

CENTRAL BANK OF ICELAND



2023

FINANCIAL SUPERVISION

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

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

The purposes of this report are:

- to explain how the Bank performs the tasks entrusted to it by law and how it followed its supervisory strategy and work timetable in the previous year;
- to provide information on the key supervisory priorities in the work timetable;
- to explain recent and forthcoming changes in the regulatory framework for the financial market.

In publishing this report, the Central Bank also attempts to ensure an appropriate level of transparency about its work and priorities in the field of financial supervision and to foster informed discourse about the financial system.

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Symbols:

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

Icelandic letters:

ð/Ð (pronounced like th in English this)

þ/Þ (pronounced like th in English think)

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

The FSA's activities



This report describes how the Central Bank of Iceland followed its supervisory strategy and work timetable in 2022 by carrying out regular supervision and other monitoring activities. It also explains key financial system variables pertaining to the objective of promoting sound and secure operations among supervised entities.

Supervision of financial institutions, electronic money institutions, and payment institutions

The Central Bank supervises financial institutions that have received operating licences pursuant to the Act on Financial Undertakings, no. 161/2002, with subsequent amendments. On the one hand, it conducts regular supervision in accordance with its risk-based supervision model, and on the other hand, it conducts proactive inspections based on current circumstances and risk assessments. The main focus of supervising financial institutions is to ensure that they have the strong capital and liquidity that they need in order to respond to unexpected shocks.

At the end of 2022, a total of 21 financial institutions were subject to supervision by the Central Bank: four commercial banks, five savings banks, four credit institutions, and eight investment firms. Also supervised by the Bank were two electronic money institutions, cf. the Act on the Issuance and Treatment of Electronic Money, no. 17/2013, and one payment institution, cf. the Act on Payment Services, no. 114/2021.

Three commercial banks – Arion Bank hf., Íslandsbanki hf., and Landsbankinn hf. – have been designated other systematically important institu-

tions (O-SIIs) by the Central Bank Financial Stability Committee (FSN). These three banks together account for some 90% of credit institution assets. Supervision of the systemically important banks is a wide-ranging task that involves conducting regular, systematic reviews of data and information on the position of the banks, carrying out specific and information and analyses, and taking interviews with selected senior managers and other key employees, as well as external auditors. Key risk metrics in the banks' operations are monitored, and an assessment is made of the viability and sustainability of their business plans, governance practices, and internal monitoring systems. In addition, various risks in their operations are examined and analysed on a regular basis – and more frequently than usual if conditions warrant it.

Supervisory review and evaluation process

Every year, the Bank's financial supervisors carry out a detailed supervisory review and evaluation process (SREP) on the four commercial banks. The SREP involves evaluating the viability and sustainability of the relevant institution's business plan, governance practices, and internal controls, as well as assessing risks – credit risk, counterparty and concentration risk market risk, operational risk, and liquidity and funding risk, – and conducting stress tests. In assessing these risks, the Bank uses the [Guidelines for common procedures and methodologies for the supervisory review and evaluation process \(SREP Guidelines\)](#), which are based on the European Banking Authority (EBA) Guidelines on the same topic. A number of other guidelines are consulted as well.

The SREP reveals the efficacy of the mitigating measures adopted by the financial institution con-

cerned: whether its governance is sound and its capital base adequate in view of the risks associated with its activities. During the SREP, the Bank also assesses and determines the banks' capital requirement under Pillar II-R, which indicates how much capital the bank in question must hold in view of the risks it faces or could face. The Pillar II-R capital requirement is in addition to the minimum capital requirement provided for under Pillar I.

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

The EBA published revised SREP guidelines on its website in March 2022. The revised guidelines took effect on 1 January 2023. Although the EBA guidelines are directed at competent authorities in the European Economic Area (EEA) and intended to promote consistency and harmonised SREP methodologies, financial institutions should take account of them and prepare themselves in accordance with the amendments to the guidelines.

In Europe, stronger emphasis has been placed in recent years on strengthening supervision of anti-money laundering and terrorist financing measures in the financial market. This stronger emphasis can be seen in the updated EBA guidelines on the SREP; i.e., the assessment of all risk factors now includes recommendations on how risks due to inadequate anti-money laundering and terrorist financing measures should be addressed in the SREP.

Monitoring of business plans, credit risk, and operational risk

Business models

Part of the Central Bank's regular supervision involves evaluating supervised entities' business strategies, business plans, and operational plans over a horizon of at least three years. In addition to the conventional review carried out in 2022, the Bank examined whether changes in the regulatory framework, technological, and competition environment could jeopardise business plan viability and business strategy sustainability. A continued assessment was also made of whether the

direct or indirect effects of the COVID-19 pandemic could affect the Icelandic banks' business models.

Iceland's three systemically important banks are financially strong, and their multi-faceted activities contribute to diversification of operational risk. The banks' business plans have evolved in recent years, increasing their share of the mortgage lending market, among other things. The systemically important banks now lend more to individuals than to companies, and the indexation imbalances that previously characterised some banks' balance sheets have all but disappeared. Companies seek credit in the securities market to a greater degree than before, and the banks have sold specific loans to funds and other investors. In addition, two of the banking conglomerates now include insurance activities.

Although the direct effects of the pandemic on the Icelandic banks' asset portfolios have diminished substantially, some of their customers, including companies in tourism-related business, are in a weaker position than before the pandemic. Furthermore, it is uncertain what impact the changed economic environment and other indirect effects of Russia's invasion of Ukraine will have on their financial position. For the banks, the financial effects are still somewhat uncertain, but it is unlikely that those effects alone will make a decisive impact on the viability of their business plans.

The technological environment and regulatory framework have changed radically in recent years, and tech advances have led to greater efficiency in banking activities. Concurrent with these technological innovations, new companies have entered the market – in payment intermediation and consumer lending, for instance – and a new savings bank, indó hf., was granted an operating licence during the year. Competition in specific areas of banking operations has therefore increased.

In recent years, banks and other financial institutions have invested in new, more efficient core systems. This has made it easier for the institutions and the market as a whole to absorb the changes that come with tech advances and regulatory amendments such as legislation on payment services and changes in the payment services market; i.e., the Payment Services Directive, PSD2. The banking system has slimmed down in the past decade, with tech advances and self-service solutions paving the way for streamlining and improvements in customer service. The Icelandic banks are generally well prepared for even further changes in their operating environment, although investment in new solutions and modifications is pro-

portionally more costly for smaller financial institutions. As a result, changes in the technological and regulatory environment are not considered a threat to their business plans or strategies.

The four commercial banks' capital is strong in international comparison, and their liquidity ratios are solid. Deposits continue to be the mainstay of their funding, although they have made systematic attempts in recent years to broaden their funding profile. The Icelandic banks' business models are generally deemed sound despite external changes in, for example, the regulatory, technological, or competitive environment.

Operational risk

During the year, continued emphasis was placed on operational risk in financial market risk assessments, with particular attention given to cyber- and IT risks, in accordance with the Central Bank's priorities.

At the Central Bank's request, the banks carried out an impact analysis during the year, focusing on the potential effects of an interruption in international internet connections, with the aim of identifying the actions that must be taken if such a situation develops. An alternate route via satellite has been set up for use in case of such an interruption, and the Bank will take this into account in its comprehensive assessment of risk in the financial system.

New EBA guidelines on information and communications technology (ICT) and security risk management were implemented in 2022. They are intended to provide even further support for defences against cyberthreats and to safeguard the quality of IT operations.

In 2021, new legislation on payment services entered into force, implementing Directive (EU) 2015/2366 (PSD2). The legislation has prompted payment service providers that offer account services (deposit institutions) to engage in extensive implementation work in connection with network interface set-up and system modification. Supervision of this task has been assigned special priority, and testing is already underway.

Credit risk

Supervision of credit risk has been accorded increased weight in recent years, partly because of the scope of pandemic-related payment measures. In most cases, loans to borrowers who have taken advantage of these measures are classified as forborne and performing. The share of forborne loans has been on the decline and is expected to keep falling when minimum time

requirements and other conditions for reclassification have been satisfied. Non-performing loan ratios have fallen and are low in historical context.

The regulatory framework for non-performing loans (NPL) has been strengthened substantially in recent years, in the wake of the European Commission's decision to embark on an initiative in response to a pent-up NPL problem in Europe. It is important that banks adopt the new regulatory framework and follow the associated guidelines. The Central Bank considers it important that the framework for credit institutions be satisfactory and that it enable the timely identification of risk, including risk in connection with the administration and recording of non-performing and forborne loans and the reliable assessment of loan impairment.

Icelandic credit institutions have little direct exposure to Ukraine or Russia. It is important that credit institutions monitor the impact that rising inflation and interest rates could have on loan quality and that they assess the effects these factors could have on households' and businesses' debt service capacity. Similarly, precautionary requirements and accounting due to credit risk must reflect both short- and long-term risks.

On-site inspections

In 2022, continued emphasis was placed on on-site inspections relating to financial institutions' credit risk. The three systemically important banks were subjected to such inspections, which entailed evaluating procedures for reporting under the common reporting framework (COREP) and determining whether the procedures satisfied set requirements. Furthermore, during the year, the Bank completed an examination of lending practices at several savings banks – Sparisjóður Austurlands hf., Sparisjóður Höfðhverfinga ses., Sparisjóður Strandamanna ses., and Sparisjóður Suður-Pingeyinga ses. – which had been undertaken in order to review the savings banks' lending procedures and the book value of loan facilities granted to randomly selected borrowers, with an eye to the valuation methods used.

Additional on-site inspections relating to credit risk were carried out in 2022, and some of them were still ongoing at the year-end. Inspections were carried out at the three systemically important banks in order to check on loan-to-value (LTV) and debt service-to-income (DSTI) ratios on consumer mortgages. The inspections involved an evaluation of lending procedures and processes, as well as a random sample check on compliance with Central Bank restrictions on such loans. These inspections were still underway

Basel Core Principles for Effective Banking Supervision

The Basel Committee on Banking Supervision (BCBS)¹ issued revised Core Principles for Effective Banking Supervision in 2012. The Principles were originally issued in 1997. The last revision prior to the 2012 issue took place in 2006. Another review is currently underway, with publication planned for 2023.

One purpose of the 2012 revision of the Core Principles was to draw lessons from the global financial crisis that started in 2007, with the aim of ensuring, to the extent possible, that the revised Principles promoted satisfactory financial supervision and healthier financial systems. The revised version contains 29 core principles, as opposed to 25 in the version from 2006.

The Core Principles fall into two main sections: a section focusing on institutional framework – i.e., supervisory powers, responsibilities, and functions – and a section on prudential regulations and requirements.

The requirements under the Core Principles are not limited to merely fulfilling the principles laid down in the document. They also imply that satisfactory infrastructure must be in place within the country or jurisdiction in which the banking supervisor in question operates. One of the introductory sections of the document specifies the following preconditions, which fall outside the supervisory body's remit:

- Sound and sustainable macroeconomic policies;
- A well established framework for financial stability policy formulation;
- A well developed public infrastructure;
- A clear framework for crisis management, recovery, and resolution;

1. The Basel Committee on Banking Supervision comprises representatives of financial and banking supervisors and central banks from 27 countries all over the world, including 10 in Europe.

- An appropriate level of systemic protection (or public safety net); and
- Effective market discipline.

The Core Principles are used by supervisory authorities in certain countries, including Iceland, as benchmarks for assessing the quality of supervisory systems and execution. They are also used by the International Monetary Fund (IMF) as a benchmark for similar assessments in connection with the Fund's Financial Sector Assessment Program (FSAP).

In H1/2013, prior to its 2020 merger with the Central Bank, Iceland's Financial Supervisory Authority requested that the IMF conduct an appraisal of its compliance with the 2012 version of the Core Principles. The IMF conducted this appraisal in 2014. In the appraisal, the IMF found that the Financial Supervisory Authority satisfied just over 55% of the principles substantially or in full, but for the other 45% it fell well short of satisfying the principles. In the wake of this outcome, the Financial Supervisory Authority embarked on a major initiative to improve the areas considered unsatisfactory.

In 2022, the Central Bank requested that the IMF conduct an FSAP appraisal of the Icelandic financial sector, which includes an assessment of compliance with the 2012 version of the Core Principles. The preliminary results presented to the Central Bank indicate that the Bank's compliance to the Core Principles has developed favourably despite increased requirements. The final results are due in mid-2023.

at Arion Bank hf. and Landsbankinn hf. at the end of 2022. In addition, on-site inspections of the systemically important banks' outsourcing arrangements were carried out. Of these, the Íslandsbanki hf. inspection was pending at the year-end.

Other inspections carried out in 2022 centred on anti-money laundering and terrorist financing measures at three financial institutions and other supervised

entities (discussed further on p. 21), as well as on-site checks on the quality of trade reporting system (TRS II) notifications (discussed further on p. 17).

Penalties and other matters

Following the Central Bank's investigation of Arion Bank hf.'s alleged violation of Article 58 of the Act on Financial Undertakings, which covers banking secrecy,

Arion agreed to conclude the matter by settlement in July 2022. Under the settlement, the bank agreed to pay a fine of 5.5 m.kr. to the Treasury. A transparency announcement about the case was published on the Central Bank website in July 2022.

Following an investigation by the Central Bank, it was concluded in March 2022 that SaltPay IIB hf. had violated its obligation to operate an internal audit department within the company over a further specified period of time; cf. Article 16 of the Act on Financial Undertakings. The results of the case were posted on the Central Bank website in July 2022.

Recovery plans

The Central Bank completed its review of recovery plans for the three systemically important banks and Kvika banki hf. during the year. Furthermore, it completed its review of simplified recovery plans for four savings banks – Sparisjóður Austurlands hf., Sparisjóður Höfðhverfinga ses., Sparisjóður Strandamanna ses., and Sparisjóður Suður-Pingeyinga ses. – and for SaltPay IIB hf. The Bank has concluded that in most instances, the recovery plans now satisfy the formal requirements made of them as regards content and substance. Therefore, when it conducts its next reviews, the Central Bank plans to place greater emphasis on more thorough analysis of individual aspects of the recovery plans and on the plans’ effectiveness as policy instruments in financial institutions’ activities.

Capital and liquidity requirements

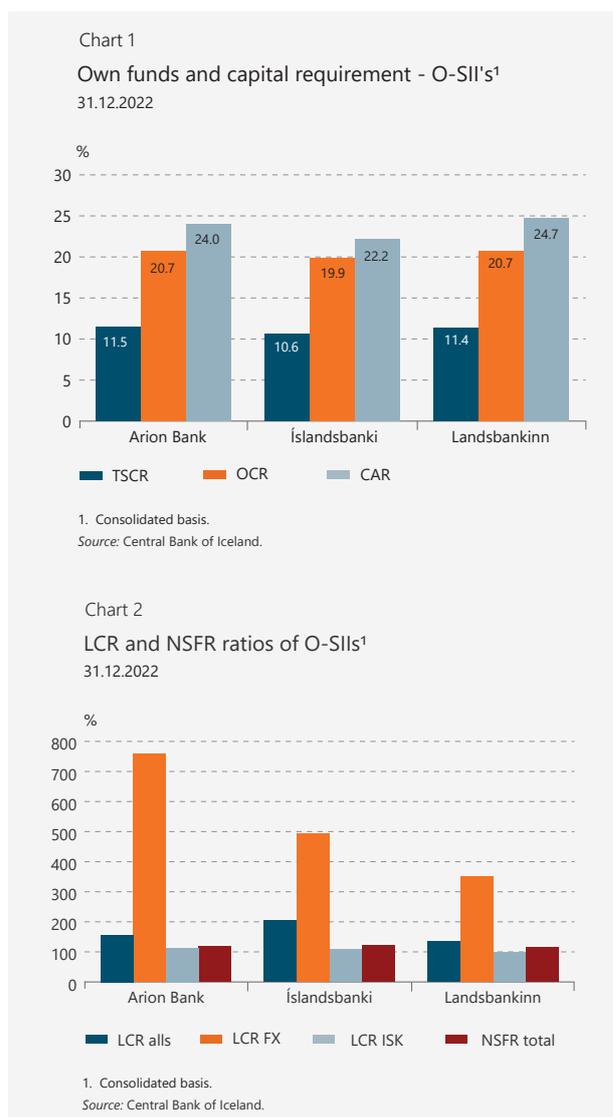
In September 2021, the Central Bank’s Financial Stability Committee (FSN) decided to increase the countercyclical capital buffer (CCyB) value to 2%, whereas it had previously been set at 0% of domestic exposures. In the FSN’s opinion, the combination of rapidly rising asset prices and increased household debt had already raised cyclical systemic risk to at least the pre-pandemic level. As a result, the Committee concluded that the scope previously granted to financial institutions in March 2020, with the reduction in the buffer, was no longer needed. The increase in the CCyB took effect on 29 September 2022.

In July 2022, the Central Bank published the SREP results for Arion Bank hf., Íslandsbanki hf., and Landsbankinn hf. concerning additional capital requirements over and above minimum required own funds and the combined capital buffer requirement. According to the Financial Supervision Committee’s (FMEN) decision, the additional capital requirement for systemically important banks at the consolidated level

lay in the 2.6-3.5% range, bringing the overall capital requirement to 19.9-20.7%.

In December 2022, the Central Bank published the SREP results for Kvika banki hf. concerning additional capital requirements over and above minimum required own funds and the combined capital buffer requirement. According to the FMEN’s decision, the additional capital requirement for Kvika banki hf. was 3.5% and the overall capital requirement 17.9%.

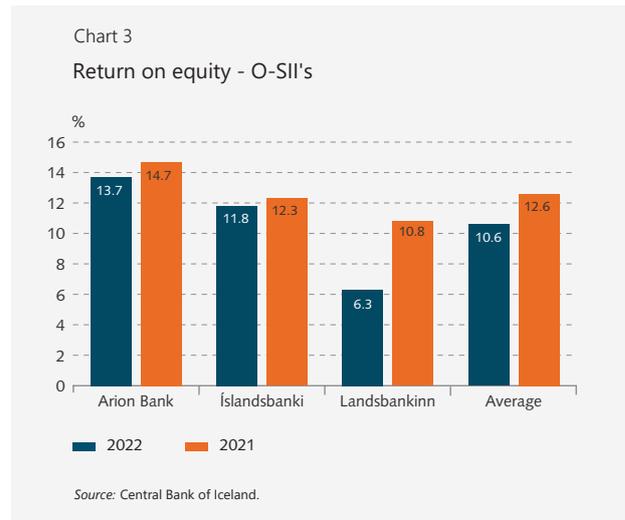
In November 2022, the Bank published the SREP results for the four savings banks (Sparisjóður Austurlands hf., Sparisjóður Höfðhverfinga ses., Sparisjóður Strandamanna ses., and Sparisjóður Suður-Pingeyinga ses), concerning additional capital requirements over and above minimum required own funds and the combined capital buffer requirement. According to the FMEN’s decision, the additional capital requirement for the savings banks lay in the 2.8-5.5% range, and the overall capital requirement was 18.3-21%.



Liquidity requirements according to the Rules on Credit Institutions' Liquidity Ratio, no. 266/2017, which remained in effect until superseded on 1 January 2023 by the new Rules on Credit Institutions' Liquidity Ratio, no. 1520/2022, were 100% both for foreign currencies and overall, and 40% for Icelandic krónur. Furthermore, the net stable funding ratio according to the Rules on Credit Institutions' Minimum Net Stable Funding Ratios, no. 750/2021, is 100%. No further liquidity or funding requirements are imposed on deposit institutions, as their liquid assets were above minimum requirements by 295 b.kr. as of year-end 2022.

Systemically important banks' operating results

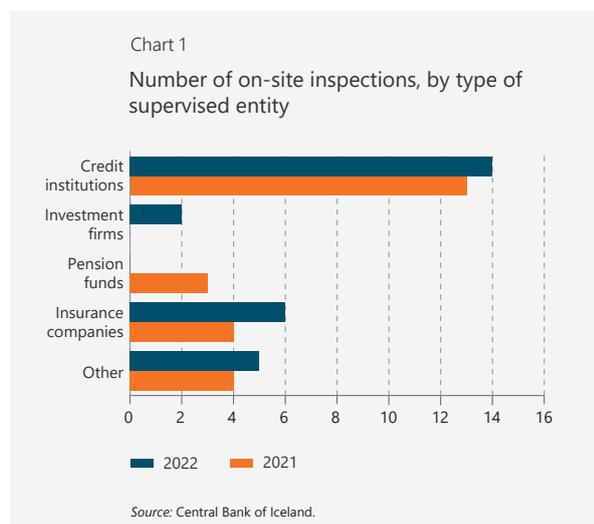
The systemically important banks' overall operating performance was good in 2022. Their after-tax profit



Box 2

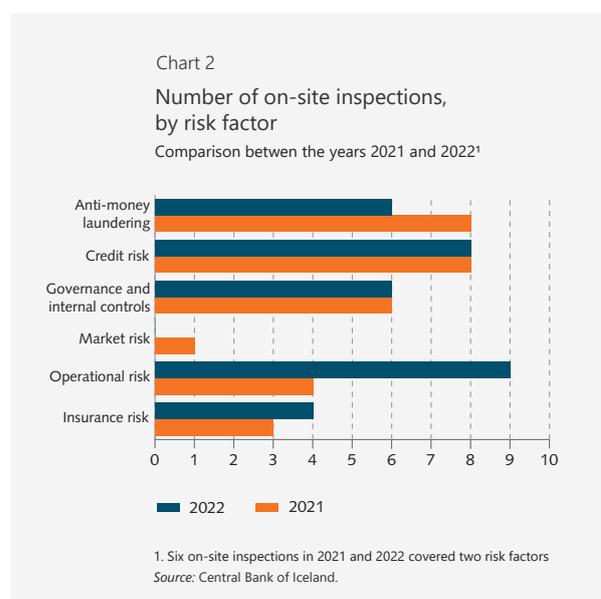
On-site inspections

On-site inspections are conducted in support of regular monitoring of supervised entities. They are among the methods the Central Bank uses to carry out its legally mandated role. The aims of on-site inspections include identifying and assessing underlying risks in supervised entities' activities and evaluating supervised entities' governance practices and framework for internal controls. Decisions about on-site inspections are based on supervised entities' impact category, as well as the results of risk assessments. Supervised entities' size, activities, and risk profile are also taken into account.



27 on-site inspections completed in 2022

The Central Bank completed 27 on-site inspections in 2022, as compared with 24 in 2021. Continued emphasis was placed on assessing supervised entities' anti-money laundering and terrorist financing measures, as well as carrying out checks on credit risk, operational risk, governance practices, and internal controls in supervised entities' activities.



came to 67 b.kr., which is well below the year-2021 profit of 81 b.kr. Their return on equity averaged 10.6% in 2022, as opposed to 12.6% in 2021.

Their returns on core operations were quite acceptable and improved year-on-year, whereas net financial income was negative, and positive loan valuation adjustments declined markedly between years, which affected their operating results.

Climate issues

The EBA is currently engaged in extensive work relating to the harmonisation of financial supervision and climate issues, with the aim of ensuring that climate change and measures taken in response to it do not jeopardise financial stability. Additional requirements to be made of financial institutions concerning climate risk management and stress testing are currently in preparation. Furthermore, financial institutions will be required to inform both the market and the Central Bank more fully about the climate change-related risks to which they are exposed. Moreover, consumer protection will be strengthened with more precise definitions of financial institutions' sustainable product offerings. The Central Bank participates in this work by adapting its own priorities.

European cooperation

Cooperation with the EBA affects regular supervision of financial market entities, as issues emphasised by the EBA are reflected in the Central Bank's priorities and supervisory timetable. Furthermore, the regulatory framework for the banking market is prepared by the EBA, and the Central Bank monitors this work closely, including by participating in EBA work groups and committees.

Supervision of insurance activities

The Central Bank supervises insurance companies that have received operating licences in accordance with the Act on Insurance Activities, no. 100/2016. This entails, on the one hand, regular monitoring in accordance with the Bank's risk-based supervision model, which defines the frequency with which key risk factors in the companies' operations are examined, and on the other hand, proactive checks carried out based on the Bank's priorities and the circumstances in each given instance. The Bank analyses key risks and developments in the markets; furthermore, it conducts monitoring to ensure that the entities concerned satisfy the requirements for their operating licences, that their operating practices are in

compliance with regulatory provisions, and that appropriate measures are taken at all times. Furthermore, the Bank supervises the activities of insurance brokerages and monitors the business conduct of foreign insurers licensed to do business in Iceland.

At the end of 2022, four non-life insurers and four life insurers were operating in Iceland on the basis of operating licences issued by the Central Bank. Also in operation was one reinsurance company engaged in the settlement of legacy obligations, as well as the national catastrophe insurance provider NTI, a Government institution operating under special legislation. Nine insurance brokerages have been licensed by the Central Bank, and a number of insurers and brokers in the European Economic Area (EEA) have submitted notifications of activities in Iceland.

Ongoing monitoring

In 2022, the Bank emphasised analysing business models, governance practices, and operational risks in its supervision of the insurance market.

Ongoing supervision of insurance companies centres on their solvency margins and their ability to cover financial obligations. The Central Bank reviews regularly submitted reports and takes interviews with CEOs, executives responsible for key functions, and external auditors. Furthermore, the Bank carries out an annual assessment of risks relating to insurance companies' operations in accordance with its [Common criteria and methodology for supervision of insurance companies](#).¹ Cooperation with the European Insurance and Occupational Pensions Authority (EIOPA) is an important aspect of ongoing monitoring of insurance companies. EIOPA's priorities are reflected in the Central Bank's supervisory timetable, for example, and EIOPA prepares the regulatory framework for the insurance market. The Bank keeps close track of this work.

On-site inspections

A part of insurance company supervision involves determining whether the companies satisfy requirements concerning technical provisions. In on-site inspections conducted at TM tryggingar hf. and Vátryggingafélag Íslands hf., an assessment was made of information integrity and the approach, methods, and procedures used to assess and determine technical provisions. The inspections also entailed a survey of how the companies' actuaries carried out their tasks. The results of the

1. Almenn viðmið um aðferðafræði vegna eftirlits Fjármálaeftirlitsins með vátryggingafélögum.

inspections were published on the Central Bank website in April and June 2022.

Cyber- and IT risk is a growing risk factor in the financial market, and it is important that supervised entities be aware of the risk, assess it, and manage it appropriately. Inspections were carried out at Sjóvá-Almennar tryggingar hf., TM tryggingar hf., and Vátryggingafélag Íslands hf. with the aim of obtaining and overview of IT-related procedures and contingency measures. Areas examined included use of outsourcing services, contingency frameworks, and the companies' policies and disclosures to the board of directors concerning IT-related operational risk. The results of the inspection at TM tryggingar hf. were published on the Bank's website in May 2022. The inspection at Sjóvá-Almennar tryggingar hf. was still incomplete at the end of 2022, however.

During the year, on-site inspections were also carried out at TM tryggingar hf. and Vátryggingafélag Íslands hf., with the aim of gaining an overview of procedures and processes governing front-line employees' insurance sales to individuals and assessing whether these employees' work was actively monitored. The Bank took a random sample of insurance contracts, and contracts made in the largest insurance categories were examined further. Front-line employees' processes and procedures were examined in order to verify that execution was consistent with the documented description. Managers' monitoring of this work was also examined.

Scenario analyses relating to climate risk

According to Article 45 of the Act on Insurance Activities, no. 100/2016, insurance companies' risk management must include internal assessments of risk and solvency. In carrying out such internal assessments, they shall, among other things, consider the risk associated with their activities and, with the assessment, enable the company to conduct satisfactory analyses and assessments of the risk factors that could remain in place for longer or shorter periods.

Risks associated with climate change could negatively impact insurance companies' current business models, long-term risk profiles, and solvency margins. All else being equal, increased frequency of extreme weather events and other natural disasters will affect insurance protection, the determination of premiums, the scope of insurance policies, and reinsurance. Insurance companies face long-term challenges associated with the potential impact of climate change.

In view of this, the Central Bank sent a circular to insurance companies during the year, drawing their attention to EIOPA's issuance of guidance on climate change materiality assessments and climate change scenarios in the Own Risk and Solvency Assessment (ORSA). Insurance companies can expect the Bank to pay greater attention to these aspects of risk management in coming years.

Information technology, etc.

Because of the risk associated with the operation of supervised entities' information systems, each supervised entity is required to submit a report from an impartial appraiser on its compliance with Guidelines no. 1/2019. Insurance firms and insurance brokerages submitted such reports in 2022, and the Central Bank communicated comments and recommendations to the companies and brokerages as applicable.

During the year, the Bank did some follow-up on year-2021 checks and inspections, including an examination of the activities of key functions with an eye to regulatory requirements such as compliance and risk management. Efforts have also been made to ensure data quality in regular submittals.

In connection with Russia's invasion of Ukraine, the potential effect on insurance companies was mapped out with reference to the scope of insurance policies, as well as a scenario analysis centring on business continuity and the impact on core operations in the event of an interruption of cross-border internet connections.

Foreign insurance companies

Insurance companies with headquarters in other EEA states are authorised to sell insurance and reinsurance policies in Iceland, either through branches or without a fixed business establishment. A large number of insurers have notified the provision of service in Iceland without a fixed business establishment. A majority of the premiums paid to foreign insurance companies are due to the purchase of foreign life insurance policies and other life and medical insurance policies. Information on sales made in Iceland by insurance companies licensed in other EEA states is gathered through EIOPA. Foreign insurance companies' recognised premiums totalled 23.2 b.kr. in 2021, as compared with 23.5 b.kr. in 2020. Figures for 2022 are not yet available. A portion of foreign insurers' recognised premiums derive from foreign life insurance companies that offer supplemental insurance protection on the basis of Article 8 of the Act on Mandatory Insurance

of Pension Rights and on Activities of Pension Funds, no. 129/1997.

Supervision of pension funds and third-pillar pension savings custodians

The Central Bank supervises pension funds and third-pillar pension savings custodians. This entails, on the one hand, regular monitoring in accordance with the Bank's risk-based supervision model, which defines the frequency with which key risk factors in the pension funds' operations are examined, and on the other hand, proactive checks carried out based on the circumstances in each given instance. The Central Bank analyses key risks and developments in the markets; furthermore, it monitors closely to ensure that the entities concerned satisfy the requirements for their operating licences, that their operating practices are in compliance with regulatory provisions, and that appropriate measures are taken at all times. Furthermore, the pension funds' risk assessments are examined, and interviews are taken with selected key employees.

In 2022, a total of 21 pension funds accepted mandatory pension fund premiums in mutual pension divisions, and 13 of them offered voluntary third-pillar pension savings. In addition to these were seven other third-pillar pension savings custodians with a total of 30 divisions in operation: Arion Bank hf., Íslandsbanki hf., Kvika banki hf., Landsbankinn hf., Lífsval (third-pillar pension savings for four savings banks), and two foreign insurers that offered third-pillar pension savings via custom-designed life insurance policies.

Ongoing monitoring

Ongoing monitoring of pension funds and third-pillar pension savings custodians entails monitoring their compliance with regulatory provisions and assessing the risk in their operations. In 2022, particular emphasis was placed on governance, operational risk, and outsourcing. The Bank reviewed the pension funds' own risk assessments and took interviews with managing directors, risk officers, internal auditors, and board members.

Amendments to pension funds' Articles of Association

According to Article 28 of the Act on Mandatory Insurance of Pension Rights and on Activities of Pension Funds, no. 129/1997, all amendments to pen-

sion funds' Articles of Association must be reported to the Minister, and they will not take effect until the Minister has confirmed, upon receiving a statement from the Central Bank, that they are in compliance with both statutory provisions and the provisions of the current Articles of Association for the pension fund concerned. In 2022, the Bank submitted statements on amendments to the Articles of Association for 18 pension funds. Most of the amendments involved changes to future rights accrual, which follow from the adoption of new death and survival tables published before year-end 2021 and included in most pension funds' actuarial assessments for that year. Some funds also chose to change accrued pension rights for previously paid premiums based on the actuarial value of accrued obligations according to previous and new assumptions. Several amendments to Articles of Association centred on other topics, such as increased pension rights, arrangements for one-off payments, and entitlement to children's benefits.

The Central Bank's statements covered topics such as the pension funds' possibility of curtailing fund members' accrued rights, requirements made regarding the minimum protection provided by pension funds, and the presentation of rights tables, among others. In some cases, the Central Bank recommended against confirmation of amendments pertaining to these points. In spite of this, the Ministry of Finance and Economic Affairs confirmed 17 of 18 amendments to Articles of Association.

Governance, operational risk, and outsourcing

Pension funds' governance practices were prominent in checks carried out by the Central Bank in 2022. Emphasis was placed on assessing risk awareness among board members and evaluating the risk culture, as well as examining how environmental, social, and governance (ESG) risks are taken into account in the investment process and how ongoing monitoring of ESG risk is conducted. Furthermore, particular emphasis was placed on pension funds' operational risk; i.e., contingency plans and contingency plan testing were examined and monitoring of outsourcing verified. Comments and recommendations were communicated where applicable following these checks.

Actuarial position

In 2022, the Central Bank asked several pension funds to express their perspectives on minimum insurance protection and on how pension funds' Articles of Association were handled, so that they could fulfil

Suitability assessments and qualifying holdings

Suitability assessments of board members and managing directors

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

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

The Bank assessed the suitability of 97 board members and managing directors in 2022. Of these, two did not pass the assessment due to inadequate expertise or failure to appear for the interview. As before, most of the assessments focused on board members. Nearly all of the assessments that had been postponed in previous years because of the pandemic were completed in 2022.

Qualifying holdings

The Central Bank assesses the eligibility of parties intending to acquire qualifying holdings in supervised entities. A qualifying holding is a direct or indirect holding in a supervised

Table 1 Suitability assessments

Type of supervised entity	Number
Commercial banks	5
Savings banks	8
Credit undertakings	14
Investment firms	9
Payment institutions	4
Electronic money institutions	1
UCITS management companies	7
AIF management companies	3
Insurance companies	6
Insurance brokerages	1
Pension funds	36
Central securities depositories	2
Entities with debt collection licences	1
Total	97

Table 2 Suitability assessments

	2022	2021	2020
Number of board members and managing directors assessed	97	94	105
Number who did not pass the assessment due to inadequate expertise or failure to appear for interview	2	2	0

entity amounting to 10% or more of its share capital, guarantee capital, or voting rights, or another holding that enables the exercise of a significant influence on the management of the entity concerned.

Notifications of qualifying holdings in two supervised entities were processed during the year. In connection with the grant of an operating licence to indó sparisjóður hf., Haukur Skúlason, Tryggvi Björn Davíðsson, and Gnitanes ehf. were deemed eligible to own a qualifying holding in the savings bank; cf. the Act on Financial Undertakings, no. 161/2002. In addition, Rapyd Financial Network (2016) Ltd. and related parties were deemed eligible to own a qualifying holding in Valitor hf.; cf. the Payment Services Act, no. 114/2021.

their obligations – cf. Article 27, Paragraph 1 of the Act on Mandatory Insurance of Pension Rights and on Activities of Pension Funds, no. 129/1997 – and provide the required minimum protection as laid down in Article 4, Paragraph 1 of the same Act. As a result of this, several pension funds that had not previously

responded to new death and survivor tables made modifications to future rights accrual (rights tables).

Investment authorisations

Pension funds and third-pillar pension savings custodians are required to send the Central Bank quarterly

reports itemising their investments. The review of these statements in 2021 and 2022 revealed violations by Festa and Lífeyrissjóður Vestmannaeyja. In both instances, investments in UCITS funds exceeded the authorised limits pursuant to Act no. 129/1997. The Bank issued comments on these violations and demanded remedial action. The results of the inspections were published on the Central Bank website in January and July 2022.

Pension funds' sustainability journey

The Central Bank and the Icelandic Pension Funds Association held a well attended joint symposium on sustainable finance and investment. Following the scheduled talks, two workshops were held: one on pension funds' obligations vis-à-vis sustainability, and another on incorporating ESG perspectives into investment processes and ownership strategies.

Information systems, etc.

Because of the risk associated with the operation of information systems, each supervised entity is required to submit a report from an impartial appraiser on its compliance with Guidelines no. 1/2019. In 2022, all of the pension funds submitted such reports, and the Central Bank communicated its comments and recommendations to them as applicable.

The implementation of the Regulation on Risk Monitoring Systems for Pension Funds, no. 590/2017, regarding the presentation of pension funds' risk appetite and risk tolerance is being followed up. The work will continue in 2023, as the Bank aims to provide detailed guidance to pension funds.

In connection with Russia's invasion of Ukraine, the effects on pension fund operations were mapped out with an eye to the impact on business continuity in the event of an interruption of cross-border internet connections.

Supervision of business conduct and consumer affairs

The Central Bank conducts monitoring to ensure that supervised entities' business conduct is sound and appropriate. This entails, among other things, proactive checks and checks carried out in response to tips submitted to the Bank. Analysis is also carried out, including analysis of investments by retail investors. The Bank's objectives in this regard are to promote improved financial market conduct and strengthen

consumer protection. Business conduct includes all types of communications between supervised entities and their current and prospective customers in connection with the sale of goods and services; i.e., provision of information to customers, advisory services, pricing transparency, marketing, and handling of complaints.

In 2022, the Central Bank concluded various investigations relating to business conduct and consumer affairs. The Bank also initiated wide-ranging investigations of domestic sellers and arrangers in Icelandic State Financial Investments' offering of a 22.5% stake in Íslandsbanki hf., held by the Government. The offering took place on 22 March 2022. The investigations in question are still underway.

On-site inspections

To a large degree, financial services and customer interactions have been digitised, and new options for cross-border operations have opened up. Under these circumstances, it is challenging to maintain a satisfactory overview of the service available to consumers in Iceland and of the methods used to reach customers. There is increased risk of mis-selling, which is the practice of selling products or services that are unsuitable for the customer or of providing customers with incorrect or misleading information. On-site investigations were carried out at Afkoma váttryggingamiðlun ehf. and Tryggingavernd ehf., in which the Bank examined the companies' measures to prevent conflicts of interests, information disclosures, needs analyses, and data storage in connection with the distribution of insurance-linked investment products.

Marketing

An investigation was conducted of Stefmir hf.'s marketing of an alternative investment fund for retail investors, Stefmir-Samval hs. The objective was to determine whether the advertisement published by Stefmir hf. on social media and television satisfied the requirements made of marketing materials for UCITS and alternative investment fund managers pursuant to the Act on Markets in Financial Instruments, no. 115/2021; cf. Commission Delegated Regulation (EU) 2017/565, which has the force of law in Iceland. Comments were made on the presentation of text on risk and previous performance, and on the size of the font used in the advertisement. These were considered inconsistent with Article 34, Paragraph 1 of the Act; cf. further specified provisions of the Regulation. The results of the investigation were published in December 2022.

Collections practices

The results of the investigation of BPO Innheimta ehf.'s collections practices were published at the beginning of 2022. The aim of the investigation was to determine whether the company had adhered to good collections practices pursuant to Article 6 of the Act on Collections, no. 95/2008, when it began collecting a claims portfolio comprising claims due to payday loans. The investigation revealed that the company violated the aforementioned provision on good collections practices by commencing collections on the claims portfolio without satisfactorily examining the claims, including collections costs, so as to ensure that the company would be able to provide each debtor with information on the origins and amount of the claim during the collections process.

Unblending of interchange fees for card-based payments

Investigations were conducted of three acquirers – Rapyd Europe hf., SaltPay IIB hf., and Valitor hf. – concerning the unblending of interchange fees for card-based payments. The objective of the investigations was to determine whether the companies fulfilled the requirements made of them pursuant to Article 9, Paragraphs 1 and 2 of Regulation (EU) 2015/751 on interchange fees for card-based payment transactions, which has the force of law in Iceland; cf. the Act on Interchange Fees for Card-Based Payments, no. 31/2019. The results of the investigations, published on the Central Bank website in December 2022, were that the companies' practices had been in violation of the provisions of the Regulation.

Provision of information to consumers

Information on violations by NOVIS

In February 2022, the [Central Bank published information for consumers on insurance company NOVIS](#),² in view of the decision by the National Bank of Slovakia (NBS), which entailed a conclusion on violations by the company. NOVIS products are distributed in Iceland through insurance brokers, but NBS is the competent supervisory authority in the company's home state. In the opinion of NBS, the company's violations centred on its failure to conduct its activities with prudence as a guiding principle over a specified period of time and its failure to maintain the required solvency margin.

2. The company's full name is NOVIS Versicherungsgesellschaft, NOVIS Compagnia di Assicurazioni, NOVIS Poistovňa a.s.

Information on risks associated with crypto assets

Consumer demand for crypto assets such as Bitcoin has been considerable, with a recent Central Bank survey showing that nearly 9% of respondents had invested in such assets. Such transactions are highly risky. Nevertheless, the Central Bank does not conduct financial monitoring of virtual currency service providers, nor does it conduct consumer-based monitoring of transactions in virtual assets. An article entitled [Neytendur og hættur á fjármálamarkaði \[Consumers and risks in the financial market\]](#) was published in the Central Bank's web-based publication *Kalkofninn* in October, followed by another article, [Áhætta sem fylgir viðskiptum með sýndareign \[Risks attached to trading in cryptoassets\]](#), in November. Both articles are in Icelandic. Social media contain a large amount of incorrect or misleading information on virtual assets, as well as veiled advertisements and imprudent advice from parties that are not always impartial. It is vital that consumers acquaint themselves with all of the costs associated with purchasing financial products and services. Information on costs should be stated clearly in terms and conditions, as well as in other informational material on financial products, such as Key Information Documents (KID).

Tips from consumers

Each year, the Central Bank receives queries, comments, and complaints from the public concerning supervised entities' business conduct, and it provides information and guidance to the parties concerned. Comments on supervised entities' business practices are also used to analyse potential risks and problems in the market, and such analysis can result in proactive checks and investigations. In 2022, the Bank received 137 comments pertaining to business conduct and consumer affairs in the financial market. The Central Bank does not issue rulings on disputes between financial market entities and their customers, however.

Supervision of the securities market

Supervision of the securities market contributes, among other things, to a more effective and secure market. This is accomplished in a number of ways, such as ongoing supervision of information disclosures made by securities issuers, supervision of market participants' business conduct – including potential insider misconduct and market abuse – and examination of reports submitted to the Bank by supervised entities. Furthermore, the Bank supervises the activities of securities exchange-

es (one party) and central securities depositories (two parties). The Central Bank also cooperates with other Nordic financial supervisors in supervising the Nasdaq securities exchanges in the region. Furthermore, it is a member of a supervisory committee that includes representatives from competent authorities in the Baltic countries, with a focus on the activities of the Nasdaq CSD SE securities depository, whose activities extend to the entire Nordic-Baltic region. Among other tasks, the supervisory committee conducts an annual review of the premises for the depository's operating licence.

Supervision of market conduct and penalties, etc.

In 2022, the Bank opened investigations into 33 cases stemming from the securities market, 16 of which resulted from tips submitted by Nasdaq Iceland. As in previous years, most of the cases involved alleged insider misconduct and issuers' information disclosure requirements. Of the cases investigated, 12 were concluded in 2022, and as in previous years, most of them (9 cases in 2022) were closed without a determination that a violation had been committed. Three cases were concluded by settlement between the parties.

Two of the cases pertained to violations by pension funds Stapi lífeyrissjóður and Frjálsi lífeyrissjóður of the provisions of Article 21, Paragraph 1, cf. Article 12, Paragraph 1, of the Act on Information Disclosure Requirements for Securities Issuers and Flagging Requirements, no. 20/2021. In the former case, the Central Bank and Stapi reached an agreement in May 2022 to conclude the case by settlement with the payment of a fine amounting to 1.5 m.kr., due to Stapi's failure to notify changes in a substantial share of voting rights in Festi hf. by the required deadline. A transparency announcement about the case was published that same month. The latter case concluded in June 2022 with an agreement between the Central Bank and Frjálsi lífeyrissjóður to conclude the matter by settlement with the payment of a fine amounting to 1.2 b.kr., owing to the pension fund's failure to notify changes in a substantial share of voting rights in real estate firm Reitir hf. by the required deadline. A transparency announcement on the case was published in July. In the third case, which centred on pension fund Birta lífeyrissjóður's violation of Article 21, Paragraph 2, cf. Article 12, Paragraph 2 of the same Act, the Central Bank and Birta reached an agreement to conclude the matter by settlement in September 2022 with the payment of a 900,000 kr. fine, due to the pension fund's failure to notify changes in a substantial share of voting rights in Sýn hf. by the required deadline. A transpar-

ancy announcement on the case was published in October.

On-site inspections

The Central Bank concluded investigations of TRS II notifications by Arion Bank hf., investment bank Fossar fjárfestingarbanki hf., and Íslandsbanki hf. concerning transactions with financial instruments. An appraisal was made of the internal structures that are intended to ensure the quality of the notifications. Furthermore, a random sample survey was made of the contents of notifications to the Central Bank. The Bank will continue to prioritise the quality of such reports from financial institutions and aims to carry out two to three such on-site inspections each year.

Verðbréfamiðstöð Íslands hf.'s operating licence

In May 2022, the Central Bank received an application from Verðbréfamiðstöð Íslands hf. (VBM) for the renewal of its licence to operate as a central securities depository in Iceland pursuant to the Act on Central Securities Depositories and Settlement and Electronic Registration of Financial Instruments, no. 7/2020. VBM had previously been granted a licence under the previous Act on Electronic Registration of Title to Securities, no. 131/1997, but had continued to operate on the basis of a temporary provision in the new Act. Regulation (EU) no. 909/2014 of the European Parliament and of the Council on improving securities settlement in the European Union and on central securities depositories (CSDR) had been implemented in Iceland with the new Act, and a new operating licence was therefore granted in accordance with the requirements in the Regulation. After the entry into effect on 23 March 2021 of the Central Bank Rules on Securities Settlement and Central Securities Depositories, no. 377/2021, which implemented delegated CSDR regulations on operating licences for securities depositories, VBM had six months to submit an application to the Bank in accordance with the requirements laid down in the aforementioned temporary provision. On 1 July 2022, the application was deemed complete by the Bank, and the operating licence was granted at the end of December 2022. The CSDR makes stringent demands of securities depositories and their operations, including capital requirements and requirements relating to governance and risk management. The Regulation is also intended to foster competition among depositories, in part by setting rules on how interconnections between them shall be handled.

Securities prospectuses

The Central Bank of Iceland confirmed 23 securities prospectuses during the year. This is 12% fewer than in 2021. The year-on-year decline is due mainly to market conditions, which prompted several issuers to postpone drafting a prospectus until conditions improved. As in 2021, two prospectuses were for public stock offerings, and admittance of the shares for trading on a regulated market was approved. The companies in question were Ölgerðin Egils Skallagrímssonar hf. and Nova klúbburinn hf.

Table 1 Number of prospectuses and supplements approved by the Central Bank

	2020	2021	2022
Prospectuses	34	26	23
P.a. – base prospectuses	14	12	10
Appendices	21	9	9
Final terms and conditions	109	68	72 ¹

1. The number of final terms and conditions includes terms and conditions for prospectuses that have been notified to Iceland.

Short positions in stocks

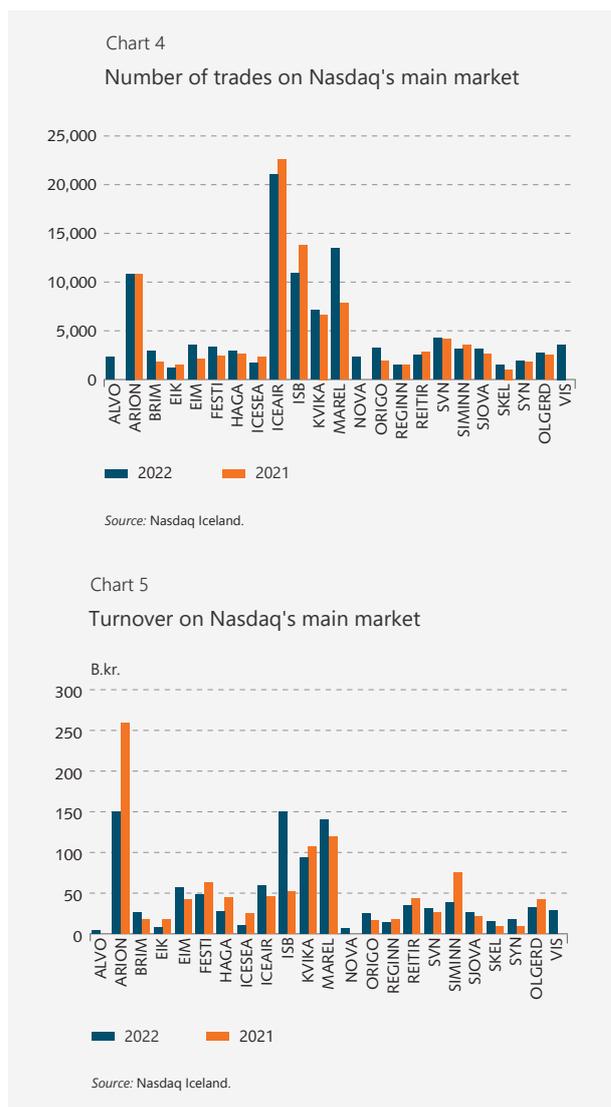
In spite of steep declines in the Nasdaq Iceland Main Market, there was only a minor increase in the number of notifications of short positions. Table 2 gives a comparison of the number of notifications in 2021 and 2022, by month. In all, the Bank received 50 such notifications in 2022, as compared with 44 in 2021.

Table 2 Notifications of short positions

	2021	2022
January	2	2
February	3	4
March	2	6
April	5	1
May	0	3
June	2	5
July	3	2
August	4	0
September	2	6
October	9	16
November	6	3
December	6	2
Total	44	50

Developments in the securities market

Share prices fell markedly in 2022. Most shares on the Nasdaq Iceland Main Market declined in price, although there were eight companies whose share prices rose. The OMX10 index fell by 26.50% in 2022. There were three new Main Market listings: Nova



klúbburinn hf., Ölgerðin Egils Skallagrímssonar hf., and Alvotech Holdings S.A. There were two new listings on the First North Market as well – Alvotech Holdings S.A. and Amaroq Minerals Ltd. – the former of which moved to the Main Market late in the year. Trading in the market declined by 13% between 2021 and 2022. The companies that stand out in terms of the number of trades are Icelandair Group hf., Marel hf., Íslandsbanki hf., and Arion Bank hf., and as in 2021, Icelandair Group accounted for the largest share by far. Chart 4 shows the number of trades in the Main Market in 2021 and 2022, by company.

Turnover with shares in companies listed on the Main Market remained broadly flat between 2021 and 2022. Three companies were clear leaders in terms of turnover: Arion Bank hf., Íslandsbanki hf., and Marel hf. Chart 5 shows the distribution of Main Market turnover, by company.

Shareholder numbers rise and age composition has changed

The number of shareholders in the Icelandic stock market has risen sharply since 2018. Chart 6 shows the number of shareholders in listed companies at the end of each of the past five years.³ The data show increased stock market participation by individuals and legal entities, with shareholder numbers rising from 21,659 at the end of 2018 to 73,489 by year-end 2022. The figures include shareholders in companies listed on both the Main Market and First North.

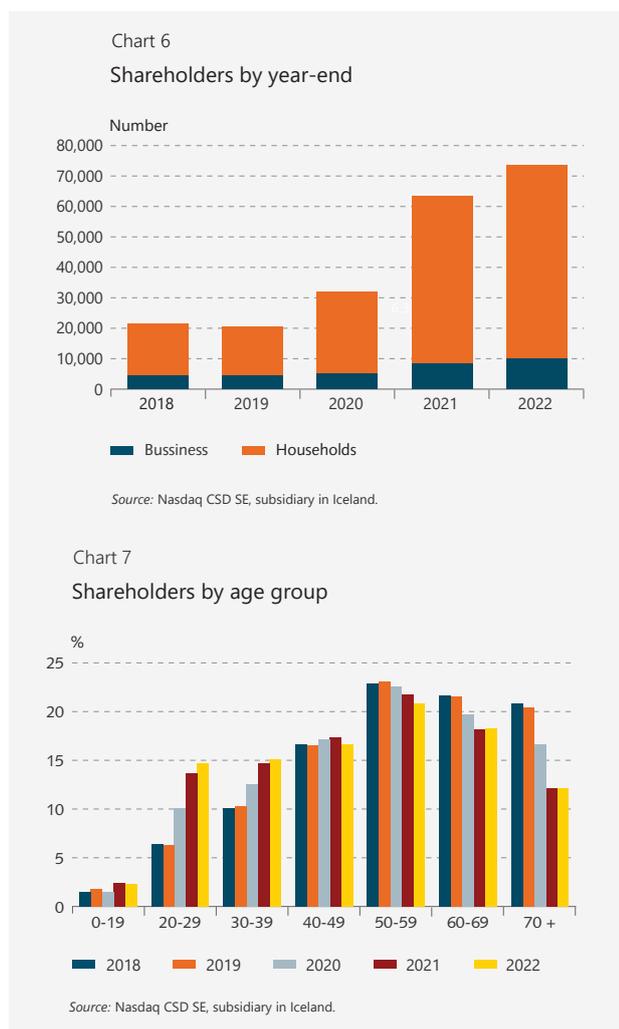


Chart 7 shows an interesting trend in the age composition of individuals listed as owners of shares in Main Market and First North companies, as the 20-39 age group has grown significantly in recent years.

3. Data from the Icelandic branch of Nasdaq CSD SE do not include information on shareholders whose shares are held at other depositories or in nominee accounts. Furthermore, no information on shareholder numbers was received from Amaroq Minerals Ltd. It should also be borne in mind that many shareholders own shares in more than one company and could therefore be counted multiple times.

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

The Central Bank supervises both UCITS management companies, which are authorised to operate collective investment funds, and alternative investment fund managers, which are authorised to operate alternative investment funds for retail investors and other alternative investment funds. Such supervision centres mainly on whether or not the funds in question invest in accordance with statutory authorisations and their own internal rules. Factors such as risk management, conflicts of interests, and liquidity management are monitored as well, as are the obligations of fund custodians.

At the end of 2022, six fund management companies were in operation, all of which had also received licences to manage alternative investment funds. Furthermore, there were three companies that only had licences to manage alternative investment funds. An additional 14 companies were registered as alternative investment fund managers, including one securities firm. Four new management companies were registered in 2022.

Applications for marketing authorisation

In 2022, the Bank received several applications from third-country (i.e., non-EEA) alternative investment fund managers seeking authorisation to market products to institutional investors in Iceland. Applications from 15 management companies and 26 alternative investment funds were approved during the year. At the end of 2022, 42 fund managers and 86 alternative investment funds from third countries were authorised to market products to institutional investors in Iceland.

Common supervisory action

In spring 2022, a common supervisory action was conducted on the execution of asset valuations by UCITS funds and open-ended alternative investment funds in a general check that extended to selected UCITS management companies and alternative investment fund managers in Iceland. The purpose of the check was to ensure increased harmonisation in the supervision of valuation practices within the EEA and to determine whether such practices are in compliance with regulatory provisions, guidance documents, and European Securities and Markets Authority (ESMA) Guidelines. Particular attention was paid to asset classes of funds

Licensing

One of the Central Bank's tasks is to process applications by businesses – and, in some instances, individuals – for licences to operate in the financial market. Such work can be broad in scope and requires the involvement of experts with wide-ranging knowledge. There were significant changes relating to supervised entities' operating licences and other permits in 2022:

- Savings bank indó sparisjóður hf. was granted a licence to operate as a savings bank on the basis of the Act on Financial Undertakings, no. 161/2002. The savings bank is authorised to accept deposits and other repayable funds from the public and to issue loans funded with repayable funds from the public. Furthermore, the company is authorised to provide payment services pursuant to the Payment Services Act, no. 114/2021.
- Investment bank Fossar fjárfestingarbanki hf. (previously Fossar markaðir hf.) received an expanded licence to operate as a credit institution on the basis of the Act on Financial Undertakings, no. 161/2002, whereas it was previously licensed to operate as an investment firm. Fossar is authorised, among other things, to accept repayable funds (but not deposits) from the public, to issue loans funded with repayable funds from the public, and to conduct proprietary trading.
- Verðbréfamiðstöð Íslands hf. (VBM) received a renewed licence to operate as a central securities depository on the basis of the Act on Central Securities Depositories and Settlement and Electronic Registration of Financial Instruments, no. 7/2020. It had previously been licensed to operate as a central securities depository pursuant to older legislation; i.e., the Act on Electronic Registration of Title to Securities, no. 131/1997. VBM is licensed to handle initial public offerings in a digital system, to provide and act as custodian for securities accounts at the top tier level, and to operate a securities settlement system. Furthermore, it is licensed to provide ancillary non-banking services that do not entail credit risk or liquidity risk.
- Investment firm Íslensk verðbréf hf. was authorised to act as a custodian for UCITS funds pursuant to the Act on Undertakings for Collective Investment in Transferable Securities (UCITS), no. 116/2021. UCITS custodians' roles include monitoring UCITS funds' cash flows and ensuring the receipt of funds, as well as holding UCITS funds' financial instruments in custody and ensuring that they are segregated.
- Akta sjóðir hf. received an expanded licence to carry out asset management and investment advisory activities, and to receive and transmit orders pertaining to financial instruments on the basis of the Act on Alternative Investment Fund Management Companies, no. 45/2020.
- Leitar Capital Partners ehf., Óðinn Capital ehf., Seigla eignastýring ehf., and Viska Digital Assets ehf. were registered as alternative investment fund managers; cf. the Act on Alternative Investment Fund Management Companies, no. 45/2020.
- Rafmyntasjóður Íslands ehf. was registered as a virtual currency service provider on the basis of the Act on Measures against Money Laundering and Terrorist Financing, no. 140/2018. Furthermore, Skiptimynt ehf.'s licence to operate as a virtual currency service provider was revoked at the company's request (cf. the same Act), and service provider Bálkar Miðlun ehf. took over the company's activities.
- FX Iceland ehf. was removed from the list of currency exchange providers at the company's request; cf. the Act on Measures against Money Laundering and Terrorist Financing, no. 140/2018.
- Skilum ehf. (previously Skilaráðgjöf ehf.) received a licence to operate as a collections agency pursuant to the Act on Collections, no. 95/2008. The company's collections licence includes preliminary and intermediate stages of collections of outstanding monetary claims on behalf of others, as well as collections of monetary claims it has purchased for the purpose of collecting them itself as a commercial enterprise.

Unauthorised operation of licensed activities

The Central Bank regularly receives tips on companies that are suspected of carrying out licensed activities without the required licence or registration, and it also conducts proactive checks of such cases. In 2022, the Bank examined the activities of 32 parties, including two cases still pending from 2021. Of these cases, 30 were proactive checks and two resulted from tips received by the Bank. Examinations of 22 parties' activities are still ongoing but are scheduled for completion in 2023.

that are less liquid than is generally the case with listed assets, with the objective of determining whether valuation was carried out in compliance with general principles and accepted methods, irrespective of whether conditions were deemed ordinary or extraordinary. The results from ESMA have not yet been published.

Investigation of custodians' obligations

During the year, the Central Bank completed an examination of the activities of UCITS and alternative investment fund custodians, particularly to include compliance with custodians' role, which is described in the Act on Undertakings for Collective Investment in Transferable Securities (UCITS), Investment Funds, and Institutional Investment Funds, no. 128/2011, which was in force at that time, and the Act on Alternative Investment Fund Management Companies, no. 45/2020. The investigation was a proactive check that extended to specified custodians in Iceland. Its purpose was, among other things, to gain an overview of the structure and activities of companies that act as custodians for UCITS and alternative investment funds, and to verify their compliance with specified regulatory provisions. In addition to the aforementioned legislation, particular reference was made to Chapter IV of Commission Delegated Regulation (EU) no. 231/2013, with subsequent amendments, which was adopted in Iceland by means of Regulation no. 555/2020, with subsequent amendments.

Supervision of anti-money laundering and terrorist financing measures

The Central Bank carries out risk-based supervision of entities subject to notification requirements (obliged entities) in accordance with the Act on Measures Against Money Laundering and Terrorist Financing, no. 140/2018. Risk-based supervision is a methodology that entails assessing the risk of money laundering and terrorist financing in the financial market and prioritising supervisory measures in accordance with the results of that assessment. It implies, among other things, that supervision is more frequent and more thorough where the risk is greatest.

There were 97 such obliged entities at the end of 2022, up from 95 a year earlier. They include financial institutions, payment institutions, electronic money institutions, UCITS management companies, alternative investment fund management companies, life insurers,

pension funds, currency exchange centres, and virtual currency service providers, as well as branches, agents, and distributors representing foreign financial institutions in Iceland.

Checks and inspections

Checks on obliged entities' anti-money laundering and terrorist financing measures may take the form of on-site inspections or proactive checks. They may be theme-based checks in which the same factors are examined at numerous entities. The Bank carried out a number of checks in 2022. They included both on-site inspections and other types of checks involving, among other things, follow-up of previous checks on risk assessments and risk-based actions by obliged entities. The results of one such check, carried out at Sparisjóður Strandamanna ses., were published on the Central Bank website in November 2022.

In addition to the above, the Bank uses other methods to highlight obliged entities' obligations or to gather information on measures carried out by them. Examples of such methods include presentations given by the Bank, as well as guidance given in response to queries received from obliged entities. Furthermore, during the year the Bank worked towards strengthening cooperation and exchange of information between supervision of anti-money laundering/terrorist financing measures, on the one hand, and prudential supervision of the same measures on the basis of the EBA Guidelines, on the other.

Checks at investment firms and other entities

In 2022, compliance with the Act on Measures against Money Laundering and Terrorist Financing was examined with on-site inspections at investment firms ACRO verðbréf hf. and Íslensk verðbréf hf.; virtual currency service providers Bálkar Miðlun ehf. and Myntkaup ehf.; and registered consumer lender NÚNÚ Lán ehf. The inspections entailed examinations of business-wide and individual risk assessments, due diligence checks, regular supervision, obligations to investigate and to notify, compliance with international sanctions, and monitoring of politically exposed persons, as well as policies, management, and procedures.

Data entry and traceability

An on-site inspection was carried out at Landsbankinn hf. with the aim of checking on the entry and traceability of data in the bank's systems, as well as checking items relating to the previous on-site inspection of the bank's risk assessment and risk-based measures. The

inspection extended only to certain risk factors in the bank's risk assessment. The Central Bank also examined how the bank carried out customer risk classification, due diligence checks, and regular supervision with reference to the risk assessment.

Penalties

In the wake of the on-site inspection of SaltPay IIB hf.'s anti-money laundering and terrorist financing measures, conducted in 2021, it was concluded that the company had violated Articles 5, 8, 10, 17, 28, and 30 of the Act on Measures against Money Laundering and Terrorist Financing. In January 2022, it was agreed to conclude the matter by settlement. With the settlement, the company agreed to pay a fine of 44.3 m.kr. to the Treasury and to undertake satisfactory remedial action within a specified period of time, in accordance with the Central Bank's demands. The agreement was published on the Bank's website in February 2022.

In August 2022, a transparency announcement was published about the Central Bank and FX Iceland ehf.'s November 2021 agreement to conclude by settlement, with payment of a fine in the amount of 2.7 m.kr., a case involving the company's violation of Article 5, Paragraphs 1, 2, and 4; Article 7, Paragraph 1; Article 10, Paragraph 4; Article 13; Article 21; Article 28, Paragraph 1; and Article 34, Paragraph 3 of the Act on Measures against Money Laundering and Terrorist Financing, in connection with wide-ranging deficiencies in the company's anti-money laundering and terrorist financing measures. Later that year, the company was removed from the list of currency exchange service providers at its own request.

Educational material and guidelines

Publication of best practice report

In April 2022, the Central Bank published a best practice report on [Money laundering and terrorist financing risk assessments](#). The purpose of the report is to communicate the Bank's knowledge and experience of requirements for and best practices in both the preparation of obliged entities' money laundering and terrorist financing (ML/TF) risk assessments and the regular monitoring of their customers. The report is intended as a tool for board members, managing directors and other managers, monitoring and supervisory units, and front-line employees of obliged entities to use in order to understand the requirements entailed in the Act on Measures to Prevent Money Laundering and Terrorist Financing. The publication of the report was followed up with a breakfast meeting held in May 2022.

Updated list of politically exposed occupations and high-risk jurisdictions

In 2022, the Bank issued an updated list of occupations classified as high-level public positions in connection with its assessment of politically exposed persons. The update was carried out in June and again in December. Furthermore, as it has done in the past, the Bank updated the list of high-risk and uncooperative jurisdictions three times during the year, in accordance with changes made to comparable lists issued by the Financial Action Task Force (FATF) and the European Union.

Implementation of EBA guidelines

The Central Bank has implemented the [EBA Guidelines on policies and procedures in relation to compliance management and the roles and responsibilities of the AML/CFT Compliance Officer](#). It has also implemented two other sets of EBA guidelines: the [Guidelines on cooperation and information exchange between prudential supervisors, AML/CFT supervisors, and financial intelligence units](#) and the [Guidelines on the characteristics of a risk-based approach to anti-money laundering and terrorist financing supervision](#). The latter two sets of guidelines are directed at the Central Bank's activities and are not intended for obliged entities.

Informational materials on targeted sanctions

Because of the sanctions imposed on Russian entities in the wake of Russia's invasion of Ukraine, the Bank has provided wide-ranging informational materials relating to monitoring of parties on targeted sanctions lists. In March 2022, the Bank drew obliged entities' attention to the imposition and monitoring of sanctions with a press release published on its website. It also sent a number of sanctions-related circulars to obliged entities and published a range of informational materials on the topic on its website. Moreover, the Bank held an educational meeting for obliged entities in May 2022, focusing on monitoring of sanctions.

Central Bank conference

In September 2022, the Central Bank held a conference on measures against money laundering and terrorist financing that brought together AML/CFT experts from Iceland and abroad. Topics covered at the conference ranged widely, including monitoring and supervision, changes within the EU, and law enforcement perspectives.

Penalties

Cases concluded with imposition of penalties in 2022

In 2022, the Central Bank concluded five cases involving violations by reaching a settlement with the parties concerned. Transparency announcements have been published for the cases concluded by settlement during the year, as well as for one case concluded by settlement in late 2021. These six cases are described below. None of the cases prompted a decision by the Financial Supervision Committee to impose administrative fines for violations in 2022.

FX Iceland ehf.

In November 2021, the Central Bank and FX Iceland ehf. reached an agreement to conclude by settlement, with payment of a fine in the amount of 2,700,000 kr., a case involving the company's violation of Article 5, Paragraphs 1, 2, and 4; Article 7, Paragraph 1; Article 10, Paragraph 4; Article 13; Article 21; Article 28, Paragraph 1; and Article 34, Paragraph 3 of the Act on Measures against Money Laundering and Terrorist Financing, no. 140/2018, in connection with wide-ranging deficiencies in the company's anti-money laundering and terrorist financing measures. A transparency announcement on the case was published in August.

SaltPay IIB hf.

In January 2022, the Central Bank and SaltPay IIB hf. reached an agreement to conclude by settlement, with payment of a fine in the amount of 44,300,000 kr., a case involving the company's violation of Articles 5, 8, 10, 17, 28, and 30 of the Act on Measures against Money Laundering and Terrorist Financing, no. 140/2018, in connection with wide-ranging deficiencies in the company's anti-money laundering and terrorist financing measures. A transparency announcement on the case was published in February.

Stapi Pension Fund

In May 2022, the Central Bank and pension fund Stapi lífeyrissjóður reached an agreement to conclude by settlement, with payment of a fine in the amount of 1,500,000 kr., a case involving the pension fund's violations of Article 21, Paragraph 1, cf. Article 12, Paragraph 1, of the Act on Information Disclosure Requirements for Securities Issuers and Flagging Requirements, no. 20/2021, in that it did not submit notification of changes in a substantial share of voting rights in Festi hf. by the required deadline. A transparency announcement on the case was published in May.

Arion Bank hf.

In July 2022, the Central Bank and Arion Bank hf. reached an agreement to conclude by settlement, with payment of a fine in the amount of 5,500,000 kr., a case involving the bank's violation of Article 58 of the Act on Financial Undertakings, no. 161/2002, in that the bank had disclosed confidential information about a customer. A transparency announcement on the case was published in July.

Frjálsi Pension Fund

In June 2022, the Central Bank and pension fund Frjálsi lífeyrissjóðurinn reached an agreement to conclude by settlement, with payment of a fine in the amount of 1,200,000 kr., a case involving the pension fund's violations of Article 21, Paragraph 1, cf. Article 12, Paragraph 1, of the Act on Information Disclosure Requirements for Securities Issuers and Flagging Requirements, no. 20/2021, in that it did not submit notification of changes in a substantial share of voting rights in real estate firm Reitir hf. by the required deadline. A transparency announcement on the case was published in July.

Birta Pension Fund

In September 2022, the Central Bank and pension fund Birta lífeyrissjóður reached an agreement to conclude by settlement, with payment of a fine in the amount of 900,000 kr., a case involving the pension fund's violations of Article 21, Paragraph 1, cf. Article 12, Paragraph 1, of the Act on Information Disclosure Requirements for Securities Issuers and Flagging Requirements, no. 20/2021, in that it did not submit notification of changes in a substantial share of voting rights in Sýn hf. by the required deadline. A transparency announcement on the case was published in October.

Administrative fine cases brought before the courts

Tryggingar og ráðgjöf ehf.

With a judgment handed down by the District Court of Reykjavík in Case no. E-506/2021 on 9 March 2022, the Central Bank's decision to impose an administrative fine of 35,000,000 kr. in a case involving Tryggingar og ráðgjöf ehf.'s violations of Article 6, Paragraphs 1 and 2 and Article 140(f), Paragraph 3 of the Act on Insurance Contracts, no. 30/2004, and Article 32, Paragraph 1 of the Act on Distribution of Insurance, no. 62/2019, was confirmed, but the amount of the fine was reduced to 33,000,000 kr. The

company appealed the District Court judgment to the Court of Appeals, and the Central Bank filed a counterappeal.

Arion Bank hf.

In July 2020, the Central Bank decided to impose an administrative fine of 87,700,000 kr. on Arion Bank hf. for violations of Article 122, Paragraph 1 of the Act on Securities Transactions, no. 108/2007, then in force. Arion Bank initiated

legal proceedings against the Central Bank, demanding, as its primary claim, that the decision be invalidated, and as its reserve claim, that it be modified. With a judgment handed down by the District Court of Reykjavík in Case no. E-6521/2020 on 19 April 2022, the Central Bank's decision was confirmed. Arion Bank has appealed the District Court judgment to the Court of Appeals.

Key priorities in the 2023 work timetable



The Central Bank prepares a detailed supervisory work timetable each year. This work is based in part on the Bank's [Supervisory Strategy for 2022-2024](#), recent risk assessments, and the strategic supervisory priorities prepared by EBA, EIOPA, and ESMA. This section contains a summary of key priorities in the 2023 timetable. The Central Bank publishes key priorities in its timetable with the aim of promoting transparency in its work. Publication enables supervised entities to take the Bank's strategy and priorities into account in their activities. The priorities are published with the provision that they may be subject to change, as supervision of financial activities is based on the most recent information available at any given time.

Priorities 2023

Cyber-risk and IT risk

In recent years, increasing emphasis has been placed on ensuring that supervised entities attend to cyber- and IT risk in their activities and strengthen their defences against cyberthreats of all kinds. This topic will remain a priority in 2023, and the Bank will stress that supervised entities shore up their frameworks and defences – including defences against cyberattacks – and strengthen their ability to respond to serious incidents. Outsourcing by supervised entities of important IT services and supervision of such outsourcing will continue to be a focus of the Central Bank's supervisory activities.

Supervision of business practices

Checks on supervised entities' business practices will include several points of emphasis during the year. The Central Bank pays increasing attention to supervised

entities' business practices in cases where commercial banking and insurance activities, for instance, are operated within the same company. Such joint operation and integration is accompanied by moral hazard, and it is vital that the supervised entities in question respond appropriately and demonstrate conduct consistent with sound and appropriate business practices in its interactions with customers; for instance, in matters regarding bid preparation and sales methods. The Bank also pays attention to supervised entities' compliance with guidelines pertaining to product oversight and governance (POG) and plans to conduct checks on this during the year.

Supervision of anti-money laundering and terrorist financing measures

As in recent years, checks and inspections on supervised entities' anti-money laundering and terrorist financing measures will be prominent among the Bank's supervisory tasks for the year. Supervised entities can expect that the Bank will continue to carry out more thorough and detailed examinations of their risk assessments, with particular emphasis on the tech solutions entities use to provide services and conduct internal monitoring. The Bank will also continue to consider expertise in anti-money laundering and terrorist financing measures when assessing the eligibility and qualifications of supervised entities' management candidates and when determining the composition of boards of directors.

Supervision of the securities market

Proactive checks in the securities market will focus, as before, on the quality of the TRS submittals used

in market supervision. Strong emphasis will also be placed on investor protection in the securities market.

Corporate governance

Supervision and follow-up of supervised entities' governance practices is an important element in the Central Bank's supervisory work. During the year, checks will be carried out and tasks undertaken in connection with such matters as board members' and managing directors' continuing eligibility and qualifications across the financial market, provision of information to the board on risk management, board follow-up of risk policies and risk appetite, and so forth.

Amendments to regulatory instruments in the financial market



This section is devoted primarily to the amendments made to financial market legislation in 2022. It also covers amendments made to rules and guidelines during the year. In addition, it explains the main substance of forthcoming European regulatory instruments in the financial market whose implementation is expected in the near future.

Statutory amendments in 2022

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

The following acts of law pertaining to the financial market were passed by Parliament in 2022:

- Act on European Long-Term Investment funds, no. 115/2022.
- Act no. 62/2022 amending the Act on Measures Against Money Laundering and Terrorist Financing, no. 140/2018 (virtual assets, etc.).

- Act no. 50/2022 amending various acts of law pertaining to the financial market (implementation, etc.).
- Act no. 48/2022 amending the Act on Resolution of Credit Institutions and Investment Firms and the Act on Deposit Guarantees and an Investor Compensation Scheme (funding of Resolution Fund, premiums, and arrangements for the Financial Institutions' Insurance Fund).
- Act no. 38/2022 amending the Act on Financial Undertakings and other acts of law (credit institutions and investment firms).
- Act no. 32/2022 amending Act no. 14/2020 on the Prospectus to be Published when Securities are Offered to the Public or Admitted to Trading on a Regulated Market and Act no. 20/2021 on Information Disclosure Requirements for Securities Issuers and Flagging Requirements (EU recovery prospectus, etc.).
- Act on European Venture Capital Funds and European Social Entrepreneurship Funds, no. 31/2022.

Rules and guidelines issued in 2022

Rules

In 2022, the Central Bank of Iceland set the following rules pertaining to financial supervision, including rules implementing EU regulations on technical standards adopted by European financial market supervisors:

- Rules on Financial Undertakings' Consolidated Financial Statements, no. 1701/2022.
- Rules on Financial Undertakings' Information Disclosure Requirements, no. 1700/2022.
- Rules on Financial Undertakings' Credit Risk, no. 1699/2022.

- Rules on the Internal Ratings-Based Approach to the Calculation of Financial Undertakings' Own Funds Requirements, no. 1698/2022.
- Rules on Credit Institutions' Liquidity Ratios, no. 1520/2022
- Rules on Technical Information for the Calculation of Technical Provisions and Basic Own Funds for Reporting with Reference Dates from 30 September 2021 through 29 September 2022, no. 1500/2022.
- Rules on Securities Issuers' Information Disclosure Requirements, no. 1179/2022.
- Rules on the Mapping of Credit Assessments in Calculation of Own Funds Requirements for Credit Risk and Securitisation, no. 1166/2022.
- Rules on Credit Institutions' Notifications of Cross-Border Activities, no. 1165/2022.
- Rules on Financial Undertakings' Credit Risk, no. 1164/2022. These were repealed with the entry into effect of Rules no. 1699/2022 on the same topic.
- Rules on Reporting by Financial Undertakings, no. 1163/2022.
- Rules on the Calculation of Financial Undertakings' Own Funds and Eligible Capital, no. 1162/2022.
- Rules on Supervision of the Use of the Internal Ratings-Based Approach to the Calculation of Financial Undertakings' Own Funds Requirements, no. 888/2022.
- Rules on Publication of Information on Prudential Requirements Pursuant to the Act on Financial Undertakings, no. 887/2022.
- Rules on the Identification of Global Systemically Important Financial Institutions, no. 886/2022.
- Rules on Information Disclosure and Cooperation Between Supervisory Authorities on the Basis of Act no. 115/2021 on Markets in Financial Instruments, no. 855/2022.
- Rules on the Framework for Transactions with Financial Instruments, no. 854/2022.
- Rules on Operating Licences and Organisational Requirements of Investment Firms, Provision of Information in Connection with Qualifying Holdings, and Criteria for Ancillary Activities, no. 853/2022.
- Rules on Organisational Requirements of Trading Venues, no. 852/2022.
- Rules on Transparency Requirements in Markets in Financial Instruments, no. 851/2022
- Rules on Derivatives and Clearing for Financial Instruments, no. 850/2022.
- Rules on Supervisory Authorities' Cooperation on Supervision of Financial Undertakings, no. 794/2022.
- Rules on Supervisory Authorities' Joint Decisions on Specified Methods for Calculation of Financial Undertakings' Capital Requirements, no. 793/2022.
- Rules on Supervisory Authorities' Joint Decisions on Prudential Requirements for Financial Undertakings, no. 792/2022.
- Rules on Supervision of the Use of the Internal Ratings-Based Approach to the Calculation of Financial Undertakings' Own Funds Requirements, no. 791/2022. These were repealed with the entry into effect of Rules no. 888/2022 on the same topic.
- Rules on Variable Remuneration for Board Members and Employees of Financial Undertakings, no. 790/2022.
- Rules on the Application of Optional Provisions and Authorisations Pursuant to the Act on Financial Undertakings, no. 789/2022.
- Rules on the Calculation of the Countercyclical Capital Buffer Rate for Financial Undertakings, no. 787/2022.
- Rules on the Adjustment of Base Amounts in Euros for Insurance Brokers' Professional Liability Insurance, no. 775/2022.
- Rules on Central Bank Notification of Registration of European Social Entrepreneurship Fund (EuSEF) Managers, no. 774/2022.
- Rules on Central Bank Notification of Registration of European Venture Capital Fund (EuVECA) Managers, no. 773/2022.
- Rules on Maximum Loan-to-Value Ratios for Mortgage Loans to Consumers, no. 702/2022.
- Rules on Maximum Debt Service-to-Income Ratios for Mortgage Loans to Consumers, no. 701/2022.
- Rules on the Internal Ratings-Based Approach to the Calculation of Financial Undertakings' Own Funds Requirements, no. 655/2022. These were repealed with the entry into effect of Rules no. 1698/2022 on the same topic.
- Rules on Appropriate and Sound Business Practices, Communications with Customers, and Handling of Complaints, no. 353/2022.
- Rules on Derivatives and Clearing for Financial Instruments, no. 321/2022. These were repealed with the entry into effect of Rules no. 850/2022 on the same topic.
- Rules on Measures to Combat Market Abuse, no. 320/2022.
- Rules on Authorisation, Organisational Requirements, and Publication of Transactions for Data Reporting Services Providers, no. 236/2022.

- Rules on Transparency Requirements in Markets in Financial Instruments, no. 235/2022. These were repealed with the entry into effect of Rules no. 851/2022 on the same topic.
- Rules on Derivatives and Clearing for Financial Instruments, no. 234/2022. These were repealed with the entry into effect of Rules no. 321/2022 on the same topic.
- Rules on the Framework for Transactions with Financial Instruments, no. 233/2022. These were repealed with the entry into effect of Rules no. 854/2022 on the same topic.
- Rules on Organisational Requirements of Investment Firms, Provision of Information in Connection with Qualifying Holdings, and Criteria for Ancillary Activities, no. 232/2022. These were repealed with the entry into effect of Rules no. 853/2022 on the same topic.
- Rules on Organisational Requirements of Trading Venues, no. 231/2022. These were repealed with the entry into effect of Rules no. 852/2022 on the same topic.
- Rules on the Preparation and Provision of Key Information Documents for Retail Investors, no. 145/2022.

Central Bank Guidelines

The Central Bank did not issue any new guidelines during the year.

EEA Guidelines

A number of EEA guidelines were adopted by the Central Bank during the year. They include guidelines issued by the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities and Markets Authority (ESMA); cf. the authorisation contained in Article 16 of the Regulations Establishing a European Supervisory Authority, no. 1093-1095/2010, which were incorporated into Icelandic law with the Act on a European Financial Supervisory System, no. 24/2017. When guidelines are adopted, an explanatory circular is sent to market agents together with a link to the English version if the guidelines pertain to market agents. The documents are also published on the Central Bank website. The purpose of such guidelines is to bring about harmonised, successful, and effective supervisory execution within the European financial supervisory system and to ensure collective, homogeneous, and harmonised application of EU legislation. As a result, the Central Bank bases its supervisory activities on these guidelines.

Forthcoming new financial market legislation

This section discusses the principal directives and regulations governing the European financial market that are currently being incorporated into Icelandic law or will be in 2023. Central Bank experts participate in implementing these instruments in various ways, such as cooperating with Government ministries in drafting bills of legislation and regulations, participating in issuing rules and Central Bank guidelines, and adopting European guidelines.

Payment Accounts Directive – PAD

Directive 2014/92/EU on payment accounts (the Payment Accounts Directive, PAD) concerns the comparability of fees related to payment accounts, switching of payment accounts, and access to payment accounts with basic features. The purpose of the directive is to promote transparency and competition, facilitate comparison of fees and switching of payment accounts, and encourage effective and smooth financial mobility for consumers. An implementing bill of legislation was introduced at the autumn 2022 legislative session (Case no. 166) and has been approved as Act no. 5/2023. The law came into effect on 1 March 2023.

Money market funds – MMF

Regulation (EU) 2017/1131 on money market funds (MMF) will apply to all funds for collective investment, whether they are UCITS or alternative investment funds. The main purposes of the regulation are to create a harmonised set of rules to ensure the security and reliability of money market funds, support the effective functioning of the money market, and ensure equal treatment of investors. An implementing bill of legislation was introduced at the autumn 2022 legislative session (Case no. 328) and has been approved as Act no. 6/2023. The law came into effect on 1 March 2023.

Directive on covered bonds

Directive (EU) 2019/2162 on the issue of covered bonds and covered bond public supervision is intended to strengthen investor protection by introducing harmonised minimum requirements, particularly as regards definitions and standards for covered bonds issued by credit institutions. The provisions cover issuance and structure, supervision, and publication requirements. Furthermore, Regulation (EU) 2019/2160 makes amendments to Regulation (EU) 575/2013 (CRR) as regards exposures in the form of covered bonds. An

implementing bill of legislation was introduced at the autumn 2022 legislative session (Case no. 433) and has been approved as Act no. 7/2023. The law came into effect on 1 March 2023.

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

Regulation (EU) 2015/2365 on transparency of securities financing transactions and of reuse (SFTR) is intended to reduce systemic risk associated with financing transactions by increasing the transparency of such transactions, ensuring equivalent conditions of competition and international convergence, and strengthening supervision. According to the Regulation, information on all market agents' financing transactions with securities will be reported to a trade repository, whether they are financial institutions or not. This includes information on when the trade takes place, the composition of collateral, whether the collateral is available for reuse or has been reused, substitution of collateral at the end of each day, and haircuts applied. There will also be provisions on cooperation among supervisors in member states, so that they can have an overview of the risks associated with securities financing transactions, and on exchange of information among them. An implementing bill of legislation was introduced at the autumn 2022 legislative session (Case no. 588) and is currently undergoing Parliamentary handling.

Sustainability-related disclosures in the financial sector (SFDR – transparency)

Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial sector (SFDR – transparency) contains harmonised rules for financial market entities such as insurance companies, financial undertakings, and alternative investment fund managers. It requires that these parties publish information on their websites, specifying how they take sustainability-related risk into account in their risk management and how they assess the impact on sustainability. An implementing bill of legislation was introduced at the autumn 2022 legislative session (Case no. 415) and is currently undergoing Parliamentary handling.

Taxonomy Regulation

With the adoption of Regulation (EU) no. 2020/852 on the establishment of a framework to facilitate sustainable investment, called the Taxonomy Regulation, an important step was taken to reduce the likelihood of greenwashing and make it easier for investors to understand the premises underlying the classification

of products marketed as *green* or *sustainable*. The Regulation also harmonises the use of terminology and the rules on interpretation of what can be considered a sustainable investment. An implementing bill of legislation was introduced at the autumn 2022 legislative session (Case no. 415) and is currently undergoing Parliamentary handling.

Cross-border distribution of collective investment funds

With the implementation of Regulation (EU) 2019/1156 and Directive (EU) 2019/1160 on cross-border distribution of funds, Icelandic rules on the cross-border distribution of UCITS and alternative investment funds will be harmonised with EU legislation. Regulation (EU) 2019/1156 amends EuVECA and EuSEF, and Directive (EU) 2019/1160 amends the AIFMD and UCITS directives. The aims of the amendments are, among other things, to increase transparency for investors, standardise the costs of cross-border distribution, and harmonise the definition of pre-marketing. An implementing bill of legislation is to be introduced before Parliament at the spring 2023 legislative session.

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

With Directive (EU) 2019/879 (BRRD II), amendments are made to Directive 2014/59/EU (BRRD), which has been implemented in Iceland with the Act on Resolution of Credit Institutions and Investment Firms, no. 70/2020, and the Act on Financial Undertakings, no. 161/2002. The key amendments pertain to rules on the minimum requirement for own funds and eligible liabilities (MREL requirement). There are also amendments pertaining to preventative measures and preparation of resolution action, specific powers entrusted to the Resolution Authority during preparation and execution of resolution, and the Resolution Authority's powers to take contract-related measures. An implementing bill of legislation is to be introduced before Parliament at the spring 2023 legislative session.

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

Directive (EU) 2019/2034 and Regulation (EU) 2019/2033 on prudential supervision of investment firms (IFD and IFR) set forth harmonised requirements for prudential supervision of investment firms falling within the scope of MiFID II. They specify the required minimum level of initial capital for investment firms, the powers and

tools that supervisory authorities must have in order to supervise investment firms, and the information that supervisory authorities must publish. An implementing bill of legislation is to be introduced before Parliament at the spring 2024 legislative session.

Review of regulations establishing EBA, EIOPA, ESMA, and ESRB (European supervisory authorities review)

Regulation (EU) 2019/2175 contains amendments to the regulations establishing the European supervisory authorities EBA, EIOPA, and ESMA. Changes were made to the organisational structure of the institutions; furthermore, ESMA was entrusted with direct supervision of EU critical benchmarks and their administrators and data service providers, in accordance with the MiFID II/MiFIR framework. As regards EEA-EFTA states, supervision will be in the hands of the EFTA Surveillance Authority (ESA). Amendments were also made to foster supervisory convergence and improved investor protection. Regulation (EU) 2019/2176 made various amendments to Regulation (EU) no. 1092/2010, which established the European Systemic Risk Board (ESRB). It is particularly noteworthy that amendments are made concerning participation by non-EU countries in the ESRB's activities, when opens the possibility for EEA-EFTA states to become full non-voting members, an option they already have for EBA, EIOPA, and ESMA. An implementing bill of legislation is to be introduced before Parliament during the autumn 2023 legislative session.

Transfer of supervision of data reporting services providers

Directive (EU) 2019/2177 on the transfer of supervision of data reporting service providers amends MiFID II (Directive 2014/65/EU), Solvency II (Directive 2009/138/EC), and the Money Laundering Directive (Directive (EU) 2015/849); furthermore, it transfers supervision of data reporting services providers to ESMA. As regards EEA-EFTA states, supervision will be in the hands of the EFTA Surveillance Authority (ESA). An implementing bill of legislation is to be introduced before Parliament at the autumn 2023 legislative session.

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

Regulation (EU) 2019/2099 is part of the review of the regulatory framework for derivatives. It amends Regulation (EU) no 648/2012 (EMIR) with the aim of strengthening supervision of central counterparties

(CCP). An implementing bill of legislation is to be introduced before Parliament at the autumn 2023 legislative session.

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

Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent, and standardised securitisation (STS) creates a general framework for securitisation and introduces a special framework for STS. Regulatory instruments in various markets, such as CRR, Solvency II, and MMF, make reference to STS as regards securitisation, and among other things, provisions on securitisation have been transferred from CRR to the STS Regulation. The STS Regulation also amends CRR as regards prudential requirements, including risk models and capital ratios. Regulation (EU) 2021/557 amends Regulation (EU) 2017/2402 so as to support the post-COVID-19 economic recovery. It expands the STS framework to include additional types of securities and makes it easier to securitise non-performing exposures (NPE). An implementing bill of legislation is to be introduced before Parliament during the autumn 2023 legislative session.

Regulation on Institutions for Occupational Retirement Provision (IORP II)

Directive (EU) 2016/2341 on the activities and supervision of institutions for occupational retirement provision (IORP) sets forth rules on the establishment and operation of the activities carried out by IORPs. The previous Directive 2003/41/EC (IORP I) on the same topic has undergone a number of amendments; therefore, the Directive has been reissued. Its purpose is to ensure sound governance, provision of information to fund members, and transparency and security of the occupational pension system so as to facilitate greater worker mobility between member states. An implementing bill of legislation is to be introduced before Parliament at the autumn 2023 legislative session. The bill would entail the passage of a new Act on Occupational Pension Funds and the repeal of the previous Act no. 78/2007 on the same topic, which was originally passed in order to implement the IORP I Directive.

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

Regulation (EU) 2019/1238 on a pan-European personal pension product (PEPP) entails a new voluntary type

of pension savings that will be available to consumers within the EEA. The Regulation lays the groundwork for Europe-wide personal savings, where standardised core characteristics are guaranteed, such as transparency requirements, investment rules, and the right to switch products or investment types. This guarantees strong investor protection while giving product providers the flexibility to adapt the product to their own business model. An implementing bill of legislation is to be introduced before Parliament at the autumn 2023 legislative session.

Regulation on digital operational resilience for the financial sector (DORA)

Regulation (EU) 2022/2554 on digital operational resilience for the financial sector (DORA) sets forth harmonised requirements for all financial system participants' information and communications technology (ICT) security, wherein they must ensure that they can withstand, respond to, and recover from any type of ICT disruption or cyberthreat. The main objective is to bolster companies' resilience, reduce the frequency of cyberattacks, and reduce risk. Among other things, the Regulation lays down requirements pertaining to ICT risk management, reporting in connection with such risk, and testing and risk assessment in connection with outsourcing ICT services to a third party. Concurrently, Directive (EU) 2022/2556 provides for derived amendments to PSD II, IORP II, MIFID II, CRD IV, and AIFMD. An implementing bill of legislation is to be introduced before Parliament at the autumn 2023 legislative session.

Regulation on European crowdfunding service providers for business

Regulation (EU) 2020/1503 lays down harmonised requirements for provision, structure, authorisations, operation, supervision, transparency, and marketing of crowdfunding services for businesses. Concurrently, Directive (EU) 2020/1504 provides for derived amendments to MIFID II. An implementing bill of legislation is to be introduced before Parliament at the autumn 2023 legislative session.

Appendices

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

Table 1 Number of regulated entities at the year-end

Categories of regulated entities at each year-end	31.12.2017	31.12.2018	31.12.2019	31.12.2020	31.12.2021	31.12.2022
Subject to licence or operating under special legislation:						
Commercial banks	4	4	4	4	4	4
Savings banks	4	4	4	4	4	5
Credit undertakings	5	5	5	4	3	4
Housing Financial Fund	1	1	0	0	0	0
Deposit departments of co-operative societies	1	0	0	0	0	0
Investment firm	9	9	9	9	9	8
UCITS management companies	10	9	9	9	6	6
Alternative investment fund managers ¹	0	0	0	16	19	23
Securities exchanges	1	1	1	1	1	1
Central Securities depositories	2	2	2	1	1	1
Pension funds ²	22	21	21	21	21	21
Insurance companies	11	11	11	11	10	4
Insurance brokerages	9	7	8	9	9	9
Entities with debt collection licences	7	8	8	9	8	8
Payment institutions	1	1	1	2	1	1
Electronic money institutions	0	0	1	1	2	2
Currency exchange services	1	1	1	1	1	0
Guarantee funds	2	1	1	1	1	1
Registered lenders	1	1	1	0	0	0
Virtual currency services providers	0	1	1	3	3	3
Total	95	91	87	88	106	103
Other regulated entities:						
UCITS funds	42	40	37	37	36	38
Alternative investment funds for retail investors ³	60	60	54	61	69	72
Other alternative investm funds ⁴	111	117	114	116	121	137
Pension savings custodians ⁵	8	8	8	8	8	8
Issuers of listed shares	20	23	24	23	26	30
Issuers of listed bonds	65	50	57	51	51	56
Registered creditors and credit intermediaries of consumer credit ⁶	0	0	0	5	9	9
Holding companies ⁷	6	6	5	6	5	5
Financial conglomerates ⁸	0	0	0	1	1	1
Financial undertakings in winding-up proceedings	1	0	0	0	0	0
Total	404	391	387	414	429	457

1. Including 9 licensed management companies, 6 of which are also UCITS management companies; and 14 registered entities, one of which is an investment firm.

2. Many pension funds are divided into divisions. There were 70 divisions at year-end 2022.

3. Previously investment funds.

4. Previously institutional investment funds.

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

6. Only regulated under the Act on Measures against Money Laundering and Terrorist Financing

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

8. Financial conglomerates in the financial or insurance sector.

Source: Central Bank of Iceland.

2 Activities of foreign entities in Iceland

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

Number at year-end	2021	2022
Credit institutions and financial institutions without establishments	236	248
UCITS (no. of subsidiary funds)	124 (1,347)	135 (1,353)
Investment firms with establishments/branches	1 (1)	1 (1)
Investment firms without establishments/branches	581	605
Central securities depositories with establishments/branches	1 (1)	1 (1)
Central securities depositories without establishments/branches	5	6
Insurance companies with establishments/branches	2 (1)	2 (1)
Insurance companies without establishments/branches	351	357
Insurance brokers with establishments/branches	2 (2)	2 (2)
Insurance brokers and insurance agents without establishments/branches	2,837	2,863
Payment institutions with agents (no. of agents)	3 (5)	2 (3)
Electronic money institutions with distributors (no. of distributors)	0	0
Payment institutions and electronic money institutions without establishments	332	384
Credit intermediaries without establishments	4	4
Alternative investment fund managers without establishments	152	162
Number of companies registered outside Europe and authorised to provide services in Iceland according to national law		
Alternative investment fund managers (no. of funds)	30 (65)	42 (86)

Source: Central Bank of Iceland.

