



## Financial supervision policy

### **Purpose and objectives**

The objective of the Central Bank of Iceland's financial supervision policy is to promote a sound and secure financial market that satisfies the requirements laid down in the statutes, regulations, and guidelines applying to its activities and is consistent with sound and appropriate business conduct. The purpose is to reduce the likelihood that the activities of supervised entities will lead to losses for the general public and to ensure confidence that the financial market will carry out its macroeconomic role. The financial supervision policy applies to those activities that are entrusted to the financial supervisor by law.

### **Key principles**

#### **A sound and secure financial market**

In its prudential supervision, the Central Bank emphasises that supervised entities have the capacity, proficiency, and financial strength to ensure safe and sound operations and resilience against unexpected shocks. Furthermore, the Bank stresses that supervised entities' activities shall be sound and guided by the interests of customers, fund members, shareholders and the economy more generally. Secure and prudent operations are always the responsibility of the management of supervised entities. The Central Bank's objectives in supervising financial activities are to reduce the likelihood that the activities of supervised entities will result in losses for the general public, and to safeguard financial stability.

#### **Sound and appropriate business conduct**

Supervising business conduct involves ensuring that information provided to consumers is correct and honest, that advisory services are provided in customers' interests, that pricing is transparent, and that marketing materials and sales practices are neither misleading nor deceptive.

#### **A secure and effective securities market**

The Central Bank monitors the securities market closely and actively, as this is a prerequisite for a secure and effective market. Emphasis is placed on monitoring information disclosures in the market, ensuring secure settlement of securities transactions, and monitoring and responding to market misconduct.

#### **Anti-money laundering and terrorist financing measures**

Strong emphasis is placed on ensuring that entities subject to reporting requirements (obliged entities) strengthen their anti-money laundering and terrorist financing defences with robust risk-based measures. Serious or systematic failures in these entities' defenses will be subject to appropriate action, including the imposition of penalties.

### **A reliable and carefully crafted regulatory framework**

The Central Bank keeps close track of and participates in the development of financial market rules, regulations, and legislation; it prepares carefully the rules that it is entrusted with setting and makes recommendations to the relevant authorities concerning changes to the regulation of the market when warranted.

### **Trust**

The Central Bank emphasises honest communications with supervised entities and stresses mutual trust between parties.

### **Execution**

#### **Risk-based supervision**

*Impact category and risk assessment determine the priority ranking of supervisory tasks. The decision on impact category is based on an assessment of the repercussions that a shock to a given supervised entity would potentially have for financial stability and customers' interests. Risk factors in supervised entities' activities are examined systematically and an assessment made of the risk involved and its likely impact on entities' business operations and balance sheets. Emphasis is placed on proactive inspections and preventative supervision, including regular assessments of the viability and sustainability of entities that strongly influence the financial system. The Central Bank supervises other entities applying the proportionality principle.*

Not only does the Central Bank consider current risk in supervised entities' activities in its work; it also attempts to be forward-looking in identifying risk.

#### **Inspections into supervised entities' operations**

The Central Bank conducts regular assessments of whether supervised entities' activities are in compliance with statutory and regulatory provisions. This includes an assessment of whether entities' business conduct is sound and appropriate. The Bank conducts on-site inspections and various other checks for this purpose.

#### **Intervention in operations and responses to shocks**

The Central Bank responds promptly and systematically to shocks in supervised entities' operations. If the Bank considers it necessary to intervene in an entity's operations so as to mitigate risk and prevent strain on the financial system, it endeavours to do so quickly and securely.

#### **Imposition of administrative penalties**

The Central Bank wields its authority decisively and systematically in order to achieve its objective of promoting a sound and secure financial market. The Bank publishes and complies with the *Policy on coercive measures and penalties*, which is intended to ensure nondiscrimination when penalties are determined.

#### **Public disclosure and transparency**

The Central Bank stresses transparency in its activities and, on its own initiative, publishes the results of cases, inspections, and investigations pertaining to the entities it supervises. The Bank publishes and complies with the *Policy on the publication of administrative*

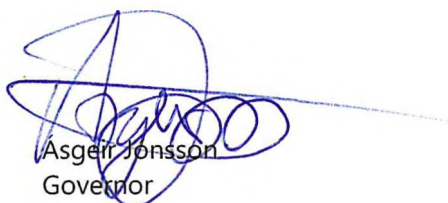
*decisions*, which is intended to guarantee equal treatment of entities and an appropriate level of transparency in the publication of case results.

The Central Bank also publishes the criteria and methodologies underlying the risk assessment of supervised entities, as well as publishing guidelines and other recommendations in order to enhance predictability regarding what is considered proper compliance with the regulatory framework and what is considered sound and appropriate business conduct.

#### **Supervision in accordance with international benchmarks**

The Central Bank complies with international requirements and benchmarks for best practice in the execution of its supervision of financial activities, and it applies internationally recognised methods in its work.

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