

This metadata describes the compilation practices, sources and methodology in use in 2003. Please refer to the contact person below for details of any changes that may have been introduced by the country since that time.

Iceland:

Direct Investment Compilation Practices, Data Sources and Methodology

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Direct Investment in Iceland

- **Balance of Payments (“Transactions Data”)**
- **International Investment Position (“Position Data”)**

Direct Investment Abroad

- **Balance of Payments (“Transactions Data”)**
- **International Investment Position (“Position Data”)**

DIRECT INVESTMENT IN ICELAND

BALANCE OF PAYMENTS (“INWARD TRANSACTIONS”) DATA

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data (the most timely) are compiled by the Central Bank of Iceland (CBI) within the balance of payments framework on (a) the components of direct investment income: (i) income on equity (dividends and distributed branch profits), (ii) reinvested earnings, and (iii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. These data are disseminated with a timeliness of 10 weeks after the end of the reference period on the CBI website (<http://www.sedlabanki.is>). The data are also reported to the IMF for publication.

More comprehensive annual (calendar year) are compiled by the CBI within the balance of payments framework on (a) the components of direct investment income: (i) income on equity (dividends and distributed branch profits), (ii) reinvested earnings, and (iii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. These data are disseminated with a timeliness of 9 months after the end of the reference period on the CBI website (<http://www.sedlabanki.is>). The annual data are also reported to the IMF for publication and to the OECD.

Revision Practices

The quarterly and annual data are preliminary when first released. The quarterly data for the current year and previous two years are revised to take account of the results of the annual enterprise surveys and are disseminated quarterly together with the preliminary data for the latest quarter. The quarterly data become final up to 36 months after their first release. The more comprehensive annual data for the previous two years are revised annually to take account of revised source data. The revised data for the previous year are disseminated once a year together with the preliminary data for the latest year. The revised data for the prior year are disseminated in June together with the final quarterly data for that year. At this time the annual data are considered to be final, that is, 21 months after their first release. For example, both the quarterly data and the annual data for the year 2000 are considered to be final in June 2003.

The revised status of the data is not clearly identified in the disseminated data, although there are plans to begin to do so in the future. The general public are informed of the reasons for significant revisions. The historical data are revised as far back as possible in instances of major changes in methodology, but only back two years in instances of changes in the data collection systems.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and the OECD for publication. However, time lags in reporting the revised data to those institutions can result in differences in the data.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are differences in the sectoral coverage between the data disseminated in the national publications and reported to the IMF for publication and those reported to the OECD for publication, in that the latter data exclude real estate transactions.

Data Collection Method

The data are collected using a mixture of an individual transactions basis (an international transactions reporting system [ITRS]) and an aggregate basis (enterprise surveys etc.) The reporting requirements are compulsory.

Data Sources

The data for all components of the quarterly data (the most timely) are compiled primarily from quarterly enterprise surveys of resident enterprises. An ITRS, which covers (i) cash transactions made through the domestic banking system, but not (ii) cash transactions made through the foreign bank accounts of enterprises, and (iii) noncash transactions, is used to compile the data on real estate transactions. The annual data (the most comprehensive) for all components are compiled primarily from annual enterprise surveys of resident enterprises. Published sources, such as company accounts of resident direct investment enterprises, are used as a secondary data source for all components.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF.

A business register of enterprises involved in direct investment is used to compile the inward direct investment transactions data. The register is maintained by the CBI and is updated on an ongoing basis using information from (i) the international transactions reporting system (ITRS)'s list of transactors, (ii) other statistical collection forms, (iii) registers maintained by Government licensing and regulatory authorities, the tax authorities, and the stock exchange authorities, (iv) the financial press, and (v) compulsory direct investment surveys. The same business register is used to compile the inward direct investment transactions and position data, but a different register is used for the outward direct investment transactions and position data.

Geographic Classification

Annual data showing breakdowns by country for the direct investment income data and the direct investment financial flows data are compiled by the CBI and disseminated once a year with a timeliness of 9 months after the end of the reference period on the CBI website (<http://www.sedlabanki.is>). The data showing country breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD for publication. The data cover all countries and bilateral data are not used in the compilation of the data.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The five countries with the largest amount of direct investment income from investment in Iceland during 2002 (ranked in descending order) were: Switzerland, Belgium/Luxembourg, Guernsey, Denmark, and Sweden. The five countries with the largest amount of direct investment financial flows into Iceland during 2002 (ranked in descending order) were: Belgium/Luxembourg, the United Kingdom, the United States, Sweden, and Bulgaria.

In addition to the data showing country breakdowns, annual data are compiled by the CBI showing breakdowns of both the direct investment income and direct investment financial flows for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (viii) the OPEC countries. These data are not disseminated but are available on request with a timeliness of 9 months after the end of the reference period. The data are also reported to the OECD.

There are differences in the data coverage between the inward transactions data showing geographic breakdowns disseminated in the national publications and reported to the OECD for publication and the aggregate inward data on direct investment income and direct investment financial flows reported to the IMF for publication, in that the former do not include the real estate transactions that are included in the aggregate data reported to the IMF.

Industrial Classification

Annual data showing breakdowns by industrial activity for the direct investment income data and the direct investment financial flows data are compiled by the CBI and disseminated once a year with a timeliness of 9 months after the end of the reference period on the CBI website (<http://www.sedlabanki.is>). The data showing breakdowns by industrial activity for both the direct investment financial flows and direct investment income are also reported to the OECD for publication. The data show a breakdown for 21 industrial activities. The classification used is NACE Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

Both the data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the resident direct investment enterprises. The five industrial activities with the largest amount of direct investment income from investment in Iceland during 2002 (in descending order) were: (i) metal

products, (ii) land transport, (iii) chemical products, (iv) trade and repairs, and (v) food products. The five industrial activities with the largest amount of direct investment financial flows into Iceland during 2002 (in descending order) were: (i) trade and repairs, (ii) land transport, (iii) other financial intermediaries, (iv) radio and television, and (v) metal products.

Data for the direct investment income data and the direct investment financial flows data showing breakdowns by (i) industrial activity and main partner country, and (ii) industrial activity and region/economic zone, are not compiled.

There are differences in the data coverage between the inward transactions data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD for publication and the aggregate inward data on direct investment income and direct investment financial flows reported to the IMF for publication, in that the former do not include the real estate transactions that are included in the aggregate data reported to the IMF.

B. Methodology

Definition of Direct Investment Enterprises in Iceland

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Iceland is 10 percent ownership by a nonresident investor, regardless of whether the investor has an effective voice in management—that is, enterprises in which the nonresident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual nonresident investor or group of related nonresident investors, rather than being calculated by combining the holdings of all nonresident investors in a specific enterprise or from a specific country. No value threshold is used to identify resident direct investment enterprises, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is not applied. Specifically, (i) the direct investment earnings data do not include the relevant share of indirectly-owned direct investment enterprises, and (ii) the direct investment financial flows data do not include equity and other capital transactions made directly between resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. The direct investment data cover only the transactions of directly owned enterprises.

Enterprises in Iceland are required by law to produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, but are not required by law to identify all transactions with the parent company.

Measurement of Direct Investment Earnings

Contrary to the international standards, the “Current Operating Performance Concept” (COPC) is not fully used to calculate direct investment earnings. In accordance with the COPC, (i) realized capital gains and losses, and realized exchange rate gains and losses are excluded, (ii) interest receivable/payable is included and (iii) debt repayments receivable/payable are excluded. Contrary to the COPC, (i) deductions are not made for depreciation of capital, and for provisions for host-country income and corporation taxes, and (ii) unrealized capital gains and losses, write-offs, and unrealized exchange rate gains and losses are included.

Treatment of Income on Equity (Dividends and Distributed Branch Profits)

The data on dividends and distributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the date they are declared payable, (ii) dividends and distributed branch profits are recorded gross of any withholding taxes, and (iii) there are no differences

between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data do not include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises.

Treatment of Reinvested Earnings and Undistributed Branch Profits

The data on reinvested earnings and undistributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings and undistributed branch profits are recorded in the period in which they are earned, (ii) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data do not include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises.

Treatment of Income on Debt (Interest)

The data on income on debt (interest) cover both incorporated enterprises and unincorporated enterprises and include interest on (i) long-term loans, (ii) short-term loans, (iii) trade credits, and (iv) financial leases. The data do not include interest on bonds and money market instruments. In accordance with the international standards, the data do not include (i) interest on financial derivatives, and (ii) interest on deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries. In accordance with the international standards, there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, (i) the data do not include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (ii) the data are recorded on a paid basis, rather than an accrual basis. However, there are plans to begin to record the data on an accrual basis before the end of 2005.

Treatment of Equity Capital

The equity capital transactions data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity transactions between affiliated banks and between affiliated financial intermediaries, and (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data do not include equity transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises.

Treatment of Other Capital

The other capital transactions data cover (i) long-term loans, (ii) short-term loans, and (iii) trade credits. The data do not cover (i) bonds and money market instruments and (ii) financial leases. Non-participating preference shares are not relevant in the Iceland economy. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) transactions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, (i) the data do not include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries, and (ii) the data do not include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises.

Instances when a loan/debt guarantee provided by a direct investor or related direct investment enterprise is invoked following default by a direct investment enterprise cannot be identified from the present data sources.

Treatment of Reverse Investment

Transactions involving reverse investment are not treated in accordance with the international standards in all instances.

Assuming that the direct investment enterprise is a resident of Iceland and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity transactions are recorded as "Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises" and loan transactions are recorded as "Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of Iceland and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity transactions are recorded as "Portfolio Investment: Increase in Assets: Equity Securities", rather than as "Direct Investment in Iceland: Equity Capital: Increase in Claims on Direct Investors". However, in accordance with the international standards, loan transactions are recorded as "Direct Investment in Iceland: Other Capital: Increase in Claims on Direct Investors", and are reported as such to the IMF.

Treatment of Quasi-corporations

Not applicable. Quasi-corporations involving the operation in Iceland by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs, have not occurred to date.

Treatment of Offshore Enterprises

Not applicable. There are no offshore enterprises established in Iceland by nonresidents at present.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, activities of SPEs established in Iceland by nonresidents are included in the direct investment data, with no exceptions. Instances of SPEs established in Iceland by nonresidents that have the primary purpose of financial intermediation have not been identified to date.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings in Iceland by nonresident enterprises. Contrary to the international standards, the equity capital data do not include purchases and sales of land and buildings in Iceland by nonresident individuals. Land and buildings purchased in Iceland by nonresident enterprises and nonresident individuals on long-term leases are not included.

Treatment of Natural Resources Exploration

Not applicable. There have been no instances to date involving: (i) expenditure related to natural resources exploration in Iceland by nonresidents, or (ii) expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources.

Exchange Rate Conversion

Most transactions are converted to the unit of account at the average exchange rate for the period, but some transactions are converted at the exchange rate prevailing on the day of the transaction.

DIRECT INVESTMENT IN ICELAND

INTERNATIONAL INVESTMENT POSITION LIABILITIES (“INWARD POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data (the most timely) are compiled by the Central Bank of Iceland (CBI) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital and are disseminated with a timeliness of not later than 10 weeks after the end of the reference period on the CBI website (<http://www.sedlabanki.is>). The data are also reported to the IMF for publication.

More comprehensive annual (calendar year) are compiled by the CBI within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital, and are disseminated with a timeliness of 9 months after the end of the reference period on the CBI website (<http://www.sedlabanki.is>). The data are also reported to the IMF and the OECD for publication.

Revision Practices

The quarterly and annual data are preliminary when first released. The quarterly data for the current year and previous two years are revised to take account of the results of the annual enterprise surveys and are disseminated quarterly together with the preliminary data for the latest quarter. The quarterly data become final up to 36 months after their first release. The more comprehensive annual data for the previous two years are revised annually to take account of revised source data. The revised data for the previous year are disseminated once a year together with the preliminary data for the latest year. The revised data for the prior year are disseminated in June together with the final quarterly data for that year. At this time the annual data are considered to be final, that is, 21 months after their first release. For example, both the quarterly data and the annual data for the year 2000 are considered to be final in June 2003.

The revised status of the data is not clearly identified in the disseminated data, although there are plans to begin to do so in the future. The general public are informed of the reasons for significant revisions. The historical data are revised as far back as possible in instances of major changes in methodology, but only back two years in instances of changes in the data collection systems.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and the OECD for publication. However, time lags in reporting the revised data to those institutions can result in differences in the data.

Data Coverage

Real estate owned by nonresidents is excluded from the inward position data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

Data Collection Method

The data are collected using on an aggregate basis and the reporting requirements are compulsory.

Data Sources

The data for all components of the quarterly data (the most timely) are compiled primarily from quarterly enterprise surveys of resident enterprises. The perpetual inventory method (a method for deriving position data from transactions data) is not used for the compilation of the data. The annual data (the most comprehensive) for all components are compiled primarily from annual enterprise surveys of resident enterprises. Published sources, such as company accounts of resident direct investment enterprises, are used as a secondary data source for all components.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

A business register of enterprises involved in direct investment is used to compile the inward direct investment position data. The register is maintained by the CBI and is updated on an ongoing basis using information from (i) the international transactions reporting system (ITRS)'s list of transactors, (ii) other statistical collection forms, (iii) registers maintained by Government licensing and regulatory authorities, the tax authorities, and the stock exchange authorities, (iv) the financial press, and (v) compulsory direct investment surveys. The same business register is used to compile the inward direct investment transactions and position data, but a different register is used for the outward direct investment transactions and position data.

Geographic Classification

Annual data showing breakdowns by country for the inward direct investment position data are compiled by the CBI and disseminated once a year with a timeliness of 9 months after the end of the reference period on the CBI website (<http://www.sedlabanki.is>). The data showing country breakdowns for the inward direct investment position data are also reported to the OECD for publication. The data cover all countries and bilateral data are not used in the compilation of the data.

In accordance with the international standards, the data are compiled on an immediate country basis. The five countries with the largest amount of direct investment in Iceland as at the end of 2002 (ranked in descending order) were: the United States, Switzerland, Belgium/Luxembourg, Norway, and Guernsey.

In addition to the data showing country breakdowns, annual data are compiled by the CBI showing breakdowns of the inward direct investment position data for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (viii) the OPEC countries. These data are not disseminated but are available on request with a timeliness of 9 months after the end of the reference period. The data are also reported to the OECD.

There are no differences in the data coverage, sources etc. between the inward position data showing geographic breakdowns disseminated in the national publications and reported to the OECD for publication, and the aggregate inward position data reported to the IMF for publication.

Industrial Classification

Annual data showing breakdowns by industrial activity for the inward direct investment position data are compiled by the CBI and disseminated once a year with a timeliness of 9 months after the end of the reference period on the CBI website (<http://www.sedlabanki.is>). The data showing breakdowns by industrial activity for the inward direct investment position data are also reported to the OECD for publication. The data show a breakdown for 21 industrial activities. The classification used is NACE Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

The inward position data are classified on the basis of the industrial activity of the resident direct investment enterprises. The five industrial activities with the largest amount of direct investment in Iceland as at the end of 2002 (in descending order) were: (i) metal products, (ii) trade and repairs, (iii) research and development, (iv) chemical products, and (v) food products.

Inward position data showing breakdowns by (i) industrial activity and main partner country, and (ii) industrial activity and region/economic zone, are not compiled.

There are no differences in the data coverage, sources etc. between the inward position data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD for publication, and the aggregate inward position data reported to the IMF for publication.

B. Methodology

Definition of Direct Investment Enterprises in Iceland

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Iceland is 10 percent ownership by a nonresident investor, regardless of whether the investor has an effective voice in management—that is, enterprises in which the nonresident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual nonresident investor or group of related nonresident investors, rather than being calculated by combining the holdings of all nonresident investors in a specific enterprise or from a specific country. No value threshold is used to identify resident direct investment enterprises, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is not applied. Specifically, the data do not include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, and (ii) the equity capital and other capital positions held directly by resident enterprises of a related group as defined in the FCS with nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. The direct investment data cover only the positions of directly owned enterprises.

Enterprises in Iceland are required by law to produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, but are not required by law to identify all transactions with the parent company.

Treatment of Equity Capital and Reinvested Earnings

The equity capital position data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity positions between affiliated banks and between affiliated financial intermediaries, and (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data do not include equity positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises.

The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings are recorded in the period in which they are earned, (ii) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data do not include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment in Iceland.)

Treatment of Other Capital

The other capital position data cover (i) long-term loans, (ii) short-term loans, and (iii) trade credits. The data do not cover (i) bonds and money market instruments, and (ii) financial leases. Non-participating preference shares are not relevant in the Iceland economy. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) positions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of

other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, (i) the data do not include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries, and (ii) the data do not include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises.

Instances when a loan/debt guarantee provided by a direct investor or related direct investment enterprise is invoked following default by a direct investment enterprise cannot be identified from the present data sources.

Treatment of Reverse Investment

Positions involving reverse investment are not treated in accordance with the international standards in all instances.

Assuming that the direct investment enterprise is a resident of Iceland and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity positions are recorded as "Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises" and loan positions are recorded as "Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of Iceland and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity positions are recorded as "Assets: Portfolio Investment: Equity Securities", rather than as "Liabilities: Direct Investment in Iceland: Equity Capital: Claims on Direct Investors". However, in accordance with the international standards, loan positions are recorded as "Liabilities: Direct Investment in Iceland: Other Capital: Claims on Direct Investors", and are reported as such to the IMF.

Treatment of Quasi-corporations

Not applicable. Quasi-corporations involving the operation in Iceland by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs, have not occurred to date.

Treatment of Offshore Enterprises

Not applicable. There are no offshore enterprises established in Iceland by nonresidents at present.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, activities of SPEs established in Iceland by nonresidents are included in the direct investment data, with no exceptions. Instances involving SPEs established in Iceland by nonresidents that have the primary purpose of financial intermediation have not been identified to date.

Treatment of Land and Buildings

Contrary to the international standards, the direct investment data do not include ownership of land and buildings in Iceland by nonresident enterprises and individuals.

Treatment of Natural Resources Exploration

Not applicable. There have been no instances to date involving: (i) expenditure related to natural resources exploration in Iceland by nonresidents, (ii) expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources; or (iii) the shutdown of a direct investment enterprise established in Iceland by nonresidents for natural resource exploration.

Valuation of Assets and Liabilities

The data on equity capital for listed enterprises are recorded at book values, which is an interim adjusted price that is not the current market price. The data on equity capital for unlisted enterprises are recorded at book values, which is the historical cost.

The data on other capital are recorded at book values, which is the historical cost.

The book values used are those shown in the accounting records of the resident direct investment enterprises, rather than the nonresident direct investors.

Exchange Rate Conversion

All positions are converted to the unit of account at the exchange rate prevailing on the date to which the position data relate.

DIRECT INVESTMENT ABROAD

BALANCE OF PAYMENTS (“OUTWARD TRANSACTIONS”) DATA

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data (the most timely) are compiled by the Central Bank of Iceland (CBI) within the balance of payments framework on (a) the components of direct investment income: (i) income on equity (dividends and distributed branch profits), (ii) reinvested earnings, and (iii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. These data are disseminated with a timeliness of 10 weeks after the end of the reference period on the CBI website (<http://www.sedlabanki.is>). The data are also reported to the IMF for publication.

More comprehensive annual (calendar year) are compiled by the CBI within the balance of payments framework on (a) the components of direct investment income: (i) income on equity (dividends and distributed branch profits), (ii) reinvested earnings, and (iii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. These data are disseminated with a timeliness of 9 months after the end of the reference period on the CBI website (<http://www.sedlabanki.is>). The data are also reported to the IMF and the OECD for publication.

Revision Practices

The quarterly and annual data are preliminary when first released. The quarterly data for the current year and previous two years are revised to take account of the results of the annual enterprise surveys and are disseminated quarterly together with the preliminary data for the latest quarter. The quarterly data become final up to 36 months after their first release. The more comprehensive annual data for the previous two years are revised annually to take account of revised source data. The revised data for the previous year are disseminated once a year together with the preliminary data for the latest year. The revised data for the prior year are disseminated in June together with the final quarterly data for that year. At this time the annual data are considered to be final, that is, 21 months after their first release. For example, both the quarterly data and the annual data for the year 2000 are considered to be final in June 2003.

The revised status of the data is not clearly identified in the disseminated data, although there are plans to begin to do so in the future. The general public are informed of the reasons for significant revisions. The historical data are revised as far back as possible in instances of major changes in methodology, but only back two years in instances of changes in the data collection systems.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and the OECD for publication. However, time lags in reporting the revised data to those institutions can result in differences in the data.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are differences in the sectoral coverage between the data disseminated in the national publications and reported to the IMF for publication and those reported to the OECD for publication, in that the latter data exclude real estate transactions.

Data Collection Method

The data are collected using a mixture of an individual transactions basis (an international transactions reporting system [ITRS]) and an aggregate basis (enterprise survey). The reporting requirements are compulsory.

Data Sources

The data for all components of the quarterly data (the most timely) are compiled primarily from quarterly enterprise surveys of resident direct investors. An ITRS, which covers (i) cash transactions made through the domestic banking system, but not (ii) cash transactions made through the foreign bank accounts of enterprises, and (iii) noncash transactions, is used to compile the data on real estate transactions. The annual data (the most comprehensive) for all components are compiled primarily from annual enterprise surveys of resident direct investors. Published sources, such as company accounts of resident direct investors, are used as a secondary data source for all components.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF.

A business register of enterprises involved in direct investment is used to compile the outward direct investment transactions data. The register is maintained by the CBI and is updated on an ongoing basis using information from (i) the international transactions reporting system (ITRS)'s list of transactors, (ii) other statistical collection forms, (iii) registers maintained by Government licensing and regulatory authorities, the tax authorities, and the stock exchange authorities, (iv) the financial press, and (v) compulsory direct investment surveys. The same business register is used to compile the outward direct investment transactions and position data, but a different business register is used to compile the inward direct investment transactions and position data.

Geographic Classification

Annual data showing breakdowns by country for the direct investment income data and the direct investment financial flows data are compiled by the CBI and disseminated once a year with a timeliness of 9 months after the end of the reference period on the CBI website (<http://www.sedlabanki.is>). The data showing country breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD for publication. The data cover all countries and bilateral data are not used in the compilation of the data.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The five countries with the largest amount of direct investment income from investment abroad by residents of Iceland during 2002 (ranked in descending order) were: Bulgaria, the United Kingdom, Belgium/Luxembourg, France, and the United States. The five countries with the largest amount of direct investment financial flows from Iceland during 2002 (ranked in descending order) were: Sweden, Belgium/Luxembourg, the United Kingdom, Bulgaria, and the United States.

In addition to the data showing country breakdowns, annual data are compiled by the CBI showing breakdowns of both the direct investment income and direct investment financial flows for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (viii) the OPEC countries. These data are not disseminated but are available on request with a timeliness of 9 months after the end of the reference period. The data are also reported to the OECD.

There are differences in the data coverage between the outward transactions data showing geographic breakdowns disseminated in the national publications and reported to the OECD for publication and the aggregate outward data on direct investment income and direct investment financial flows reported to the IMF for publication, in that the former do not include the real estate transactions that are included in the aggregate data reported to the IMF.

Industrial Classification

Annual data showing breakdowns by industrial activity for the direct investment income data and the direct investment financial flows data are compiled by the CBI and disseminated once a year with a timeliness of 9 months after the end of the reference period on the CBI website (<http://www.sedlabanki.is>). The data showing breakdowns by industrial activity for both the direct investment financial flows and direct investment income are also reported to the OECD for publication. The data show a breakdown for 21 industrial activities. The classification used is NACE Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

Both the data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the resident direct investors. The five industrial activities with the largest amount of direct

investment income from investment abroad by residents of Iceland during 2002 (in descending order) were: (i) food products, (ii) chemical products, (iii) management holding companies, (iv) sea and coastal water transport, and (v) computer activities. The five industrial activities with the largest amount of direct investment financial flows from Iceland during 2002 (in descending order) were: (i) other financial intermediaries, (ii) other business activities, (iii) chemical products, (iv) radio and television, and (v) trade and repairs.

Data for the direct investment income data and the direct investment financial flows data showing breakdowns by (i) industrial activity and main partner country, and (ii) industrial activity and region/economic zone, are not compiled.

There are differences in the data coverage between the outward transactions data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD for publication and the aggregate outward data on direct investment income and direct investment financial flows reported to the IMF for publication, in that the former do not include the real estate transactions that are included in the aggregate data reported to the IMF.

B. Methodology

Definition of Direct Investors

In accordance with the international standards, the basic criterion for defining resident direct investors is 10 percent ownership by a resident investor of an enterprise abroad, regardless of whether the investor has an effective voice in management—that is, enterprises abroad in which the resident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises abroad in which the resident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual resident investor or group of related resident investors, rather than being calculated by combining the holdings of all resident investors in a specific enterprise abroad or in a specific country abroad. No value threshold is used to identify resident direct investors, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is not applied. Specifically, (i) the direct investment earnings data do not include the relevant share of indirectly-owned direct investment enterprises, and (ii) the direct investment financial flows data do not include equity and other capital transactions made directly between resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. The direct investment data cover only the transactions of directly owned enterprises.

Enterprises in Iceland are required by law to produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, but are not required by law to identify all transactions with the parent company.

Measurement of Direct Investment Earnings

Contrary to the international standards, the “Current Operating Performance Concept” (COPC) is not fully used to calculate direct investment earnings. In accordance with the COPC, (i) realized capital gains and losses, and realized exchange rate gains and losses are excluded, (ii) interest receivable/payable is included and (iii) debt repayments receivable/payable are excluded. Contrary to the COPC, (i) deductions are not made for depreciation of capital, and for provisions for host-country income and corporation taxes, and (ii) unrealized capital gains and losses, write-offs, and unrealized exchange rate gains and losses are included.

Treatment of Income on Equity (Dividends and Distributed Branch Profits)

The data on dividends and distributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the date they are declared payable, (ii) dividends

and distributed branch profits are recorded gross of any withholding taxes, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data do not include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises.

Treatment of Reinvested Earnings and Undistributed Branch Profits

The data on reinvested earnings and undistributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings and undistributed branch profits are recorded in the period in which they are earned, (ii) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data do not include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises.

Treatment of Income on Debt (Interest)

The data on income on debt (interest) cover both incorporated enterprises and unincorporated enterprises and include interest on (i) long-term loans, (ii) short-term loans, (iii) trade credits, and (iv) financial leases. The data do not include interest on bonds and money market instruments. In accordance with the international standards, the data do not include (i) interest on financial derivatives, and (ii) interest on deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries. In accordance with the international standards, there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, (i) the data do not include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (ii) the data are compiled on a paid basis, rather than an accrual basis. However, there are plans to begin to record the data on an accrual basis before the end of 2005.

Treatment of Equity Capital

The equity capital transactions data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity transactions between affiliated banks and between affiliated financial intermediaries, and (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data do not include equity transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises.

Treatment of Other Capital

The other capital transactions data cover (i) long-term loans, (ii) short-term loans, (iii) trade credits, and (iv) financial leases. The data do not cover bonds and money market instruments. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) transactions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. Contrary to the international standards, (i) the data do not include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries, and (ii) the data do not include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises. In accordance with the international standards, there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Non-participating preference shares have not been identified to date.

Instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise cannot be identified from the present data sources.

Treatment of Reverse Investment

Transactions involving reverse investment are not treated in accordance with the international standards in all instances.

Assuming that the direct investment enterprise is a resident of Iceland and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity transactions are recorded as "Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises" and loan transactions are recorded as "Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of Iceland and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity transactions are recorded as "Portfolio Investment: Increase in Assets: Equity Securities", rather than as "Direct Investment in Iceland: Equity Capital: Increase in Claims on Direct Investors". However, in accordance with the international standards, loan transactions are recorded as "Direct Investment in Iceland: Other Capital: Increase in Claims on Direct Investors", and are reported as such to the IMF.

Treatment of Quasi-corporations

Not applicable. Quasi-corporations involving the operation abroad by residents of Iceland of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs, have not occurred to date

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established abroad by residents of Iceland are included in the direct investment data. (Prior to 2002 there were no offshore enterprises established abroad by residents of Iceland.)

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, activities of SPEs established abroad by residents of Iceland are included in the direct investment data, with no exceptions. Instances of SPEs established abroad by residents of Iceland that have the primary purpose of financial intermediation have not occurred to date.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings abroad by enterprises resident in Iceland. Contrary to the international standards, the equity capital data do not include purchases and sales of land and buildings abroad by individuals resident in Iceland. Land and buildings purchased abroad by enterprises and individuals resident in Iceland on long-term leases are not included.

Treatment of Natural Resources Exploration

Not applicable. There have been no instances to date involving: (i) expenditure related to natural resources exploration abroad by residents of Iceland, or (ii) expenditure on bonus payments made by residents of Iceland to the host country for the right to undertake exploration for natural resources.

Exchange Rate Conversion

Most transactions are converted to the unit of account at the average exchange rate for the period, but some transactions are converted at the exchange rate prevailing on the day of the transaction.

DIRECT INVESTMENT ABROAD

INTERNATIONAL INVESTMENT POSITION ASSETS (“OUTWARD POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data (the most timely) are compiled by the Central Bank of Iceland (CBI) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital and are disseminated with a timeliness of not later than 10 weeks after the end of the reference period on the CBI website (<http://www.sedlabanki.is>). The data are also reported to the IMF for publication.

More comprehensive annual (calendar year) are compiled by the CBI within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital, and are disseminated with a timeliness of 9 months after the end of the reference period on the CBI website (<http://www.sedlabanki.is>). The data are also reported to the IMF and the OECD for publication.

Revision Practices

The quarterly and annual data are preliminary when first released. The quarterly data for the current year and previous two years are revised to take account of the results of the annual enterprise surveys and are disseminated quarterly together with the preliminary data for the latest quarter. The quarterly data become final up to 36 months after their first release. The more comprehensive annual data for the previous two years are revised annually to take account of revised source data. The revised data for the previous year are disseminated once a year together with the preliminary data for the latest year. The revised data for the prior year are disseminated in June together with the final quarterly data for that year. At this time the annual data are considered to be final, that is, 21 months after their first release. For example, both the quarterly data and the annual data for the year 2000 are considered to be final in June 2003.

The revised status of the data is not clearly identified in the disseminated data, although there are plans to begin to do so in the future. The general public are informed of the reasons for significant revisions. The historical data are revised as far back as possible in instances of major changes in methodology, but only back two years in instances of changes in the data collection systems.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and the OECD for publication. However, time lags in reporting the revised data to those institutions can result in differences in the data.

Data Coverage

Real estate owned by nonresidents is excluded from the outward position data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

Data Collection Method

The data are collected on an aggregate basis and the reporting requirements are compulsory.

Data Sources

The data for all components of the quarterly data (the most timely) are compiled primarily from quarterly enterprise surveys of direct investors resident in Iceland. The perpetual inventory method (a method for deriving position data from transactions data) is not used for the compilation of the data. The annual data (the most comprehensive) for all components are compiled primarily from annual enterprise surveys of direct investors resident in Iceland. Published sources, such as company accounts of resident direct investors, are used as a secondary data source for all components.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is used to compile the outward direct investment position data. The register is maintained by the CBI and is updated on an ongoing basis using information from (i) the international transactions reporting system (ITRS)'s list of transactors, (ii) other statistical collection forms, (iii) registers maintained by Government licensing and regulatory authorities, the tax authorities, and the stock exchange authorities, (iv) the financial press, and (v) compulsory direct investment surveys. The same business register is used to compile the outward direct investment transactions and position data, but a different business register is used to compile the data for the inward direct investment transactions and position data.

Geographic Classification

Annual data showing breakdowns by country for the outward direct investment position data are compiled by the CBI and disseminated once a year with a timeliness of 9 months after the end of the reference period on the CBI website (<http://www.sedlabanki.is>). The data showing country breakdowns for the outward direct investment position data are also reported to the OECD for publication. The data cover all countries and bilateral data are not used in the compilation of the data.

In accordance with the international standards, the data are compiled on an immediate country basis. The five countries with the largest amount of direct investment from Iceland as at the end of 2002 (ranked in descending order) were: Belgium/Luxembourg, the United Kingdom, the United States, Sweden, and Bulgaria.

In addition to the data showing country breakdowns, annual data are compiled by the CBI showing breakdowns of the outward direct investment position data for the following regions/economic zones: (i) the EU15, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) the ASEAN countries, and (viii) the OPEC countries. These data are not disseminated but are available on request with a timeliness of 9 months after the end of the reference period. The data are also reported to the OECD.

There are no differences in the data coverage between the outward position data showing geographic breakdowns disseminated in the national publications and reported to the OECD for publication, and the aggregate outward position data reported to the IMF for publication.

Industrial Classification

Annual data showing breakdowns by industrial activity for the outward direct investment position data are compiled by the CBI and disseminated once a year with a timeliness of 9 months after the end of the reference period on the CBI website (<http://www.sedlabanki.is>). The data showing breakdowns by industrial activity for the outward direct investment position data are also reported to the OECD for publication. The data show a breakdown for 21 industrial activities. The classification used is NACE Rev. 1, which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

The outward position data are classified on the basis of the industrial activity of the resident direct investors. The five industrial activities with the largest amount of direct investment from Iceland as at the end of 2002 (in descending order) were: (i) food products, (ii) management holding companies, (iii) insurance and activities auxiliary to insurance, (iv) trade and repairs, and (v) chemical products.

Outward position data showing breakdowns by (i) industrial activity and main partner country, and (ii) industrial activity and region/economic zone, are not compiled.

There are no differences in the data coverage between the outward position data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD for publication, and the aggregate outward position data reported to the IMF for publication.

B. Methodology

Definition of Direct Investors

In accordance with the international standards, the basic criterion for defining resident direct investors is 10 percent ownership by a resident investor of an enterprise abroad, regardless of whether the investor has an effective voice in management—that is, enterprises abroad in which the resident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises abroad in which the resident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual resident investor or group of related resident investors, rather than being calculated by combining the holdings of all resident investors in a specific enterprise abroad or in a specific country abroad. No value threshold is used to identify resident direct investors, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is not applied. Specifically, the data do not include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, and (ii) the equity capital and other capital positions held directly by resident enterprises of a related group as defined in the FCS with nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. The direct investment data cover only the positions of directly owned enterprises.

Enterprises in Iceland are required by law to produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, but are not required by law to identify all transactions with the parent company.

Treatment of Equity Capital and Reinvested Earnings

The equity capital position data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity positions between affiliated banks and between affiliated financial intermediaries, and (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data do not include equity positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises.

The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings are recorded in the period in which they are earned, (ii) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data do not include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment Abroad.)

Treatment of Other Capital

The other capital position data cover (i) long-term loans, (ii) short-term loans, and (iii) trade credits. The data do not cover (i) bonds and money market instruments, and (ii) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) positions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the

international standards, (i) the data do not include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries, and (ii) the data do not include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises. Non-participating preference shares have not been identified to date.

Instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise cannot be identified from the present data sources.

Treatment of Reverse Investment

Positions involving reverse investment are not treated in accordance with the international standards in all instances.

Assuming that the direct investment enterprise is a resident of Iceland and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity positions are recorded as "Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises" and loan positions are recorded as "Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of Iceland and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity positions are recorded as "Assets: Portfolio Investment: Equity Securities", rather than as "Liabilities: Direct Investment in Iceland: Equity Capital: Claims on Direct Investors". However, in accordance with the international standards, loan positions are recorded as "Liabilities: Direct Investment in Iceland: Other Capital: Claims on Direct Investors", and are reported as such to the IMF.

Treatment of Quasi-corporations

Not applicable. Quasi-corporations involving the operation abroad by residents of Iceland of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs, have not occurred to date

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established abroad by residents of Iceland are included in the direct investment data. (Prior to 2002 there were no offshore enterprises established abroad by residents of Iceland.)

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, activities of SPEs established abroad by residents of Iceland are included in the direct investment data, with no exceptions. Instances of SPEs established abroad by residents of Iceland that have the primary purpose of financial intermediation have not occurred to date

Treatment of Land and Buildings

Contrary to the international standards, the direct investment data do not include ownership of land and buildings abroad by residents of Iceland.

Treatment of Natural Resources Exploration

Not applicable. There have been no instances to date involving: (i) expenditure related to natural resources exploration abroad by residents of Iceland, (ii) expenditure on bonus payments made by residents of Iceland to the host country for the right to undertake exploration for natural resources; or (iii) the shutdown of a direct investment enterprise established abroad by residents of Iceland for natural resource exploration.

Valuation of Assets and Liabilities

The data on equity capital for listed enterprises are recorded at book values, which is an interim adjusted price that is not the current market price. The data on equity capital for unlisted enterprises are recorded at book values, which are the historical cost.

The data on other capital are recorded at book values, which are the historical cost.

The book values used are those shown in the accounting records of the resident direct investors, rather than the nonresident direct investment enterprises.

Exchange Rate Conversion

All positions are converted to the unit of account at the exchange rate prevailing on the date to which the position data relate.