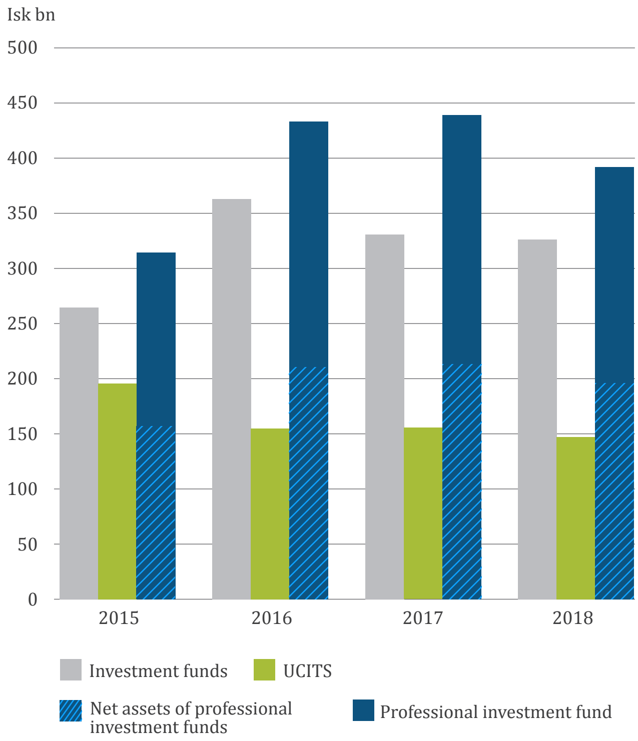
The number of UCITS management companies subject to the Authority's supervision decreased by one during the operating year following the merger of Alda Asset Management hf. and Jupiter Capital Management hf., and there were nine at the end of the year.

In the first few years after the financial crisis in 2008, the trend was that the number of UCITS increased, while the number of UCITS decreased. The trend turned around in 2013, and since that time, the number of UCITS decreased, while the number of investment funds increased. The number of funds seems to have reached equilibrium and it has remained unchanged from 2017 to 2018. A total of 40 UCITS and fund divisions and 60 investment funds and fund divisions were in operation at the end of 2018.

The funds' total assets correlated with the number of funds, as the total assets of UCITS increased in the first years after the financial crisis in 2008, but then declined steadily since 2013, when investment fund assets began to increase. During the year, the funds' total assets changed with the assets of UCITS decreasing by ISK 8 billion in 2018, or about 5%, and the assets of the investment funds decreasing by ISK 6 billion, or about 2%. Total assets of UCITS and investment funds at year-end 2018 amounted to ISK 474 billion. Of that, assets of UCITS totalled ISK 148 billion and assets of investment funds totalled ISK 326 billion.

The growth in the number of professional investment funds has also slowed significantly. After a substantial increase in recent years, the number of professional investment funds only increased by one in 2018, with 114 operational professional investment funds at the end of 2018 managed by 12 entities. Their total assets decreased by ISK 48 billion in the same period, from ISK 441 billion to ISK 393 billion, which is a decrease of 11%. Their net assets were about ISK 192 billion, with leverage remaining stable in recent years and generally around 50%.

Figure 37 Trend for total assets of UCITS, investment funds and professional investment funds 2015-2018



Source: Financial Supervisory Authority

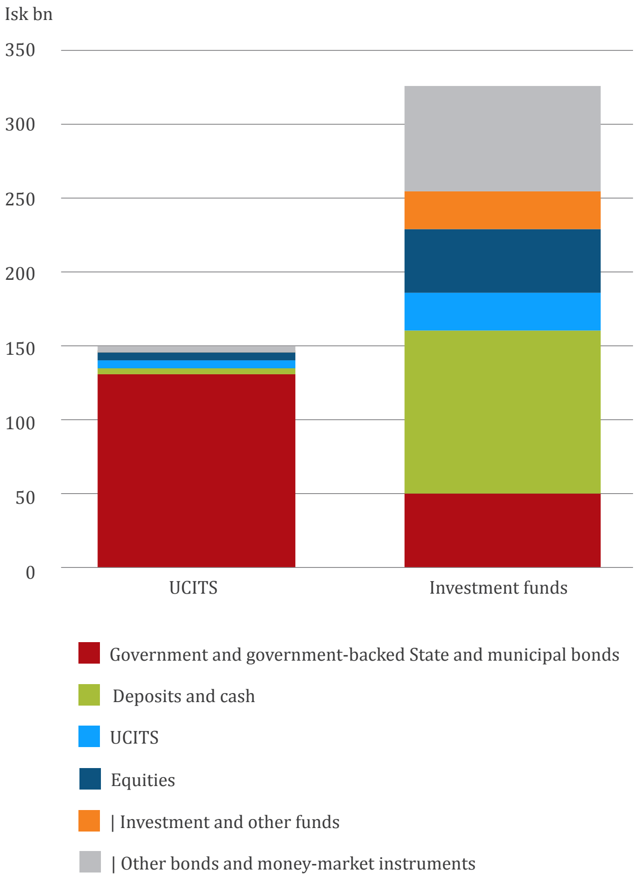
Asset composition of UCITS and investment funds

The investments of investment funds are less restricted than UCITS, regarding their investment in individual issuers, asset classes and ratios in listed and unlisted financial instruments, and at the same time, they are authorised to borrow. They are therefore inherently riskier than UCITS.

The asset breakdown of UCITS is substantially different from the asset breakdown of investment funds and approximately 87% of UCITS holdings are bonds and money-market instrument issued by or with State and municipal guarantees. Investment fund assets are considerably more diversified. About 34% of their assets are in deposits and cash, about 13% in equities and about 37% in bonds, of which 15% are in bonds and money-market instruments issued by or with State and municipal guarantees and 22% in other securities and money-market instruments.

Most assets of professional investment funds are held in securities, mainly in mortgage-backed bonds, equities and loan agreements.

Figure 38 Asset composition of UCITS and investment funds at year-end 2018



Source: Financial Supervisory Authority

III. Events of the past year

1 Main events from May 2018 to end of April 2019

The EIOPA review process due to a proposed update and changes to technical standards for reporting concluded on 11 May

On 2 May 2018, the Authority notified market participants of the ongoing review process at the European Insurance and Pension Funds Authority (EIOPA) due to a proposed update to technical standards for reporting. EIOPA had issued a press release on its website at the end of the previous month, calling for input from stakeholder on proposed changes to the technical standards on reporting and disclosure for the insurance market under Solvency II.

Consent to the split-up of Icelandic Investors Ltd. into two companies

On 14 May, the Authority announced that on 9 May 2018 it had approved the split-up of Icelandic Investors Ltd. into two companies based on Article 106 of Act No 161/2002 on Financial Undertakings. The split-up would result in the transfer of certain assets and liabilities unrelated to the operation of financial undertakings from the securities company to KJO ehf. that does not engage in licensed activities according to the Act on Financial Undertakings. The split-up was based on 30 September 2017.

Notification of an unchanged capital buffer for systemic risk and an on-going capital buffer for other systemically important financial institutions

On 15 May 2018, the Authority announced an unchanged capital buffer for systemic risk and an on-going capital buffer for other systemically important financial institutions according to the recommendations of the Financial Stability Council from 13 April 2018.

A decision on raising the countercyclical capital buffer

On 15 May 2018, the Authority announced its decision to increase the countercyclical buffer following recommendations from the Financial Stability Council dated 13 April 2018.

Bankruptcy proceedings for the Danish insurance company Alpha Insurance A/S

On 16 May 2018, the Authority reported that on 8 May the Danish Financial Supervisory Authority, Finanstilsynet, had announced that the Danish insurance company Alpha Insurance A/S was subjected to bankruptcy proceedings.

Notification of the proposed partial transfer of an insurance portfolio

On 17 May 2018, the transfer of part of an insurance portfolio was reported from the branch of Assicurazioni Generali SpA in the UK to Bothnia International Insurance Company Limited.

Notification of the proposed transfer of an insurance portfolio

On 24 May 2018, the Authority announced the transfer of an insurance portfolio from RiverStone Insurance Limited to Riverstone Insurance UK Limited.

Withdrawal of confirmation for the investment fund Alda Lausafjársjóður

On 28 May 2018, the Authority announced that on 25 May it had withdrawn confirmation of the investment fund Alda Lausafjársjóður, which was operated by Alda Asset Management hf.

Overall results of financial undertakings' annual accounts etc. 2017

On 4 June, the Authority published a news report that it had compiled a report containing the overall results of the 2017 financial statements for financial undertakings, i.e. commercial banks, savings banks, credit companies (collectively referred to as credit institutions). Also, securities companies, UCITS management companies, as well as information on the total assets of UCITS and investment funds operated by individual management companies and the total assets of professional investment funds operated by management companies and other operators. The report also contains detailed information on payment institutions and deposit departments of cooperative societies.

The merger of Alda Asset Management hf. and Jupiter Capital Management hf.

On 4 June 2018, the Authority published a press release stating that on 30 May 2018 it had approved the merger of Alda Asset Management hf. and Jupiter Capital Management hf. on the basis of Article 106(1) of Act No 161/2002 on Financial Undertakings. Jupiter Capital Management hf. would take over all rights and obligations of Alda Asset Management hf. and the financial companies would be merged under the name of Jupiter Capital Management hf.

Notification of the proposed transfer of an insurance portfolio

On 6 June 2018, the Authority announced the transfer of an insurance portfolio from The Solicitors Indemnity Mutual Insurance Association Limited to R&Q Gamma Company Limited. The Authority pointed out that the proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 1 June 2018.

Who is responsible for the eligibility of board members?

On 8 June 2018, the Authority reported that due to recent media coverage on the eligibility of individual board members of regulated entities, it wanted to emphasise that it was primarily the responsibility of the companies themselves to ensure that its managing director and board members at all times comply with legal and regulatory requirements for eligibility and competence. The companies and/or the entities themselves should also inform the Authority of any changes to previously provided information that could affect the eligibility and competence of the parties mentioned above.

The Authority publishes a draft rule for discussion on the listing of service providers that offer digital wallets and virtual money trading

On 13 June 2018, the Authority reported that it had published Consultation Paper No 2/2018 on Draft Rules on Currency Exchange Offices, Money and Value Transfer Services, Trading Platform for Virtual Currencies, Electronic Money, and Currencies[EI32] and Service Providers of Digital Wallets.

Report on the Authority's legal framework

On 13 June 2018, the Authority's website reported that the Ministry of Finance and Economic Affairs had published on its website a report and proposals from the working group of the Minister of Finance and Economic Affairs reviewing the Act on Official Supervision of Financial Activities etc. The then Minister of Finance and Economic Affairs had appointed the working group on 24 August 2017 tasked with revising the Act on Official Supervision of Financial Activities, the Act on Payment of Cost due to Official Supervision of Financial Activities as well as the provisions of other acts on financial markets or financial undertakings that related to market surveillance.

The position of the pension funds at year-end 2017

On 19 June 2018, the Authority announced in a news update the publication on its website of a summary of the state of pension savings, mutual insurance and private pensions at the end of 2017. The summary was prepared from data submitted to the Authority by the pension funds and private pension custodians.

Comments concerning the purchase of insurance-related investment products (collective life insurance, etc.)

The Authority published a press update on its website on 19 June 2018 where the agency said it had reason to draw attention to several issues related to the purchase of insurance-related investment products, such as investment in collective investment funds related to collateral life insurance. It was important that consumers thoroughly acquaint themselves with the product they considered purchasing, including all costs and risks involved in the purchase. It listed essential aspects to consider before making a purchase.

Notification of the proposed transfer of an insurance portfolio

On 25 June 2018, the Authority announced the transfer of an insurance portfolio from Assured Guaranty (London) plc and Assured Guaranty (UK) plc to Assured Guaranty (Europe) plc. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 20 June 2018.

New service portal

On 27 June 2018, the Authority announced in a news release the opening of a new service portal on the Authority's website. This first version could receive information electronically in connection with the eligibility assessments of managing directors and board members of regulated entities, with the intention to offer future electronic submissions for all forms, applications and notifications to the Authority.

Notification of an unchanged countercyclical capital buffer

On 29 June 2018, the Authority announced that the countercyclical buffer would remain unchanged following recommendations of the Financial Stability Council from 26 June.

The Authority's interpretation of marketing, distribution and sale of binary options and contracts for difference (CFDs)

On 5 July 2018, the Authority published a news update on the occasion of the Authority's newly released interpretation on marketing, distribution and sale of binary options and CFDs. The report stated that the Authority considered that the marketing, distribution and sale of binary options and CFDs, falling under ESMA's measures dated 27 March 2018, would be contrary to healthy and sound trading practices and procedures in securities transactions under Article 5 of Act No 108/2007 on Securities Transactions. The reason for ESMA's measures, based on powers given by Article 40 of Regulation (EU) No 600/2014 on Markets in Financial Instruments (MiFIR), which had not yet been implemented in Iceland, was the inherent risk of the financial Instruments, their high level of complexity and the fact that investors would have lost considerable funds.

Service providers for virtual money, electronic money, currencies and digital wallets must register before the end of July
On 6 July 2018, the Authority drew attention to Act No 91/2018 amending Act No 64/2006 on Measures against Money Laundering and Terrorist Financing that came into force on 29 June. It required service providers who already offer trade between virtual money, electronic money and currencies and service providers of digital wallets to request registration with the Authority no later than one month from the entry into force of the Act. In other words, those who provided the above services should request registration before the end of July 2018.

Sales of insurance-related investment products from NOVIS Insurance Company Inc.
On 16 July 2018, the Authority published a news update on its website noting that it had issued a statement concerning certain insurance-related investment products on its website on 19 June. The statement encouraged consumers to study in detail the products offered, including the costs involved and the risks associated with the product. The Authority now had cause to reiterate the suggestion mentioned above and draw attention to the fact that Hungarian Financial Supervisory Authority (Central Bank) had temporarily suspended new sales of collection life insurance from NOVIS Insurance Company Inc on 4 July this year. NOVIS Insurance Company Inc., which operates in many parts of Europe, had, in collaboration with a domestic insurance broker, offered its products to Icelandic consumers in recent months, including collection insurance.

The Authority's privacy statement
On 16 July 2018, the Authority reported that it had published a privacy statement on its website and designated a privacy officer. The privacy statement explained the position of the Authority as guarantor and processor and how the Authority processes personal information.

For the first time, EBA includes the Icelandic in its review of risk indicators in the operations of European banks
On 24 July 2018, the Authority reported on its website that EBA had published a quarterly report on several risk indicators in the activities of European banks since 2013. Due to legal and technical reasons, the Authority did not begin reporting to EBA until after the fourth quarter of 2017. The Icelandic banks, Arion Bank, Íslandsbanki and Landsbankinn, would, therefore, be included for the first time in the EBA's overview based on figures for the first quarter of 2018.

Notification of the proposed partial transfer of an insurance portfolio
On 14 August 2018, the Authority reported the partial transfer of an insurance portfolio from Prudential Assurance Company Ltd to Prudential International Assurance PLC. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 13 July 2018.

Notification of the proposed transfer of an insurance portfolio
On 15 August 2018, the Authority reported the transfer of an insurance portfolio from Financial Insurance Company Limited to AXA France IARD. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 23 July 2018.

Notification of the proposed transfer of life insurance portfolios
On 15 August 2018, the Authority reported the transfer of a life insurance portfolio from Financial Assurance Company Limited and Financial Insurance Company Limited to AXA France Vie. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 23 July 2018.

Notification of the proposed transfer of an insurance portfolio
On 16 August 2018, the Authority reported the transfer of an insurance portfolio from QBE Insurance (Europe) Limited to Reliance National Insurance Company (Europe) Limited. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 24 July 2018.

Notification of the proposed partial transfer of insurance portfolios
On 17 August 2018, the Authority reported the partial transfer of insurance portfolios from Tokio Marine Kiln Insurance Limited and HCC International Insurance Company Plc to Tokio Marine Europe SA. The proposed transfers followed the announcement from the UK Prudential Regulation Authority dated 25 July 2018.

Notification of the proposed partial transfer of a life insurance portfolio
On 17 August 2018, the Authority reported the partial transfer of a life insurance portfolio from Mobius Life Limited to Scottish Friendly Assurance Society Limited. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 26 July 2018.

Notification of the proposed transfer of a life insurance portfolio

On 20 August 2018, the Authority announced the transfer of a life insurance portfolio from Abbey Life Assurance Co. Limited to Phoenix Life Limited. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 25 July 2018.

Notification of the proposed partial transfer of an insurance portfolio

On 20 August 2018, the Authority announced the partial transfer of an insurance portfolio from Royal & Sun Alliance plc to RSA Luxembourg. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 8 August 2018.

Notification of the proposed partial transfer of an insurance portfolio

On 21 August 2018, the Authority announced the partial transfer of an insurance portfolio from Hiscox Insurance Company Limited to Hiscox S.A. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 14 August 2018.

Notification of the proposed partial transfer of an insurance portfolio

On 21 August 2018, the Authority announced the partial transfer of an insurance portfolio from CNA Insurance Company Limited to CNA Insurance Company (Europe) S.A. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 20 August 2018.

Notification of the proposed partial transfer of insurance portfolios

On 27 August 2018, the Authority announced the partial transfer of insurance portfolios from Endurance Worldwide Insurance Limited and Sompo Japan Nipponkoa Insurance Company of Europe Limited to SI Insurance (Europe), SA. The proposed transfers followed the announcement from the UK Prudential Regulation Authority dated 24 August 2018.

The Authority's updated interpretation of marketing, distribution and sale of binary options and CFDs

On 28 August 2018, the Authority noted on its website that on 5 July it had published an interpretation on the marketing, distribution and sale of binary options and CFDs. The interpretation referred to ESMA's measures dated 27 March 2018. ESMA had now made the decision to extend the term of its measures, but at the same time, ESMA decided to exclude certain types of binary option from its prohibition. The report referred to further information on ESMA's decision.

The Authority registers Skiptimynt ehf. as a trading platform for virtual currencies, electronic money, and currencies[EI33]

The Authority stated on its website on 2 September 2018 that on 31 August 2018 it had listed Skiptimynt ehf. as a trading platform for virtual currencies, electronic money, and currencies under Article 25(a) of Act No 64/2006 on Measures against Money Laundering and Terrorist Financing, cf. Article 4 Act No 91/2018 and Rules No 670/2018.

Notification of the proposed partial transfer of an insurance portfolio

On 5 September 2018, the Authority announced on its website the partial transfer of an insurance portfolio from Aviva Insurance Limited to Aviva Insurance Ireland Designated Activity Company. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 4 September 2018.

Notification of the proposed partial transfer of an insurance portfolio

On 6 September 2018, the Authority announced on its website the partial transfer of an insurance portfolio from Admiral Insurance Company Limited to Admiral Europe Compania de Seguros S.A. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 5 September 2018.

Notification of the proposed partial transfer of an insurance portfolio

On 10 September 2018, the Authority announced on its website the partial transfer of an insurance portfolio from Fidelis Underwriting Ltd to Fidelis Risk Ireland DAC. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 7 September 2018.

Notification of the proposed transfer of insurance portfolios

On 11 September 2018, the Authority announced on its website the partial transfer of an insurance portfolio from QBE Insurance (Europe) Limited and the transfer of an insurance portfolio from QBE Re (Europe) Limited to QBE Europe SA/NV. The proposed transfers followed the announcement from the UK Prudential Regulation Authority dated 10 September 2018.

Revocation of the operating license of Guðmundur Þór Magnússon for insurance intermediation

On 19 September, the Authority reported that it had revoked the operating license of Guðmundur Þór Magnússon, Id. no 011158-2269, for insurance intermediation under Act No 32/2005 on Insurance Intermediation as operations had been discontinued for more than six consecutive months, cf. Article 34(1)(5) of the Act.

The Authority issues a consultation paper on draft rules on insurance companies that are exempt from specific provisions of the Act on Insurance Activities

On 19 September 2018, the Authority announced the publication of a consultation paper on draft rules on insurance companies that are exempt from specific provisions of Act 100/2016 on Insurance Activities.

The Authority grants Aur app ehf. a debt collection license

On 20 September 2018, the Authority announced that on 14 September it had granted Aur app ehf. a debt collection license according to Act No 95/2008 on Debt Collection.

Impact of the entry into force of EMIR in Iceland

On 1 October 2018, the Authority announced in a news release that Act No 15/2018 on Derivative Trading, Central Counterparties and Trade Repositories had entered into force that day. Thereby, Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories entered into force. That regulation has also been referred to as the European Market Infrastructure Regulation and EMIR.

Olaf Forberg returns his operating license for insurance brokerage

On 4 October 2018, the Authority reported on its website that Olaf Forberg had turned in his operating license for insurance intermediation under Article 36(1) of Act No 32/2005 on Insurance Intermediation.

Innheimturáðgjöf ehf. waives its debt collection license

On 4 October 2018, the Authority reported on its website that Innheimturáðgjöf ehf. had waived its debt collection license, cf. Article 17(a)(1)(b) of Act No 95/2008 on Debt Collection. The Authority had confirmed that Innheimturáðgjöf ehf. waived its debt collection license on 12 September 2018.

Notification of an unchanged countercyclical capital buffer

On 9 October 2018, the Authority announced that the countercyclical buffer would remain unchanged following recommendations of the Financial Stability Council from 5 October 2018.

Ongoing work on the merger og the Central Bank of Iceland and the Financial Supervisory Authority

On 11 October 2018, the Authority reported on its website that work had begun on merging the Central Bank and the Authority and that the news had been published on the websites of the Prime Minister's Office and the Ministry of Finance and Economic Affairs. The report stated that the Ministerial Committee on Economic Affairs and the Restructuring of the Financial System had decided to initiate a review of the legal framework on monetary policy, macroprudential issues and financial supervision.

Presentation of the EBA Guidelines on Internal Governance of Financial Undertakings on 17 October

On 15 October, the Authority's website reported that on 17 October it would hold a presentation of the EBA Guidelines on Internal Governance and the joint EBA and ESMA Guidelines on Suitability Assessment for Management Body Members and Key Function Holders at the Authority's premises. Slides from the presentation were published on the Authority's website after the meeting.

Notification of the proposed transfer of an insurance portfolio

On 23 October, the Authority announced on its website the transfer of an insurance portfolio from Aviva Life And Pensions UK Limited to Friends First Life Assurance Designated Activity Company. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 16 October 2018.

Questions and answers concerning the securities market

The Authority said in a press release on its website at the end of October that a document containing questions and answers for the securities market had been published on the Icelandic part of its website under Legal Acts > Q&A/ Interpretations (I. Réttarheimildir > Spurt og svarað/ Túlkanir). The purpose of the publication was to increase transparency in the implementation of supervision and to provide regulated entities and other stakeholders with greater security concerning the application of laws and regulations.

Notification of the proposed partial transfer of a life insurance portfolio

On 5 November 2018, the Authority announced on its website the partial transfer of a life insurance portfolio from Standard Life Assurance Limited to Standard Life International DAC. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 30 October 2018.

Registration obligation for lenders of consumer mortgage loans

On 6 November 2018, the Authority reported that it had recently needed to respond to advertisements from contractors in the construction industry, where the buyers of new apartments in their portfolios were invited to finance their purchase with a supplemental mortgage loan from the contractor in question. For this reason, the Authority emphasised that under Act No 118/2016 on Consumer Mortgages, registration with the Authority was a precondition for entities to provide consumer mortgages on a professional basis. Based on the Act, the Authority had set Rules No 666/2017 stipulating a maximum allowable mortgage rate of 85% and 90% for first-time buyers.

The Authority publishes a draft of the Common Procedures and Methodologies for the Supervisory Review and Evaluation Process for Financial Undertakings

On 12 November 2018, the Authority reported that it had published Consultation Paper No 8/2018, which contained a draft of updated procedures and methodologies for the supervisory review and evaluation process (SREP) for financial undertakings.

Governmental handling of inside information

On 13 November 2018, the Authority reported on its website that it had sent a circular to ministries and certain institutions drawing attention to the applicable laws and regulations on the government's treatment of inside information.

Notification of the proposed transfer of an insurance portfolio

On 13 November, the Authority reported the transfer of an insurance portfolio from Travelers Casualty and Surety Company of Europe Limited to Travelers Insurance Company Limited. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 6 November 2018.

New Rules on Proper and Sound Business Practices of Financial Undertakings, Payment Institutions and Electronic Money Companies

On 19 November 2018, the Authority announced it had issued new Rules No 1001/2018 on Proper and Sound Business Practices of Financial Undertakings, Payment Institutions and Electronic Money Companies that supersede existing Rules on the same subject No 672/2017 on Proper and Sound Business Practices of Financial Undertakings.

Temporary suspension of trading

On 26 November 2018, the Authority stated that in the morning it had decided to suspend trading in financial instruments for Icelandair Group hf. which had been admitted to trading on the Main Market of Nasdaq OMX Iceland hf. The suspension was revoked later in the day and it was announced that the suspension was decided following a notification from the company on the progress of the purchase of Wow air hf.

Educational material on measures against money laundering and terrorist financing

On 26 November 2018, the Authority reported that the Ministry of Justice had published educational material on measures against money laundering and terrorist financing on its website. These were two pamphlets that dealt with, on the one hand, the research and reporting requirements of reporting entities and, on the other hand, the training of employees.

Operational requirements for pension funds

On 28 November 2018, the Authority reviewed the operational requirements for pension funds in a news report on its website. The news stated that due to media coverage, the Authority wanted to draw attention to the statutory requirements on the activities of pension funds, including the responsibility of the boards.

Notification of the proposed partial transfer of a life insurance portfolio

On 28 November 2018, the Authority announced the proposed partial transfer of a life insurance portfolio from Scottish Widows Limited to Scottish Widows Europe S.A. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 27 November 2018.

The Authority encourages companies and financial market participants to safeguard network security in their operations

On 30 November 2018, the Authority published a press release on its website stating that it had, the same day, sent a circular to the pension funds encouraging them to safeguard network security in their operations. The Authority also stated that it would like to give warning to other companies in the financial market. It was increasingly common for companies and financial market participants to be targets of attempts to defraud. The fraud often entails sending mail in the name of an internal party requesting transfer to a particular account (CEO fraud) or breaking into an employee's e-mail inbox to change transfer information submitted by email.

Insurance company data tables - Q3 2018

On 10 December 2018, the Authority reported that it had launched a quarterly publication of condensed data tables on Icelandic insurance companies. The data tables were based on quarterly reporting by insurance companies on a parent company basis. The first publication of these quarterly data tables covered the period up to the third quarter of 2018.

Circular on a new and improved procedure for carrying out on-site inspections

On 11 December, the Authority reported that it had sent a circular to regulated entities introducing a new and improved procedure for carrying out on-site inspections. The procedure was comparable to the procedure used in many parts of Europe and included, among other things, that on-site inspections would be carried out to a greater extent at the establishment of a regulated entity, and that the presentation and follow-up on the results of on-site inspections would be carried out in a new manner.

Icelandic banks compared to European counterparts

On 17 December 2018, the Authority announced on its website that EBA had, for the fifth time, published information on the operations and financial position of 130 EEA banks. Information about each bank was published. Arion Bank, Íslandsbanki and Landsbankinn were included in this comparison for the first time.

Notification of the proposed partial transfer of an insurance portfolio

On 18 December 2018, the Authority announced the partial transfer of an insurance portfolio from Domestic & General Insurance Plc to Domestic & General Europe AG. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 12 December 2018.

Notification of the proposed partial transfer of an insurance portfolio

On 18 December 2018, the Authority announced the partial transfer of an insurance portfolio from Travelers Insurance Company Limited to Travelers Insurance DAC. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 17 December 2018.

Consultation Paper on draft guidelines for terminology use and explanations in insurance companies' annual accounts

On 18 December 2018, the Authority announced on its website that it issued Consultation Paper No 10/2018 containing draft guidelines for terminology use and explanations in insurance companies' annual accounts.

Notification of the proposed partial transfer of an insurance portfolio

On 18 December 2018, the Authority announced the partial transfer of an insurance portfolio undertaking from Markel International Insurance Company Limited to Markel Insurance Societas Europaea. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 17 December 2018.

Recalculation of euro amounts in Act No 100/2016

On 20 December 2018, the Authority noted the publication on its website of euro amounts in Act No 100/2016 on Insurance Activities as stipulated by the Act. The calculated reference amounts in Icelandic krónur were valid for 2019.

Are you interested in carrying out tasks for the Authority?

On 2 January 2019, the Authority's website asked if people were interested in carrying out tasks for the Authority. It was pointed out that under special circumstances, the Authority might need to call on outside experts to carry out specific tasks. The Authority could, for example, appoint an expert to examine certain aspects in the activities or operations of a regulated entity or to carry out, in other respects, specific supervision of regulated entities. Furthermore, the Authority was authorised to appoint a provisional board of directors for regulated entities under special circumstances, etc.

Collective life insurance - termination of an insurance contract

On 10 January 2019, the Authority encouraged consumers in a news update to study the consequences of terminating a savings or life-insurance contract at one insurance company or transferring it to another company. In such cases, it should be considered that the consumer could suffer financial losses by the transfer, as the acquired rights at the former company could be lost when the contract is terminated. Furthermore, it would be good to keep in mind under such circumstances that collective life insurance and supplementary pension savings are inherently long-term investments. If it is argued that the policyholder would get a better insurance contract with another insurance company, it would be appropriate to pause and ask critical questions about that contract and the insurer concerned.

The Authority considers Kvika banki hf eligible to own an increased qualifying holding in Kortaþjónustan hf. (KORTA PAY)

On 18 January 2019, the Authority reported that on 27 December it had concluded that Kvika banki hf. was eligible to own an increased qualifying holding of more than 50% in KORTA PAY, in accordance with Chapter VI of Act No 161/2002 on Financial Undertakings, cf. Act No 120/2011 on Payment Services.

The Authority considers Kvika banki hf eligible to own a qualifying holding in GAMMA Capital Management hf.

On 18 January 2019, the Authority reported that on 17

January it had concluded that Kvika banki hf. was eligible to own a qualifying holding of more than 50% in GAMMA Capital Management hf., in accordance with Chapter VI of Act No 161/2002 on Financial Undertakings.

Notification of the proposed partial transfers of insurance portfolios

On 25 January 2019, the Authority announced the partial transfers of insurance portfolios from Royal & Sun Alliance Insurance Plc and The Marine Insurance Company Limited to Mercantile Indemnity Company Limited. The proposed transfers followed the announcement from the UK Prudential Regulation Authority dated 24 January 2019.

Regulation issued on the recovery plans of financial undertakings

On 28 January 2019, the Authority announced on its website that the Ministry of Finance and Economic Affairs had issued Regulation No 50/2019 on recovery plans of credit institutions and securities companies and their groups. The Regulation applied to the recovery plans of credit institutions and securities companies with endowment capital in accordance with Article 14(a)(2) of Act No 161/2002 on Financial Undertakings, and their groups if applicable under Chapter IX(A) of the same Act.

Breakfast meeting on the competitive environment of the financial system on the Authority's 20th anniversary

On 29 January 2019, the Authority reported that it would hold a breakfast meeting on the competitive environment of the financial system on Tuesday, 12 February.

Statement on the Nordic-Baltic contingency exercise in January 2019

On 31 January 2019, the Authority issued a statement to the effect that the authorities responsible for supervision of financial stability in the Nordic and Baltic countries had held a joint contingency exercise on 22 and 23 January, involving 31 authorities from Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden together with the relevant EU institutions.

A decision on raising the countercyclical capital buffer

On 1 February 2018, the Authority issued a press release stating that a decision has been made to increase the countercyclical capital buffer following the recommendation of the Financial Stability Council of 19 December 2018.

Notification of the proposed partial transfer of a life insurance portfolio

On 4 February 2019, the Authority announced the partial transfer of a life insurance portfolio from Prudential Assurance Company Limited to Rothesay Life Plc. The proposed transfer followed the announcement from the UK Prudential Regulation Authority dated 1 February 2019.

Updated Procedures and Methodologies for the Supervisory Review and Evaluation Process for Financial Undertakings

On 8 February 2019, the Authority reported that it had published updated Procedures and Methodologies for the Supervisory Review and Evaluation Process for Financial Undertakings (SREP). The updated criteria had been submitted for comment by Consultation Paper No 8/2018 available under consultation papers on the Authority's website.

Presentation for employees of companies authorised to provide services in securities trading

On 14 February 2019, the Authority stated on its website that it had held a presentation the day before for employees of financial undertakings authorised to provide services in securities trading. The meeting introduced selected items from Directive 2014/65/EU (MiFID II) and Regulation (EU) No 600/2014 (MiFIR) to draw the attendees' attention to the new features that might affect their operations. MiFID II and MiFIR should be transposed in Icelandic law in 2019.

It is vital for investors to acquaint themselves thoroughly with the companies they intend to do business with

On 15 February 2019, the Authority reported that it had received information that a foreign company, not licensed to offer investment services in Iceland, had contacted domestic investors and invited them to participate in Forex transactions related to currencies. For this reason, the Authority wanted to emphasise the importance for investors to familiarise themselves with the entities they decided to do business with and to obtain information on the costs involved in the transactions. This applied, in particular, to complex and risky financial instruments and services that the buyer had no knowledge of.

The Authority's breakfast meeting on the capital adequacy and resilience of banks

On 21 February 2019, the Authority invited attendees to a breakfast meeting on the capital adequacy and resilience of banks to be held on March 5. The speakers at the meeting were: Martin Hellwig, Professor and one of the authors of the best-seller The Bankers' New Clothes: What's Wrong with Banking and What to Do About It, Perla Ösp Ásgeirsdóttir, Managing Director of Risk Management at Landsbankinn and Jón Þór Sturluson, Deputy CEO of the Financial Supervisory Authority. Unnur Gunnarsdóttir, Director General of the Financial Supervisory Authority, chaired the meeting.

Quarterly breakdown of investments of mutual insurance and private pensions

On 22 February, the Authority stated in a press release on its website that the Authority had begun publishing quarterly information from submitted reports on the breakdown of the investments of the pension funds mutual insurance divisions and private pension schemes and other custodians of pension savings. Until now, the information has been published in an annual publication called the Summary of the Annual Accounts of Pension Funds.

Information related to a no-deal Brexit

On 26 February 2019, the Authority published three informational news items on its website for consumers, companies in the financial market and participants on the securities market relating to EMIR, if the UK would leave the EU without a deal.

Judgment in Arctica Finance hf. vs the Financial Supervisory Authority

On 8 March 2019, the Authority stated in a news release on its website that the District Court of Reykjavík had issued a judgment in Arctica Finance hf. vs the Financial Supervisory Authority. The case considered the Authority's decision of 20 September 2017 on imposing an administrative fine of ISK 72,000,000 on Arctica Finance hf. for a violation of laws and regulations on bonus payments to employees of financial undertakings. The news update stated, among other things, that the Court had agreed that the dividend payments to the employees of Arctica Finance hf. had actually been bonus payments, but the claim of Arctica Finance hf. to annul the decision mentioned above and lowering the fine was partially accepted.

The Authority issues new Guidelines on the Risk from Managing the Information Systems of Regulated Entities

On March 13, 2019, the Authority announced in a news update on its website the publication of Guidelines No 1/2019 on the Risk from Managing the Information Systems of Regulated Entities. The Guidelines updated the current Guidelines No 2/2014 on the Information Systems of Regulated Entities.

Insurance company data tables - Q4 2018

On 13 March 2019, the Authority announced on its website that it had published data tables for Icelandic insurance companies in a condensed form for the fourth quarter of 2018. The data tables were based on quarterly reporting by insurance companies on a parent company basis.

ESMA's Interactive Single Rulebook[EI34]

On 15 March 2018, the Authority noted on its website that ESMA offered an online Interactive Single Rulebook of various regulatory measures. Recently, MiFID2 and MiFIR had been added to the Single Rulebook which had previously contained the UCITS Directive and the Credit Rating Agencies Regulation (CRAR).

General Criteria and Methodology for the Authority's supervisory process for insurance companies

On 19 May 2019, the Authority announced in a news update on its website that it had issued General Criteria and Methodology for the Authority's supervisory process for insurance companies. The purpose of the Criteria was to define and present the methodology and implementation of the Authority's supervisory process as provided for in Point 2. 1 of Article 30 of Act No 100/2016

Owners of qualifying holdings in Centra Corporate Finance hf.

On 20 March 2019, the Authority reported on its website that on 22 February it had concluded that the companies Ditto dx slf., Bellevue Partners dx slf., Bdix dx slf., Svinnur dx slf. and HB Consulting dx slf. were each eligible to own a qualifying holding of up to 20% in Centra Corporate Finance hf., cf. Chapter VI of Act No 161/2002 on Financial Undertakings.

Iceland Tax Free ehf. delisted as a currency exchange office

On 20 March, the Authority reported on its website that on 15 March 20 it had delisted Iceland Tax Free ehf. from the list of currency exchange offices, at the request of the company.

Breakfast meeting on the vision for the pension system

On 21 March, the Authority announced on its website that on 2 April it would hold a breakfast meeting on the vision for the pension system. The speakers were: Bjarni Benediktsson, Minister of Finance and Economic Affairs, Þórey S. Þórðardóttir, Managing Director of the Icelandic Pension Funds Association, Gylfi Magnússon, Associate Professor at the Faculty of Business Administration at the University of Iceland and Unnur Gunnarsdóttir, Director General of the Financial Supervisory Authority. Questions would be answered, and short discussions would follow the lectures.

Operating licenses for insurance brokers

On 22 March 2019, the Authority reported that on 11 March 2019 it had granted Þín ráðgjöf ehf. an operating license for insurance intermediation under Article 1(2)(1), cf. Article 9 of Act No 32/2005 on Insurance Intermediation. The operating license was restricted to the intermediation of direct insurance as a whole under Articles 20 and 21 of Act No 100/2016 on Insurance Activities.

Owners of qualifying holdings in Icelandic Securities hf.

On 27 March 2019, the Authority stated in a news release that on 25 March it had concluded that Björg Capital ehf. and related parties were considered eligible to own a qualifying holding of 50% in Icelandic Securities hf., including the subsidiaries and associated companies in ÍV sjóðir hf. (IV Funds) and T Plús hf., cf. Chapter VI of Act No 161/2002 on Financial Undertakings.

Notification of the proposed transfer of a life insurance portfolio

On 1 April 2018, the Authority announced the transfer of a life insurance portfolio from AB SEB Gyvybés draudimas to Apdrosinasana akciju sabiedriba SEB Dzivibas apdrosinasana.

First meeting of the Financial Stability Council in 2019

On 2 April 2019, the Authority announced holding the first meeting of the Financial Stability Council in 2019. The Council agreed to recommend that the Authority should maintain unchanged the countercyclical and capital buffers for systemically important financial undertakings.

Notification of continuing capital buffers for systemically important financial undertakings and unchanged countercyclical buffers

On 4 April 2019, the Authority reported on its website that it had on that day announced a continuing capital buffer for systemically important financial undertakings and an unchanged countercyclical buffer in line with the recommendation of the Council on 1 April 2019.

The National Commissioner of Police publishes a risk assessment concerning money laundering and terrorist financing in Iceland

On 5 April, the Authority reported on its website that the National Commissioner of Police had published on its website a risk assessment concerning money laundering and terrorist financing in Iceland. The risk assessment was based on Article 4 of Act No 140/2018 and should be used, among other things, to remedy measures against money laundering and terrorist financing, identify industries or conditions that posed negligible or great risk, identify necessary regulatory changes and guide supervisors concerning risk-based supervision.

The Authority has assessed G 62 ehf. eligible to own a qualifying holding in Icelandic Investors Ltd.

On 11 April, the Authority reported on its website that on 5 April it had concluded that G 62 ehf. was eligible to own a qualifying holding of up to 20% in Icelandic Investors Ltd., cf. Chapter VI of Act No 161/2002 on Financial Undertakings.

Statement concerning canvassing on the website hluthafi.com

On 15 April, the Authority issued a press release stating that earlier that day it had sent a message to the representatives of the website hluthafi.com requiring the closure of said website as it appeared that the conditions of the Act on Securities Transactions had not been fulfilled, including regarding the issuing of a prospectus. The representatives of hluthafi.com subsequently changed the canvassing arrangement in such a way that now it was based on the registration for share certificates in a private limited liability company that did not fall under the Act on Securities Transactions.

Presentation of guidelines on risk factors

On 15 April, the Authority reported on its website that on 12 April 2019 it had held a presentation for reporting entities under Act No 140/2018 on ESAs Guidelines on Risk Factors. Many representatives attended the presentation from the reporting entities that are subject to the Authority's supervision and would be part of the preparation of these entities before the requirement for preparing risk assessments entered into force on the following 1 June.

The Authority publishes educational material on measures against money laundering

On 16 April, the Authority announced on its website that it had published educational material on measures against money laundering and terrorist financing. The guidance came in two parts. On part concerned risk factors in the banking market and the other risk factors in the life insurance market.

The Authority considers Tómas Karl Aðalsteinsson eligible to own a qualifying holding in Icelandic Investors Ltd.

On 29 April, the Authority reported on its website that it had concluded that Tómas Karl Aðalsteinsson was eligible to own a qualifying holding of up to 50% in Icelandic Investors Ltd., cf. Chapter VI of Act No 161/2002 on Financial Undertakings.

The Authority considers Norðurvör ehf. eligible to own a qualifying holding in an Icelandic Investors Ltd.

On 29 April, the Authority reported on its website that it had concluded that Norðurvör ehf. was eligible to own a qualifying holding of up to 20% in Icelandic Investors Ltd., cf. Chapter VI of Act No 161/2002 on Financial Undertakings.

The Authority considers Selsvellir ehf. eligible to own a qualifying holding in Icelandic Investors Ltd.

On 29 April, the Authority reported on its website that it had concluded that Selsvellir ehf. was eligible to own a qualifying holding of up to 20% in Icelandic Investors Ltd., cf. Chapter VI of Act No 161/2002 on Financial Undertakings.

2 Summary of decisions and transparency notifications from 1 May 2018 to end of April 2019

3 May 2018: Conclusion of an examination of specified aspects of risk management at Stefnir hf.
8 May 2018: Administrative penalty for violations by Arev Securities Company hf. against Articles 5 and 6 of Act No 108/2007 and Article 6 of Regulation No 995/2007, as well as Article 142 of the Act
15 May 2018: Conclusion of an examination of measures against money laundering and terrorist financing at KORTA PAY
24 May 2018: Conclusion of an examination of the process of prepayment of mortgage loans with several regulated entities.
25 Jun. 2018: Conclusion of an examination of measures against money laundering and terrorist financing at the savings banks
3 Jul. 2018: Amicable settlement for the infringement of Stapi Pension Fund of Article 86(1) of Act No 108/2007 on Securities Transactions
20 Aug. 2018: Conclusion of examination of notifications Gamma Capital Management hf. submitted to the Authority regarding net short positions
21 Aug. 2018: Conclusion of the Authority's examination of the business practices of Tryggingar og ráðgjöf ehf. in connection with the sale of insurance products from NOVIS Insurance Company Inc.
31 Aug. 2018: Amicable settlement for the infringement of VIS Insurance hf. of Article 87(1) of Act No 108/2007 on Securities Transactions
19 Sep. 2018: 2018: Conclusion of an examination of the handling of complaints by Arion Bank hf., Íslandsbanki hf. and Landsbankinn hf.
28 Sep. 2018: Conclusion of an examination of the information system of Borgun hf.
2 Oct. 2018: Conclusion of an examination of the risk management framework at Birta Pension Fund
2 Oct. 2018: Conclusion of an examination of the risk management framework at Frjalsi Pension Fund
2 Oct. 2018: Conclusion of an examination of the risk management framework at Gildi Pension Fund
2 Oct. 2018: Conclusion of an examination of the risk management framework at the Icelandic Pension Fund
2 Oct. 2018: Conclusion of an examination of the risk management framework at LV - the Pension Fund of Commerce
12 Oct. 2018: SREP results from Landsbankinn hf.
12 Oct. 2018: SREP results from Arion Bank hf.
12 Oct. 2018: SREP results from Íslandsbanki hf.
18 Oct. 2018: Conclusion of examination of foreign exchange without registration
19 Oct. 2018: Conclusion of an examination of the handling of complaints at Suður-Þingeyingar Savings Bank
2 Nov. 2018: Conclusion on the infringement of Síminn hf. of Article 126 of Act No 108/2007
29 Nov. 2018: Conclusion of an examination of the information system of Valitor hf.
20 Dec. 2018: Conclusion of examination of procedures for settling compensation for vehicle damage at Vörður Insurance
20 Dec. 2018: Conclusion of examination of procedures for settling compensation for vehicle damage at TM Insurance
16 Jan. 2019: Conclusion of an examination of the handling of complaints by TM Insurance hf., VIS Insurance hf., and Vörður tryggingar hf.
23 Jan. 2019: Conclusion of an examination of notifications from Arion Bank hf. on net short positions to the Authority
25 Jan. 2019: Conclusion of an examination of the handling of complaints by Sjóvá-Almennar Insurance hf.
22 Feb. 2019: Amicable settlement for the infringement of Landsbankinn hf. of Articles 78(1) and 86(1) of Act No 108/2007 on Securities Transactions
12 Mar. 2019: Conclusion of an examination of the interpretation of terms and conduct of claims settlement for family insurance with Sjóvá-Almennar Insurance hf. and VIS Insurance hf.
20 Mar. 2019: Conclusion of an examination of the participation of the managing director of a financial undertaking in business operations
5 Apr. 2019: Conclusion of an examination of needs assessments and data retention at Tryggingar og ráðgjöf ehf.
5 Apr. 2019: Conclusion of an examination of needs assessments and data retention at Tryggingamiðlun Íslands ehf.
5 Apr. 2019: Conclusion of an examination of needs assessments and data retention at Tryggja ehf.
5 Apr. 2019: Conclusion of an examination of needs assessments and data retention at Nýja vátryggingaþjónustan ehf.
9 Apr. 2019: Conclusion on the infringement of Municipality Credit Iceland Plc. (MCI) of Article 126 of Act No 108/2007 on Securities Transactions.

3 Summary of issues of Fjármál and articles from 1 May 2018 to end of April 2019

Fjármál, Vol. 7, Iss. 2 (October 2018)

Decade after the collapse
Improvements in the Authority's activities and future projects
Unnur Gunnarsdóttir, Director General of the Financial Supervisory Authority

Pension fund settlements and challenges
Jón Ævar Pálmason, Risk Analysis Specialist

Basel III: The final steps for a new standard
Guðmundur Örn Jónsson and Kristján Ólafur Jóhannesson, Risk Analysis Specialists

PSD2 and the future technical standards
Hjálmar Stefán Brynjólfsson, Lawyer with the Office of the Chief Legal Counsel

Have the shareholder policies for Icelandic professional investors changed in recent years?
Bjarni Magnússon, Specialist in Financial Supervision

Fjármál, Vol. 8, Iss. 1 (February 2019)

The countercyclical capital buffer and systemic risk
Bryndís Ásbjarnardóttir, Head of Macroprudential Supervision

Analysis of household and corporate resilience
Loftur Hreinsson, Specialist in the Department for Macroprudential Policies

Have appreciating real estate prices increased systemic risk in the financial markets?
Jón Guðjónsson, Specialist in the Department for Macroprudential Policies

Green financial market - Impact of climate change and climate action on financial markets
Sigurður Freyr Jónatansson, Specialist in the Department for Macroprudential Policies

Pension funds and responsible investments
Björn Z. Ásgrímsson, Senior Risk and Pension Analyst

New comprehensive legislation on measures against money laundering and terrorist financing
Helga Rut Eysteinsdóttir, Lawyer with Legal Supervision and On-Site Inspections

IV. Entities regulated by the Authority

1 Number of entities regulated by the Authority

Categories of regulated entities at year-end	Note	2014	2015	2016	2017	2018
Subject to licence or operating under specific legislation:						
Commercial banks		4	4	4	4	4
Savings banks		7	4	4	4	4
Credit undertakings		6	5	5	5	5
Housing Financing Fund (HFF)		1	1	1	1	1
Deposit departments of co-operative societies		1	1	1	1	0
Securities dealers		9	10	10	9	9
Securities brokers		2	1	0	0	0
UCITS management companies	1)	10	10	10	10	9
Professional investment funds - legal entities		9	14	22	20	20
Stock exchanges		1	1	1	1	1
Securities depositories		1	1	1	2	2
Pension funds	2)	26	26	25	22	21
Insurance companies		12	12	12	11	11
Insurance brokers		9	9	9	9	7
Entities with debt collection licenses		6	8	8	7	8
Payment institutions		1	1	1	1	1
Money exchange services		1	1	1	1	1
Guarantee funds		2	2	2	2	1
Registered creditors		0	0	0	1	1
Providers of exchange services between virtual currencies, e-money and FIAT currencies		0	0	0	0	1
Total		***108***	***111***	***117***	***110***	***107***
Other regulated entities:						
UCITS (not legal entities)	3)	53	50	47	42	40
Investment funds (not legal entities)	3)	48	53	60	60	60
Professional investment funds (not legal entities)	3)	65	71	84	91	97
Custodians of private pension savings	4)	13	8	8	8	8
Issuers of listed shares		17	20	21	20	23
Issuers of listed bonds		60	60	57	65	50
Agent of a foreign payment institution		1	1	1	2	4
Holding companies	5)	10	11	9	6	6
Financial undertakings in winding-up proceedings		11	2	2	1	0
Total		***386***	***387***	***406***	***405***	***395***

1) Furthermore, see the number of UCITS and investment funds and professional investment funds lower in the table.
2) Many pension funds have more than one division. By including the divisions, the number of pension funds would increase by approximately 50 for each year shown in the table.
3) Funds that are not legal entities but operated by fund management companies. See the number of management companies higher in the table. Several UCITS and investment funds have more than one division. The figures in the table reflect the number of divisions.
4) Commercial banks and savings banks. Excluding the two foreign custodians of pension savings, all included in the above totals.
5) Holding companies in the financial sector and insurance sector and mixed holding companies, see more details in the definition in Acts No 161/2002 and No 00/2016. These are active shareholders that hold more than 50% in regulated entities. The table does not include active shareholders with stakes of 10-50%.

2 Activities by foreign parties in Iceland

Number at year-end	**2017**	**2018**
Foreign banks (credit and financial institutions) without establishments	337	279
UCITS (no. of divisions in parentheses)	93 (807)	122(1010)
Securities dealers/brokers (Investment firms)	2566	2523
Insurance companies with establishments	2	2
Insurance companies without establishments	411	419
Foreign banks without establishments	343	350
Insurance brokers and insurance agents	5960	5574
Foreign payment institutions with agents	2	2
Foreign electronic money institutions without establishments	147	167
Foreign electronic money undertakings with distributors	1	1
Credit intermediary	9	14
Management companies for alternative investment funds	**94**	**122**

Number of companies registered outside Europe and authorised to provide services in Iceland based on national law.

Number at year-end	**2017**	**2018**
Management companies for alternative investment funds	26(36)	35(54)

FJÁRMÁLAEFTIRLITIÐ

THE FINANCIAL SUPERVISORY AUTHORITY, ICELAND