# 1. General Information

### *Name*

Balance sheet summary for mutual funds, investment funds, and institutional investment funds.

### *Purpose*

Data are collected for statistical reports showing developments and size of mutual funds, investment funds, and institutional investment funds. The data are also part of accounting for the domestic financial market, which is carried out in co-operation with Statistics Iceland. The Central Bank also uses the data in its operations.

### *Supervisor of statistics*

Central Bank of Iceland, Statistics

### *Sources*

Monthly balance sheet summaries are prepared from monthly reports provided by the mutual funds, investment funds, and institutional investment funds.

### *Statutory authority*

Data collection is carried out on the basis of Article 29 of the Act on the Central Bank of Iceland, no. 36/2001. In accordance with Article 35 of the Act, the Financial Supervisory Authority also has access to the data compiled by the Central Bank, based on a collaboration agreement between the two institutions.

# 2. Methodology

The methodology used by the Central Bank in statistics on mutual funds, investment funds, and institutional investment funds is based on the International Monetary Fund (IMF) standards for monetary and financial statistics, the Monetary and Financial Statistics Manual (MFSM). Also consulted are the international standards for national accounts, SNA2008, and the European standards, ESA2010.

According to the above-mentioned standards, the economy is divided into five sectors, plus a separate sector labelled "rest of the world." Included in the domestic economy are all institutional units that are resident in Iceland. In order to be considered an institutional unit, an economic entity must fulfil the following conditions:

- It must be entitled to own goods and assets in its own right.
- It must be entitled to incur liabilities on its own behalf.
- It must be able to take economic decisions and engage in economic activities.
- It must be able to draw up a balance sheet (possible and meaningful to compile a such set of accounts).

There are two types of institutional units:

- Households
- Legal or social units.

## *Classification system*

Institutional units are grouped together in sectors within the economy on the basis of their activities, economic behaviour, and objectives.

| Sector | Series | Description |
|---|---|---|
| **S.1** | **Residents** | Legal entities and individuals with legal domicile in Iceland, irrespective of nationality; cf. the definition in Act no. 87/1992. |
| **S.11** | **Non-financial corporations** | Institutional units that produce goods and non-financial services for sale in the market. |
| **S.12** | **Financial corporations** | Institutional units that provide financial services and act as financial intermediaries. |
| S.121 | Central bank | An instituional unit whose principal function is to issue currency, to maintain the value of the currency, maintain and invest the country´s foreign exchange reserves, and provide loan facilities to depotis-taking corporations. |

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| S.122 | Deposit-taking corporations | Institutional units that are principally engaged in financial intermediation: Receiving deposits (and/or close substitutes), issuing bonds and bills, granting loans, and investing in securities on their own account; e.g., commercial banks and savings banks. |
| S.122X | Deposit-taking corporations in winding-up proceedings | Institutional units that have been subjected to winding-up or composition negotiations and whose operating licences have been revoked. |
| S.123 | Money market funds (MMF) | Funds for collective investment. MMF invest on their own behalf, primarily in deposits, MMF shares/units, and short-term securities whose returns are determined by money market instruments. |
| S.124 | Non-MMF investment funds | Collective investment schemes other than those classified as MMF. |
| S.125 | Other financial intermediaries | Financial corporations that are principally engaged in financial intermediation by incurring liabilities other than deposits, investment fund shares, for the purpose of acquiring financial assets; e.g., credit institutions, investment banks, asset financing corporations, securities corporations, and payment card corporations. |
| S.125X | Financial corporations in winding-up proceedings | Financial corporations that have been subjected to winding-up or composition negotiations and whose operating licences have been revoked. |
| S.126 | Financial auxiliaries | Institutional units that are principally engaged in activities closely related to financial intermediation of assets and liabilities, but do not acquire the assets and liabilities for which they act as intermediaries; e.g., securities and insurance brokers, management companies, securities exchanges, and payment system operators. |
| S.127 | Captive financial institutions and money lenders | Institutional units engaged in financial intermediation where their assets and liabilities are seldom traded in the open market. This applies to corporations engaged in transactions whithin a clearly delineated group (for instance, with subsidiaries or fellow enterprises); e.g., holding companies and special purpose entities (SPE). |
| S.128 | Insurance corporations | Institutional units that are principally engaged in financial intermediation based on the pooling of risk, primarily in the form of direct insurance or reinsurance; e.g., life and non-life insurance corporations. |
| S.129 | Pension funds | Institutional units that are principally engaged in financial intermediation by providing retirement income or disability benefits in accordance with pension entitlements. |
| **S.13** | **General government** | Institutional units that have legislative, judicial or executive authority over institutional units within a given area. Provide services on a non-market basis and finance their activities out of taxation or other compulsory transfers. |
| S.1311 | Central government | Ministries, government institutions and legislative authority. |
| S.1313 | Local government | Institutional units controlled by local governments. |

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| **S.14** | **Households** | One or more individuals who share the same living accommodation and consume certain types of goods and services collectively, namely housing and food. |
| **S.15** | **Non-profit institutions serving households (NPISH)** | Institutional units that produce goods and services for households, either for free of charge or at a low price, and are not operated for profit; e.g., trade unions; political parties; churches and religious societies; and social, cultural, recreational, and sports clubs. |
| **S.2** | **Non-residents** | Institutional units residing outside Iceland. |

## *3. Concepts and definitions*

Funds are managed by a separate management company that handles and is responsible for fund operation. The management company issues unit share certificates to owners of fund shares. By law, the management companies are independently operating financial institutions; that is, autonomous legal entities that are to be independent of the parent companies. In Iceland, banks or securities undertakings are the owners of such management companies. Mutual funds, investment funds and other funds for collective investment are not considered legal entities because they are established and operated by the management companies concerned. Fund operation requires an operating licence. Such a licence is granted only to management companies. Management companies receive operating licences from the Financial Supervisory Authority, and on the basis of such a licence, a management company can open branches or provide services throughout the European Economic Area (EEA). Management companies' operating authorisations always include the operation of mutual funds, investment funds, and institutional investment funds.

**Mutual funds** and **investment funds** are funds that receive money from the general public for collective investment. The funds are intended to invest in financial instruments and other assets based on diversification of risk according to a pre-defined and pre-announced investment strategy.

**Institutional investment funds** are funds for collective investment, but the distinction between them and mutual and investment funds is that they are available only to institutional investors. The general public is not authorised to invest in institutional investment funds; furthermore, it is prohibited to market and promote such funds to the public. Institutional investment funds' investment authorisations are much broader; in fact, they are unrestricted. Investing in institutional investment funds is therefore much riskier than investing in funds available to the public.

The difference between mutual funds and investment funds lies chiefly in their investment authorisations. Furthermore, mutual funds may be marketed throughout the EEA, while investment funds may only be marketed domestically. This means that mutual funds have the European Passport; that is, a mutual fund with an operating licence from one EEA member state is permitted, on the basis of that licence, to market its unit share certificates in any other EEA state without acquiring a separate licence from the authorities. Mutual funds meet all of the requirements set forth in the Directive on collective investment in transferable securities (UCITS). Investment funds do not meet the requirements set forth in the Directive and therefore cannot market their unit share certificates throughout the EEA without acquiring an operating licence in the member state concerned. Marketing of investment funds in other countries is subject to the laws of the country concerned.

Investment funds' investment authorisations are more liberal than those of mutual funds. Mutual funds are subject to a maximum investment in a single issuer, whereas such conditions are far less stringent for investment funds. Investment funds are free to invest in unlisted securities and money market instruments, while mutual funds may only invest in listed securities or those in which trading has taken place. Investment funds are authorised to borrow and sell short whereas mutual funds are prohibited from such activities. Mutual funds are also restricted in their investments in individual funds, while such restrictions do not apply to investment funds. Investing in investment funds can therefore be riskier than investing in mutual funds. The structure, operations, and purpose of the funds, however, are similar; therefore, many provisions that apply to investment funds apply to mutual funds as well. The funds are further defined in the Act on Undertakings for Collective Investment in Transferable Securities (UCITS), Investment Funds and Institutional Investment Funds no. 128/2011.

**Type of fund** refers to the categories in which the funds are classified: real estate fund, private equity fund, equity fund, commodity fund, money market fund, bond fund, mixed fund, hedge fund and other funds. The classification of a fund depends on its investment strategy; for example a fund that, according to its investment strategy, invests in bonds is classified as a bond fund.

***Bond fund***

Fund that, according to its investment strategy, invests primarily in securities other than shares.

***Commodity fund***

Commodity fund is considered specialised investments. A commodity fund is a fund that invests in opportunities related to commodities. It may be listed or unlisted.

***Equity fund***

Fund that, according to its investment strategy, invests in domestic or foreign equity securities.

***Hedge fund***

Hedge funds are considered specialised investments. Hedge funds do not fall under the conventional statutory restrictions on investment strategy (investor protection). For this reason, their investment options are more flexible than conventional mutual funds and may use a variety of investment methods, such as short positions, leveraging, and derivatives, that other funds may not use to the same extent. Hedge funds are available only to institutional investors and are closed to the general public.

***Mixed fund***

Fund that, according to its investment strategy, invests in both equity and bonds with no prevalent policy in favour of one or the other instrument.

***Money market fund***

Fund that, according to its investment strategy, invests in money market instruments. Money market instruments are highly liquid instruments that are usually traded in the short-term market (money market), such as State or municipal bills, certificates of deposit, and negotiable instruments excluding payment instruments. The term *payment instruments* refers to cheques, bills of exchange, and other comparable payment documents. The maximum duration of individual instruments is 397 days.

***Private equity fund***

Private equity fund is considered specialised investment. In general, private equity fund seeks investment opportunities in unlisted companies with strong growth potential. Private equity funds can be listed on the public market or closed to the public; however, they are usually not listed.

***Real estate fund***

Real estate fund is considered specialised investments. A real estate fund is a fund that invests in real estate. It may be listed or unlisted.

***Alternative investments***

Funds that are in enterprise form and are thus independent legal entities. They are often established as limited partnerships and invest in, for example, real estate, unlisted equities and mortgage bonds.

***Other funds***

Funds that cannot be classified in the categories above.

According to the Foreign Exchange Act, no. 87/1992, a **resident** is any individual permanently resident in Iceland in accordance with the provisions of the Act on Legal Domicile, irrespective of nationality. Students and embassy employees are exempt from the residency requirement. An Icelandic citizen (and his family) who resides abroad and works there on behalf of the Government of Iceland, for an embassy, standing committee, or consulate, and receives wages from the Treasury, or an Icelandic citizen who is an employee of an international institution of which Iceland is a member, is considered a resident of Iceland. The term *resident* also refers to any legal person registered as legally domiciled in Iceland, stated to be resident in Iceland in its articles of association, or in effect managed in Iceland. Domestic branches of legal entities domiciled abroad are considered residents.

**Non-residents** are all those not falling under the above definition of a resident.

**Equity** is a shareholder's claim on a given shareholding in a public limited company. The undertaking issues a document (share certificate) confirming that the owner of the certificate (shareholder) holds a share in the company's assets and annual profit. Equities are generally negotiable instruments; i.e., they may be bought and sold as is specified in the company's Articles of Association.

**Investment fund share** is a financial instrument which confirms the right of all persons with a holding in a fund for collective investment, or individual division of it, to the fund's securities assets. All owners of unit shares shall have the same right to the fund's income and assets, or those of the division concerned, in proportion to their share of total issued unit share certificates. Unit share certificates provide confirmation of entitlement to an ownership share.

**Bond** is a unilateral written undertaking by an issuer (debtor) to pay another party (the creditor) a specified amount including interest for a certain period of time and to repay the loan on its date of maturity. Bonds are commonly issued with a maturity of 5-30 years, with or without price indexation. Inflation-indexed bonds are issued for a minimum of five years according to the Central Bank Rules on Price Indexation of Savings and Loans, no. 492/2001, and are indexed to the consumer price index. Non-indexed bonds have a term shorter than five years.

**Housing Financing Fund bonds (HFF bonds)** are bonds issued by the Housing Financing Fund (beginning on 1st of July 2004) to finance mortgage lending for the purchase or construction of housing.

**Housing Bonds** are bonds that were issued by the Housing Financing Fund (previously the State Housing Authority) between 15 November 1989 and 1 July 2004, to finance mortgage lending for the purchase or construction of housing. Housing Bond issuance was discontinued when the Housing Financing Fund began issuing the new HFF bonds.

**Housing Authority Bonds** were issued and sold by the State Housing Authority, the forerunner to the Housing Financing Fund, to refinance the Authority's older loans and to finance new social loan categories. Housing Authority Bond issuance was discontinued when the Housing Financing Fund began issuing the new HFF bonds.

**Marketable bonds** are transferable bonds offered for sale to individuals and/or legal entities in an offering in which all the main features of the instruments in each class are the same, including the name of the issuer (debtor), first interest date, and provisions concerning prepayment, interest rate, and calling, as appropriate. Marketable bonds can be indexed (i.e., their principal changes in accordance with a specified index value), non-indexed (nominal), or foreign-dominated. Marketable bills also fall into this category.

**Deposits** are funds placed in an account with a deposit-taking corporation, for short- or long-term investment. Deposits can be retail or wholesale deposits. Wholesale deposits are deposits for which a special agreement concerning terms and duration has been negotiated, either directly with the deposit institution concerned or through the intermediation of a broker in the money market.

- Current accounts are deposits that can be used for payment to a third party via debit card, cheque, or other direct payment mechanism.
- Sight deposits are deposits that cannot be used directly as payment to a third party via debit card, cheque, etc., but are always available for withdrawal. Deposit accounts in which each individual deposit is tied for a short period (several days) but where the balance is otherwise available for withdrawal are included with sight deposits.
- Indexed deposits are deposits that are linked to the consumer price index and bear interest as well. The balance is tied for a fixed period of time; cf. the Rules on Price Indexation of Savings and Loans, no. 492/2001.
- Other time deposits are deposits that either must be held for a fixed term or can only be withdrawn by giving advance notice; that is, they do not have a pre-negotiated commitment period but can be converted to liquid form with advance notice.

**Derivative** is a contract whose settlement depends on developments in specific variables such as interest, currency exchange rate, share price in a given company, movement in a given index, or commodity price. The value of such a contract is based on developments in the specified underlying variables between the contract date and the settlement date.

**Securities issuance** is the issuance of bonds and bills for procurement of credit financing. Short-term loans are loans taken for a term of one year or less. Long-term loans are those with a maturity longer than one year. Because the original term of the loan is used as the reference for the loan maturity, a loan taken for more than one year is always considered a long-term loan even though the actual residual maturity may be one year or less.

**Direct borrowing** is a formal agreement between two parties (without the intermediation of a third party), whereby one of the parties (the lender) lends the other party (the borrower) a specific amount in return for the borrower´s written pledge to repay the loan according to specified terms and conditions. Direct borrowing is further specified according to whether the loan is indexed-linked or another type of loan (non-indexed or foreign denominated).

## *4. Processing*

Data are processed by the Central Bank of Iceland Statistics Department. Tables show the position at the end of the month.

## *5. Time series and data frequency*

All currently operating management companies submit a monthly summary of operating mutual funds, investment funds, and institutional investment funds, together with funds in winding-up proceedings. Data for mutual funds are available on a monthly basis from 1st of December 1993. Data for investment funds are available on a monthly basis from 1st of January 2004. Data for institutional investment funds are available on a monthly basis from 1st of September 2011.

Data are published monthly on the Statistics page of the Central Bank of Iceland website.

## *6. Other*

List of management companies for mutual funds, investment funds, and institutional investment funds

1. Akta sjóðir hf.
2. Alda sjóðir hf.
3. GAMMA Capital Management hf.
4. Íslandssjóðir hf.
5. ÍV sjóðir hf.
6. Júpiter rekstrarfélag hf.
7. Kvika banki hf.
8. Landsbréf hf.
9. Rekstrarfélag Virðingar hf.
10. Stefnir hf.
11. Summa rekstrarfélag hf.