1. General Information

Name

International Investment Position (IIP)

Supervisor of statistics

Central Bank of Iceland, Statistics

Purpose

The purpose of IIP statistics is to measure the value of residents' foreign financial assets (claims against non-residents) and their liabilities to non-residents. Statistical reporting is carried out in accordance with the International Monetary Fund's (IMF) *Balance of Payments and International Investment Position Manual*, 6th edition (BPM6). The manual defines presentation, methodology, valuation, and terminology.

Sources

The commercial banks and other financial undertakings, the Treasury, the Central Bank, and other credit institutions and large non-financial firms provide monthly and quarterly or yearly information. Data from the Directorate of Internal Revenue and the Register of Annual Accounts are used as well.

Statutory authority

The compilation of data and the calculation and publication of the IIP is based on the authority contained in Chapter IX of the Act on the Central Bank of Iceland, no. 92/2019 and the Foreign Exchange Act, no. 87/1992. These Acts (and the respective regulations, Rules on the Obligation to Provide Information in respect of Foreign Exchange Transactions and CrossBorder Capital Movements, no. 13/1995) contain provisions on resident entities' disclosure requirements and on the obligation of Central Bank employees to observe confidentiality concerning the data compiled for statistical reporting.

2. Methodology

Concepts and definitions

Residents and non-residents

The definition of *resident* and *non-resident* as set forth in the BPM6 accords with that in the Foreign Exchange Act, no. 70/2021 and Law on legal domicile and residence no. 80/2018. A resident is any individual and legal entity permanently residing in Iceland, irrespective of nationality. Students and embassy employees are exempt from the residency requirement. Therefore, Icelandic students and their families who reside abroad are considered residents, and foreign embassy employees are considered non-residents. *Non-residents* shall mean all parties except residents.

International investment position (IIP)

The **international investment position (IIP)** shows the value of residents' financial assets and liabilities to non-residents as of the end of each quarter. The difference between assets and liabilities is the IIP, which indicates whether there is a net claim or a net liability vis-à-vis nonresidents. Valuation is based on market price; however, nominal valuation is used for positions in non-negotiable instruments, such as loans, deposits, and other accounts receivable/accounts payable. Equity holdings in direct investment are entered as own funds at book value in the books of the direct investment enterprise.

Financial account and the international investment position

The financial account and the international investment position (IIP) are related in that transactions entered in the financial account partially explain changes in external assets and liabilities between periods. The formula below shows the factors that influence assets and liabilities in the IIP during any given period:

Opening value + transactions in the financial account + exchange rate and price changes + other changes = closing value

Apart from transactions in the financial account, the value of external assets and liabilities can change because of changes in prices and exchange rates. There could be various reasons for other changes; therefore, a discrepancy between data on positions, on the one hand, and transactions, on the other, could lead to an unexplained difference. The greater the volatility in the foreign exchange and securities markets within a given quarter, the more difficult it is to estimate trade values accurately. When individuals move their legal address to or from the country, it can affect the IIP if they own foreign assets or carry debt owed to non-residents. This does not require an entry in the financial account, however, as no transaction has taken place; instead, the change will be reflected under other changes. Further discussion of the financial account can be found in the metadata for the balance of payments.

Direct investment

When a **direct investor** in one country owns 10% or more of the share capital of a company (direct investment enterprise) in another country, this is referred to as foreign direct investment (FDI). It is assumed that, when a shareholding is this large (or larger), the investor's intention is to influence the management and policy of the company and establish a long-term business relationship. The loans granted by an investor (the investor's non-equity contribution) or companies owned by the investor are viewed as additional investments in the firm concerned. In the balance of payments statistics and in the IIP, foreign direct investment is presented according to the so-called asset and liability principle, which entails entering asset and liability items on a gross basis (claims between parent companies and their subsidiaries are not netted against one another). For example, under this presentation, a loan owed by a domestic investor to a foreign entity owned by that investor is entered on the liabilities side in the IIP and is not netted out against the investor's claims against the foreign company on the assets side.

FDI in assets and liabilities are segregated further based on the relationship between the parties. There are three types of FDI relationships:

- **Investment by direct investors in direct investment enterprises**. The direct investor's position and transactions with equity or loans to his direct investment enterprises (irrespective of whether they are under his direct or indirect control or influence).
- **Reverse investment.** This type of relationship covers the direct investment enterprise's position and transactions with equity (under 10%) or loans to the direct investor.

- **Investment between fellow enterprises.** This covers the position and transactions between enterprises that have no control or influence over one another but are both under the control or influence of the same direct investor.

In addition, the positions of fellow enterprises are classified according to whether the end investor is a domestic, foreign, or unknown entity.

The end investor is the party at the top of the chain of ownership, where control over companies is maintained through direct or indirect majority ownership.

It should be noted that FDI figures in the IIP are not fully comparable with FDI statistics presented according to the directional principle. According to the directional principle, positions in loans between an investor and a company owned by him are netted out and entered to either the assets or liabilities side, depending on whether the investor is a resident or a non-resident. For example, net lending between a resident investor and a foreign company owned by that investor would be entered on the assets side, whereas loans between a non-resident investor and a domestic company owned by him would be entered on the liabilities side.

Special purpose entities (SPE) are included in FDI. SPEs are companies that are often established for tax purposes and whose actual operations are limited or non-existent. Some companies of this type are registered in Iceland; however, they are wholly owned by nonresidents and own stakes in or loan claims against connected companies abroad, but they have no domestic assets. Actually, they are only shells for capital flowing through Iceland and have a very limited economic impact. SPEs are included in statistics from 2013 onwards, but reliable information on their balance sheets from before that time has been lacking. In order to enable users of statistics to acquaint themselves with the IIP excluding SPEs, these entities are identified by means of memorandum items in published statistics.

Real estate transactions are classified under FDI. Investments in real estate are not considered financial instruments and are unique in this respect.

Loans between an investor and enterprises with which he is connected in a direct investment relationship are not included with FDI if both parties are a deposit-taking corporation, an equity fund, or another financial undertaking (apart from insurance companies and pension funds). In such instances, the loans would be classified under other investment.

Portfolio investment

Portfolio investment includes debt and equity securities apart from reserve assets or those included in foreign direct investment. Securities are debt instruments and share capital that is readily negotiable. Securities are structured to make it easy to trade them, usually on a securities exchange or an over-the-counter market.

Equities and investment fund shares

- **Equity securities** are claims for a specified ownership share in an undertaking, and they entitle the owner to a portion of the excess book value of the company and its annual profit. Equity securities are classified as portfolio investment if the shareholding equals less than 10% in the company concerned. Equity holdings exceeding 10% are classified as direct investment. Investments in equity securities are usually short-term and, unlike direct investment, are not intended to exert control over the management or policies of the company.

- **Investment fund shares** are financial instruments that give the investor a claim on a portion of a collective investment fund. All owners of fund shares have the same right to the fund's income and assets, in proportion to their holding.
- **Debt securities** are negotiable instruments serving as evidence of a debt. Among them are bills, bonds, notes, certificates of deposit, debentures, asset-backed securities, money market instruments, and similar instruments normally traded in the financial markets.

Derivatives

Financial derivatives are financial instruments whose value is dependent on the price of another, the underlying asset. Financial derivatives are distinguishable from other asset classes because they generally involve the transfer of risk (such as interest rate risk, exchange rate risk, equity, and commodity price risks, etc.) rather than the provision of capital or other financial assets. The value of financial derivatives is separate from the value of the underlying assets. Repayable margin consists of cash or other collateral deposited to protect a counterparty against default risk. It is classified as a deposit under other investment. Payments of non-repayable margin (also referred to as variation margin) reduce the financial obligation created through a derivative and are therefore classified as transactions in financial derivatives. Financial derivatives fall into the following subcategories: options, forward contracts, and employee stock options.

Options give the purchaser the right to buy or sell the underlying asset at a specified price (the strike price) by a specified date.

Also included in financial derivatives are **employee stock options**, which give employees of a company the right to buy its stock as part of their remuneration package. If an employee stock option can be traded on financial markets without restriction, it is classified as a financial derivative.

Forward contracts are unconditional contracts wherein two counterparties agree to exchange a specified quantity of an underlying asset at an agreed strike price on a specified date.

Other investment

Other investment is a residual category for items other than those included in direct investment, portfolio investment, financial derivatives and employee stock options, and reserve assets. Falling under other investment are the following: other equity; currency and deposits; loans; insurance, pension, and standardised guarantee schemes; trade credit and advances; other accounts payable and receivable; and SDR allocations (SDR holdings are included under reserve assets).

Other equity is equity not in the form of securities. It can include holdings in branches, trusts, and limited partnerships. Holdings in many international organisations are not in the form of securities and are therefore classified as other equity.

Currency and deposits consist of banknotes and coins in circulation, plus deposits. Deposits are standardised, non-negotiable agreements offered by **deposit-taking corporations**. The term deposits can vary, depending on the agreement. Deposits generally imply that the debtor is obliged to return the principal to the investor. They can be held in central banks or **deposit-**

taking corporations. Interbank positions and other transactions between resident and non-resident **deposit-taking corporations** are classified as deposits.

Loans are financial assets generated when a lender loans money directly to a borrower.

The **insurance, pension, and standardised guarantee schemes** that most strongly affect Iceland's balance of payments and IIP – non-life insurance technical reserves and pension entitlements – are discussed below. Other categories are life insurance and annuity entitlements, entitlements to non-pension benefits, claims of pension funds on pension managers, and provisions for calls under standardised guarantees.

Fund members' pension fund assets are not necessarily equivalent to the pension funds' assets because there are different types of funds. They could be either defined-benefit funds or defined-contribution funds. Defined-benefit funds are of two types: funded and unfunded. Assets in defined-benefit funds are calculated in terms of the fund's actuarial position. If a defined-benefit fund is funded, it can be assumed that fund members' assets (their actuarial position) at any given time are equal to the market value of the fund's assets. In the case of unfunded defined-benefit funds, however, the funds' assets could be less than their actuarial position, and the employer is responsible for bridging the gap that develops. Defined contribution funds are always funded; therefore, fund members' assets at any given time are equal to the market value of the assets in the funds.

Non-life insurance technical reserves fall into two categories. On the one hand, is a fund for prepaid premiums, and on the other is a fund for outstanding claims that the insurance companies expect to pay for events that have already occurred. These funds constitute the insurance companies' liabilities and the insured parties' assets. Their impact on statistics is comparable to that of the pension funds, which is described above.

Trade credit is a claim generated when a provider of goods or services grants a customer an extension of time to pay or receive **advance** payment for goods or services. The trade-credit and advances derive from the fact that payment for the goods or services is not remitted at the time the goods are delivered or the service provided.

Other accounts receivable/payable include accounts receivable or payable other than those specified above. They can include tax liabilities, securities transactions, wages, or dividends.

Special Drawing Rights (SDR) allocations to IMF member countries are liabilities that the recipient has incurred, with a corresponding entry under SDR in reserve assets.

Reserve assets

Reserve assets are foreign assets that are always available to monetary authorities and under their control. Reserve assets must be foreign-denominated assets, claims against nonresidents, and assets that actually exist. Potential assets are excluded.

Treatment of deposit-taking corporations in winding-up proceedings

Deposit-taking corporations in winding-up proceedings include the estates of the banks and savings banks placed under the administration of resolution committees during the banking collapse of autumn 2008. The estates are still in operation, even though they are no longer licensed to operate as **deposit-taking corporations**. Their impact on the IIP is significant as regards both external assets and, not least, external liabilities. By definition, only the portion that is past due is considered to be in arrears. Their debts are included in external liabilities and are classified under the original liabilities instrument until they have been settled in one way or another: by being paid, refinanced with other loans, or forgiven by creditors.

C*lassification system*

Where possible, individual statistical items are broken down by sector (for resident entities) and type of financial instrument. In addition, credit instruments are classified as long- or short-term, depending on whether the original maturity is one year or more, or less than a year. The same classification system is used for the IIP and the balance of payments. This makes it easier for users to compare positions, transactions, and revenues or expenditures deriving from the item in question. In processing the statistics, attempts are made to prepare and publish as detailed a classification as possible. On the other hand, there are instances when only one or two entities fall under the category in question. In those cases, a detailed breakdown is not published. This is done to avoid revealing information on individual entities, as the Central Bank is under a stringent obligation to observe confidentiality vis-à-vis those who provide information for statistical reporting. As a general rule, each category must contain at least three entities, and no single entity may constitute more than 80% of the total.

Institutional sector classification

Central Bank

Deposit-taking corporations

General government

Other sectors

- Other financial corporations
  - Money market funds (MMF)
  - Non-MMF investment funds
  - Other financial intermediaries
  - Financial auxiliaries
  - Captive financial institutions and money lenders
  - Insurance companies
  - Pension funds
- Non-financial corporations, households, and non-profit institutions serving households (NPISHs)
  - Non-financial corporations
  - Households
  - Non-profit institutions serving households (NPISHs)

Classification of assets and liabilities

Direct investment

- Equity
- Debt instruments

Portfolio investment

- Equities and investment fund shares
  - Equity
  - Investment fund shares
- Debt securities
  - Short-term
  - Long-term

Derivatives

Other investments

- Other equity
- Currency and deposits
- Loans
- Insurance, pension, and standardised guarantee schemes
- Trade credit and advances
- Other accounts receivable/payable

Special drawing rights (SDR)

Reserve assets

3. Integrity of data

Extensive data collection is required for the preparation of statistics, as data are collected from a large number of resident entities. The reliability of the data is based entirely on the correct, timely submittal of reports to the Central Bank. Submitters' circumstances vary. For example, most commercial enterprises cannot provide final figures until after their annual accounts have been prepared – usually 6-12 months after the end of the fiscal year. As a result, there could be a 2- to 3-year time lag before final information on transactions can be included in the statistics. However, the Central Bank collects quarterly data from firms that do extensive overseas business; therefore, this time lag applies only to smaller companies.

4. Schedule for revisions

The statistics observe a fixed revision schedule, where previously published figures are revised as new information is received. If new information of significance for the statistics is received, attempts are made to update the statistics as soon as possible. The revision schedule is shown in the table below.

Time	March	June	September	December
Quarters	Max. 15 quarters	Max. 4 quarters	Max. 17 quarters	Max. 6 quarters

Additionally, the statistics undergo a major revision (benchmark revision) every 5 years.

Coverage

The Central Bank attempts to collect information on external assets and liabilities from all relevant parties. If coverage is limited, the figures are estimated based on given assumptions. On the other hand, this is not possible in all cases, primarily where the scope and expense of data collection are too great in comparison with the importance of the data concerned. An example of this is resident individuals' holdings in general pension funds abroad. This category could easily include thousands of individuals whose pension assets are probably distributed across innumerable pension funds in many countries. The same applies to real estate, loans extended to individuals by foreign banks and financial undertakings, and resident individuals' foreign deposits or other assets not reported for tax purposes in Iceland. There is also limited coverage of real estate in Iceland that is directly owned by non-residents (not through real estate firms or holding companies). This refers mainly to property owned by individuals. On the other hand, if real estate is purchased with the involvement of a resident company – for instance, the non-resident establishes a company in Iceland, which buys property here – the non-resident's holding in the company is measured, not the real estate itself. The data collection also doesn't cover securities owned by residents, other than financial undertakings, which are held with foreign custodians.

The FDI sample is taken from operating entities' tax returns and the Register of Annual Accounts. This provides information on parties falling under the definition of FDI. The Central Bank collects the necessary information directly from the parties in the sample. Attempts are made to have parties representing 80% of total FDI positions (excluding SPEs) submit quarterly reports to the Bank. Information from the majority of other undertakings is received via annual reports. For smaller entities, data are compiled directly from tax returns and annual accounts. Other supporting data are used as well if they are considered reliable. The tax return and annual accounts data for smaller entities are not as suitable for statistical reporting as those obtained directly from firms. For example, they do not contain all balance of payments flows, such as investment income or equity transactions, but they are more reliable as regards positions.

In general, most FDI statistics on positions have good coverage[1] when the fiscal year has been closed out, while smaller entities' flows, as well as the loan positions and flows between fellow enterprises, are underestimated to some degree.

Information on SPEs is taken from the companies' annual accounts and from annual reports submitted to the Bank, if available.

[1] The coverage of position figures is nonetheless limited by whether assets and liabilities are correctly entered in the tax return and in reports submitted to the Register of Annual Accounts.

For entities that do not respond to the Central Bank's requests for data, estimated are prepared from older figures and other available data and adjusted for exchange rate differences.

Coverage in historical context

Statistics are constantly in development, and attempts are always being made to improve data compilation where appropriate. In most cases, if new statistics are compiled, it is not possible to obtain historical data, at least not over a long horizon. As a result, there could be breaks in the time series, owing to new data collection.

- **Financial derivatives** are only measured with satisfactory coverage back to 2013. Coverage is limited for the period 2009-2012. For 2008 and earlier, information on transactions with financial derivatives is extremely limited, particularly transactions carried out by d**eposit-taking corporations**.
- **Insurance, pension, and standardised guarantee schemes** are measured with satisfactory coverage back to 2002, as regards additional pension savings overseas. No information is available from before that time.
- **Special purpose entities** are measured back to 2013. No reliable information is available from before that time.

5. Publication

The balance of payments, the IIP, and a summary of external liabilities are published on the Central Bank's Statistics pages about two months after the end of each quarter. A press release containing the highlights is published at the same time. The IIP is calculated quarterly, and the time series extends back to 1995. The Central Bank submits the same data to the IMF and Eurostat. The data can be found on the websites of these institutions about 1-2 months following domestic publication. The balance of payments is a part of the IMF's Dissemination Standards Bulletin Board.